AIA Investments

Quarterly Investment Insights

3rd Quarter 2025

Navigating Volatility: Investment Themes and Opportunities

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Key Takeaways

- Global stocks rallied amid **easing global trade tensions**, **healthy corporate earnings** and the start of a new **interest rate cutting cycle** by the U.S. Federal Reserve.
- The Federal Reserve (Fed) announced a widely anticipated rate cut of **25 basis points** (bps) during its Sep meeting to 4.00%-4.25%.
- AIA maintains its **soft-landing** baseline view for the U.S. economy and project a front-loading of rate cutting agenda next year and reach its terminal rate of **3.0%-3.25%** before end-2026.
- Gold prices hit a historical high of $4,300 per ounce for the first time in Oct 2025 on **rising bets of interest rate cuts**, **central banks buying**, **geopolitical jitters**, coupled with **weak USD**.

MARKET RECAP

Resilient Markets Sentiments Despite Ongoing Policy Uncertainties and a U.S. Government Shutdown

Global stocks rallied amid easing global trade tensions, healthy corporate earnings and the start of a new interest rate cutting cycle by the U.S. Federal Reserve. Helping to calm fears of a trade war, the U.S. announced new trade deals with some of its biggest trading partners, including the European Union and Japan. Technology stocks rose as investors continued to favor companies driving the rapid growth of artificial intelligence (AI) as shares of AI-related companies, such as chipmaker NVIDIA Corp and software provide Microsoft Corp, helped drive key market indices to new record highs.

Despite the ongoing U.S. federal government shutdown that marked the third-longest shutdown in U.S. history, having started since the stroke of midnight on Oct 1, investors' sentiments have been broadly anchored with recent optimism fueled by hopes that the shutdown could be nearing an end.

Source: Bloomberg, AIA Investments; Last update: 13 Oct 2025

MACRO & POLICY LANDSCAPE

Divergence In Central Banks' Monetary Policies In Q3.

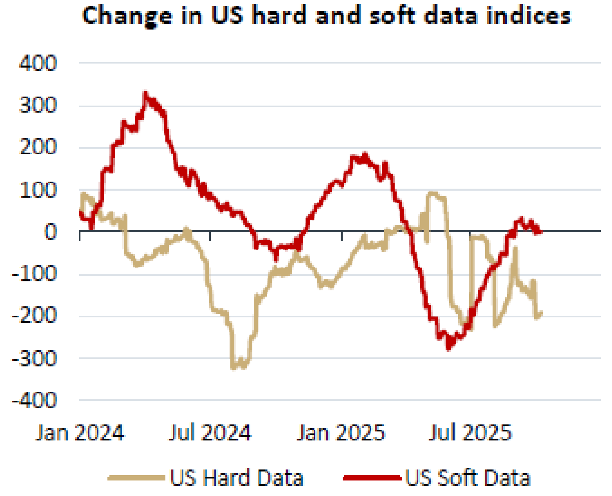
- **U.S. Federal Reserve**: The Federal Reserve (Fed) announced a widely anticipated rate cut of 25 basis points (bps) during its Sep meeting to 4.00%-4.25%, its first in 2025 and signaled that two more are on the way before the end of the year as concerns intensified over the U.S. labor market even as inflation continues to linger.

- **European Central Bank** (ECB): The ECB held interest rates steady at 2% during its Sep meeting for a second consecutive time as economic uncertainty persists in the wake of U.S. President Trump's aggressive tariff agenda. It added that it would follow a data dependent approach and was not pre-committing to a specific path for interest rates as the European Union agreed to 15% blanket tariffs on its export to the U.S. ECB President Lagarde emphasized that the EU continues to be in a good place, adding that inflation was where the ECB wanted and the domestic economy solid.

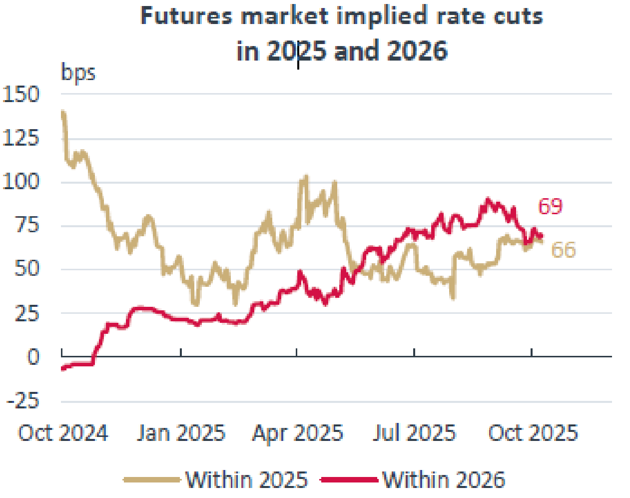
FRONT-LOADING OF MONETARY EASING PATH AHEAD

The Federal Open Market Committee (FOMC) cut its Fed Funds Rate by 25 basis points (bps) on 17 Sep, citing risk management considerations amid rising downside risks to employment. AIA maintains its soft-landing baseline view for the U.S. economy and project a front-loading of rate cutting agenda next year and reach its terminal rate of 3.0%-3.25% before end-2026. The absence of macro data release for the labor market and inflation measure via Personal Consumption Expenditure (PCE) due to the U.S. government shutdown raises the likelihood of another 25-bps rate cut at its Oct FOMC meeting.

Given the expected change of Fed Chair from May 2026, there is a small chance that the Fed Funds Rates may undershoot and go below its long-run neutral rate of 3%.



Source: Citi, Bloomberg, AIA Investment; Data as of 8 October, 2025



Source: Macrobond, AIA Investment; Data as of 8 October, 2025

GLITTERING GOLD PRICES

Gold prices hit a historical high of $4,300 per ounce for the first time in Oct 2025, extending a record rally as rising bets on interest rate cuts, central banks buying, geopolitical jitters, coupled with weak USD, sent investors flocking to the safe-haven metal. With the reigniting of U.S./China trade tensions in recent weeks, investors are diversifying into gold as a hedge to their long equity positions. Gold is traditionally considered a hedge against uncertainty and inflation, with demand increasing in low-rate environments as it is a non-yielding asset.

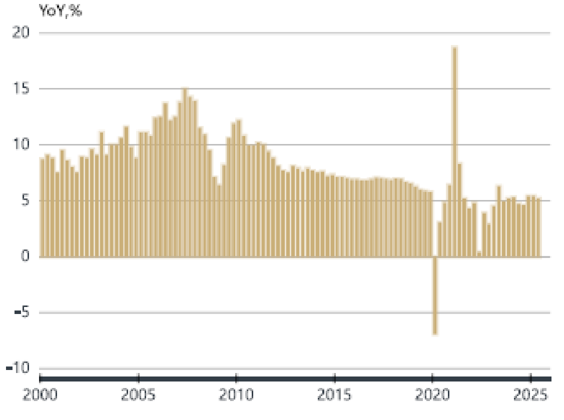
Political and economic concerns, along with the delay in key economic data releases after the U.S. government shutdown that is in its third week, has left investors and policymakers in a data vacuum ahead of the Federal Reserve's policy meeting next week, driving gold prices higher.

CHINA'S LONG ROAD TO REFLATION

China's economy has grown faster than expected so far in 2025 although AIA expects growth momentum to weaken in coming months, dragged down by the fade in consumer trade-in scheme, the long-protracted property sector weakness, and a high base effect from last year. The path to reflation is still long despite the government's "anti-involution" efforts, and investors are now focused on the 4th Plenum to discuss the 15th Five-Year Plan (FYP) for 2026-2030, with structural rebalancing as the key theme.

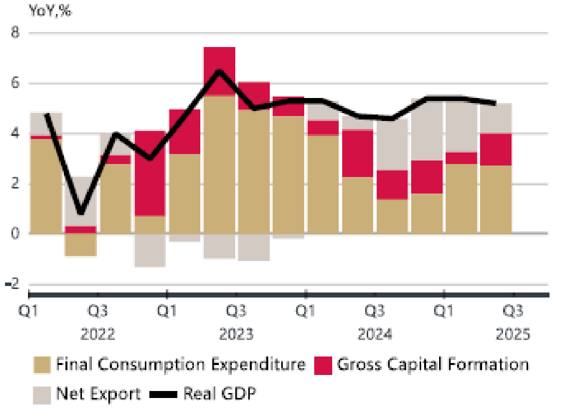
Retail sales ticked down to 3.4% year-on-year in August, owing to the phase-out of "6.18" online promotion campaign. While there are incremental fiscal policies rolled out to strengthen the social safety net for low-income families, the wealth effect is expected to be limited with subdued consumer sentiments in the short term. Since last September's policy pivot, policymakers have further strengthened their housing easing efforts to boost home sales and stabilize home prices. However, amid significant external shocks including higher trade tariffs and export slowdown, property prices are facing renewed downward pressure, particularly in regions where export manufacturers and SMEs are concentrated. Looking ahead, China's housing market will likely take an additional 2-3 years to digest the larger nationwide housing inventory pool, especially in lower-tier cities with more severe over-supply issues.

China real GDP growth (quarterly)



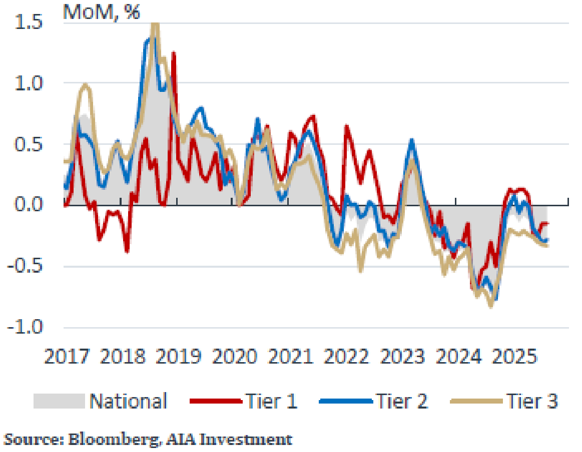
Source: NBS, Macrobond, AIA Investment

Contributions to real GDP growth



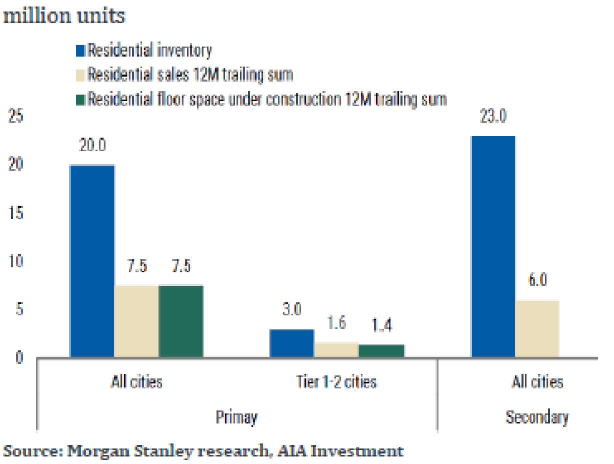
Source: NBS, Macrobond, AIA Investment

Prices of newly built properties



Source: Bloomberg, AIA Investment

Residential inventories vs. sales



Source: Morgan Stanley research, AIA Investment

Note: "Anti-involution is a government-led effort to curb excessive, destructive competition and overcapacity in key industries, which leads to diminishing returns and deflation

WHAT'S NEXT

Despite lingering policy and trade uncertainties, markets have demonstrated remarkable resilience fuelled by an ongoing AI-rally and continued capital expenditure (capex) into hyperscalers. Fundamentals in the Technology sector, in particular semiconductors, continue to remain strong with global chip sales expected to deliver around 20% year-on-year growth. On the other hand, the U.S. government shutdown, in its 3rd week, and the 2nd longest in U.S. history, has had minimal effect on investors' sentiments as past shutdowns had no clear impact to financial markets.

At the same time, the U.S. Federal Reserve rate easing cycle is back to the forefront, providing a positive catalyst for risk assets with downside support. U.S. equity sentiments have recovered from their lows during April's Liberation Day, but investors' positionings remained relatively light. Broadly, the backdrop for risk assets remains constructive as both fiscal stimulus and looser monetary policies are likely to support growth and corporate earnings.

In view of this constructive backdrop, AIA maintains a cautiously constructive stance balancing near-term risks with longer term opportunities across regions and asset classes.

AIA GROUP INVESTMENTS HOUSE VIEW

Underweight (-)	Neutral (=)	Overweight (+)

Asset Class	–	=	+	Comment
Global Equities			+	• Maintain a moderate overweight in global equities with a bullish tilt towards Technology. This is supported by the U.S. Fed's easing cycle, solid Technology fundamentals, and reasonable positioning. • Continue to maintain preference for U.S. equities over European equities, underpinned by stronger earnings growth prospects, superior margins driven by leadership in Technology and AI, and a more resilient economy.
- Asia Ex-Japan Equities		=		• Maintain a neutral stance on Asian equities vs developed markets as fundamentals remain mixed with lackluster earnings outlook. The region is undergoing a technical price consolidation that reflects a weaker outlook.
Fixed Income	–			• Maintain an underweight stance as stronger earnings growth and returns potential in equities presents a more compelling opportunity relative to fixed income. Remain neutral on U.S. Investment Grade credit as it offers attractive yield with limited credit risks.
Cash		=		• Maintain a neutral stance, reflecting our strategic inclination to re-allocate cash towards risk assets, supported by improving market sentiments.

AIA Investments

Stewardship Insights:

Exploring Investment Excellence with

GMO

STEWARDSHIP INSIGHTS: GMO

While markets are trading near all-time highs, investors are expected to factor in higher equity risk premiums going forward, especially for U.S. equities, given the uncertainty and volatility in U.S. politics. How does this affect investors' appetite for U.S. equities?

GMO: A period of higher equity risk premiums generally encourages a greater focus on valuation discipline and balance sheet strength —qualities that sit at the core of our investment approach. In this environment, investors are likely to become more discerning, favoring companies with durable competitive advantages, sustainable profitability, and the financial strength to navigate a wider range of economic and political outcomes.

This backdrop aligns well with our investment philosophy, which emphasizes owning high-quality businesses capable of compounding value through different market cycles, while maintaining valuation discipline to avoid the excesses often associated with market exuberance. As political and fiscal dynamics in the United States introduce new elements of uncertainty, investor appetite is expected to shift away from more speculative areas of the market toward companies demonstrating stability and resilience in their profitability. This gradual repricing of risk should ultimately prove constructive, rewarding long-term fundamental strength over short-term sentiment, and creating opportunities for disciplined, quality-oriented investors to deploy capital at more attractive prospective returns.

It is also important to distinguish between the volatility in U.S. politics and the strong underlying fundamentals of many U.S. companies. The U.S. stock market is dominated by large-cap, high-quality multinationals that are more exposed to policy risk, though they are better equipped to manage it than many weaker companies domiciled elsewhere. For investors seeking to participate in secular growth themes—such as AI, healthcare innovation, and digital transformation—many of the leading franchises remain based in the U.S. As a result, while short-term uncertainty may influence sentiment, the long-term case for owning high-quality U.S. businesses remains compelling.

The U.S. Fed had cut its policy rate by 25bps during its Sep meeting, its first this year and describing it as a 'risk-management' cut. At the same time, U.S. President Trump is calling for more aggressive cuts and challenging the Fed's independence. How do you see the Fed's interest rate trajectory going forward in balancing between its dual mandate and maintaining its independence?

GMO: The Fed's recent decision highlights the delicate balance between addressing short-term economic uncertainty and preserving credibility in achieving its dual mandate of price stability and full employment. While political commentary around monetary policy has grown louder, the Fed has a long history of maintaining operational independence, and its decision-making remains guided primarily by incoming economic data rather than political pressure.

At this stage in the cycle, inflation has moderated from its peaks but remains above the long-term target, while the labor market continues to show resilience. These conditions suggest that the central bank is likely to proceed cautiously, adjusting policy in measured steps rather than through aggressive easing. The aim will be to manage risks on both sides of the mandate, ensuring that inflation expectations remain anchored while providing sufficient flexibility should growth or employment weaken.

Looking ahead, we see downside risks to the domestic U.S. economy as relatively high, though they are being masked to some extent by the strong performance of the technology sector and AI-driven investment. We would expect further rate cuts in the future as these risks become more apparent, though lower rates driven by economic weakness are not, in themselves, a cause for celebration. In the short term, the current federal government shutdown caused by the budget impasse adds an extra layer of uncertainty as the availability of economic data the Fed requires for inputs in its decision-making is compromised.

From an investment standpoint, this environment reinforces the importance of maintaining discipline in portfolio construction. While rate adjustments can create short-term uncertainty, high-quality companies tend to be less sensitive to changes in policy rates. By focusing on businesses with enduring fundamentals rather than those dependent on favorable financing conditions, a quality-oriented strategy is well placed to navigate the next phase of monetary policy with resilience and stability.

Being a Quality equity manager, what are the opportunities that you are excited about beyond Technology and AI and where are the risks that keep you awake?

GMO: While technology and AI have been important contributors to recent returns, opportunities extend well beyond these areas. Within the Quality Strategy, we continue to find compelling ideas in healthcare, consumer staples, and industrials, sectors where durable competitive advantages, strong balance sheets, and disciplined capital allocation can support long-term compounding. In healthcare, innovation remains alive and well, with progress in pharmaceuticals, medical devices, and diagnostics providing both growth and diversification. Companies such as Intuitive Surgical, which has benefited from advances in robotic-assisted surgery, exemplify how innovation within quality franchises can deliver sustained value creation over time.

Consumer staples also represent an area of continuing appeal. These businesses often provide stability when markets are unsettled and offer steady fundamental returns through disciplined pricing power, recurring demand, and prudent capital allocation. Firms such as Coca-Cola and Nestlé demonstrate how enduring brands and global distribution platforms can generate consistent cash flows even when cyclical sentiment turns. Similarly, industrial companies with deep technical expertise, such as Safran or Hilton in travel-related sectors, offer exposure to structural recovery themes while maintaining the characteristics we seek in all our investments: high returns on invested capital, resilience, and capital discipline.

The risks that keep us awake are less about any single sector and more about valuation and investor behavior, particularly surrounding AI. Periods of euphoria can stretch expectations even for high-quality companies, especially when capital is abundant, and narratives overshadow fundamentals. We see a risk that investors may conflate cyclical surges in capital expenditure with sustainable long-term profit streams. Our approach is therefore to participate through well-financed, diversified businesses with proven capabilities, such as the hyperscalers and leading chipmakers like TSMC, rather than in highly speculative names.

In short, the opportunity set for quality investors remains broad. By maintaining a focus on financially resilient companies with durable advantages—whether in healthcare, consumer staples, or technology—and by staying alert to valuation risk, the Quality Strategy seeks to deliver long-term compounding while preserving capital through changing market conditions.

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Growth or Value investment styles are more commonly known to investors versus Quality. How does GMO diversify and capture opportunities within the Quality universe to achieve in-line portfolio performances during up-markets while experiencing a lower drawdown during down-markets?

GMO: The Quality Strategy is designed to participate meaningfully in market upswings while offering resilience when conditions turn less favorable. This balance stems from our diversification across three types of quality companies: Core Quality, Quality Value, and Quality Growth, each contributing differently through the cycle.

Our Core Quality allocation anchors the portfolio with investments in companies with steady cash flows, recurring demand, and disciplined capital management, often found in sectors like consumer staples and healthcare. These businesses may not always command headlines but tend to preserve capital during periods of volatility. Holdings such as Nestlé, Coca-Cola, and Johnson & Johnson typify this group: dependable franchises that deliver consistent returns and serve as stabilizers when markets turn unsettled.

The Quality Value positions in areas such as U.S. managed care companies and more cyclical exposures capture opportunities where the market's near-term pessimism has depressed valuations despite enduring business quality. UnitedHealth and LVMH are examples where we see strong profitability and reinvestment potential that the market currently underappreciates. These exposures often perform strongly when economic cycles turn or specific risks dissipate, and they provide valuable diversification at times when more growth-oriented segments are out of favor.

Finally, the Quality Growth holdings tend to lead performance in periods of optimism, driven by companies with durable competitive advantages and structural growth opportunities. As we have seen in recent quarters, innovation linked to AI has been a strong contributor, but our exposure remains measured and centered on well-financed, diversified businesses rather than speculative names. Companies such as Microsoft, Alphabet, and Broadcom exemplify this approach, participating in transformative trends while maintaining robust balance sheets and proven profitability from diversified revenue streams. This conservative stance within growth areas often results in reasonable upside capture in strong markets while providing a degree of capital protection when markets turn.

Across these segments, our focus is not on predicting short-term market direction but on owning high-quality businesses with the financial and operational strength to navigate changing conditions effectively. By maintaining diversification in portfolio construction, this approach has produced a distinctive return profile over time—capturing reasonable upside during rising markets and providing meaningful protection when sentiment deteriorates. This pattern reflects the strategy's long-term return signature, one that prioritizes capital preservation, valuation discipline, and the compounding of quality earnings through cycles.

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