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The Navigator

July 25

Who really knows?

By Edward Lim, CFA

At the start of the year, I was invited to a roundtable organised by one of the premier fund managers in the world, presided over by their chief US political analyst. The prevailing wisdom in that gathering revolved predictably around the second Trump presidency. I was encouraged that many of my seasoned peers have already thought through Trump's machinations ranging from tariff, immigration, climate hoax, political witch-hunt, and his grandiose saviour complex that he will end to the wars in Ukraine and Palestine and of course, in record time. If everyone is so well-versed in what will happen in his second presidency, I infer that there will be less surprises and hence less volatility. Alas, were we so wrong but to be fair, who really knows?

Is the US headed for a recession in the next year? Once more, who really knows? Trump's capricious trade agenda has made what is an already difficult question to answer in normal times harder. How much of its trade war will increase inflation, reduce employment and result in a recession? Much of that will depend on where the eventual effective tariff will settle at, how long will the current partial détente last, and which sectors will be most impacted in the final iteration. Our initial forecast of a punitive 15% effective tariff, outlined in our previous Navigator, To tariff or not to tariff? Navigating the Trumpian maze, has swiftly shifted from worst-case scenario to our new normal. A cocktail of tariffs and non-tariff barriers could cumulatively push the effective tariff rate to around 15-17%.

Tariff + non-tariff barriers could add up to an effective tariff rate of 15-17%

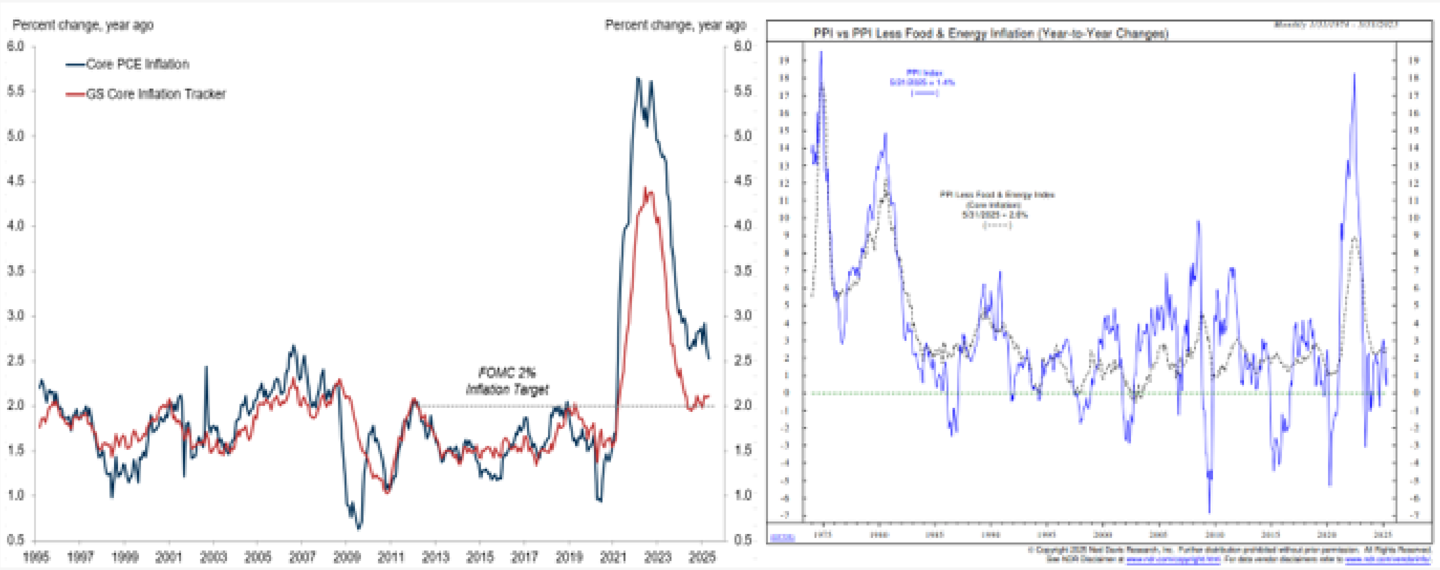
	Actual trade weighted tariff	Non-tariff barriers	Total actual vs other non-trade barrier tariff	versus Post Liberation Day Tariff
China (-300bn trade deficit)	21%	22%	43%	145%
Mexico (-200bn)	0%	5%	5%	25% on non-compliant
Canada (-70bn)	0%	30%	30%	25% on non-compliant
Vietnam (-150bn)	10%	30%	40%	46%
Japan (-70bn)	3.70%	5%	9%	24%
Korea (-70bn)	2%	2%	4%	25%
Taiwan (-75bn)	6%	0%	6%	32%
Ireland (-90bn)	5%	35%	40%	20%
Germany (-90bn)	5%	15%	20%	20%
India (-45bn)	12%	25%	37%	26%
Effective Trade Tariff imposed by the US	**9%**	**11%**	**17%**	**More than 25%**

Source: WTO, Bloomberg Intelligence

Back-of-the-envelope first-order calculations suggest that for every 5% increase in tariffs, US GDP could be shaved by about 0.50-0.65%. This arithmetic nudge our forecast downwards, with growth landing at 0.8%-1.2% for 2025 and remaining tepid at around 1.3%-1.4% in 2026. Yet, this scenario, thankfully, dodges an outright recession, though growth limps along at a pedestrian pace with its weakest quarterly growth in the period of 2H25.

At 15% effective tariff, Core PCE may start rising from June onwards deviating from the path towards 2.0% by end of the year that we have previously envisaged. But the view **on inflation remains unchanged from our previous assessment in the sense that it is a one-off increase and is likely to be transitory.** Moreover, we are encouraged that inflation remains subdued so far with May Core CPI only rising 0.1% mom and Core PCE tracking at 2.5% yoy. The key components of stickier inflation such as rent and services continue to moderate lower even as prices of goods rebounded from their past quarters of deflation. Similarly, there is scant trace of tariff impacting producer price index yet (+0.1% mom and 2.6% yoy) despite the US collecting $72bn in tariff since April.

No signs of tariff induced spike in CPI and PPI, yet



Source: Goldman Sachs

The significant stockpile that firms have accumulated in the past months heading into April coupled with some easing on consumption are probably the reasons why firms have been less willing or unable to pass on costs to end consumers. May's consumer inflation survey also reported a slower month-month increase, while the 5/5yrs inflation expectation by market participants have been well anchored at 2.30 to 2.45% in the past 2 months in contrast to the start of year print of 2.6%. The heatmap we gathered from the leading US retailers post their 1Q25 earnings call is substantiating the view it is harder to pass through tariffs to consumers.

Key retailers' comments in 1Q25 suggest it is not so easy to pass on cost

COMPANY	LIKELIHOOD TO PASS COSTS	KEY RATIONALE & MITIGATION STRATEGIES
The Coca-Cola Co.	Not Likely	Structurally insulated due to a primarily local production model. Sticking to current pricing plans as tariff impact is seen as "manageable."
Amazon	Not Likely	Focus on 1st-party price leadership. Can absorb costs via scale, efficiency, and diversified profits (AWS, Ads). 3rd-party sellers manage their own pricing.
Kroger	Not Likely	**New Stance:** Proactively lowering prices on thousands of items and reinvesting cost savings into price. Limited direct tariff exposure.
The Home Depot	Not Likely	Does not foresee broad-based increases; views it as a share gain opportunity. Mitigation: Extensive sourcing diversification and supplier partnerships.
Target	Not Likely	Price hikes are a "very last resort." Aims to offset the "vast majority" of costs through negotiation, assortment changes, and sourcing scale.
Costco	Somewhat Likely	"Last resort" philosophy, but has already passed on some minor, strategic costs. Thin margins and member-value focus create a tight balancing act.
Walmart	Likely	Explicitly states General Merchandise prices **will rise** as the impact is too large to fully absorb, though food prices will be protected.
Procter & Gamble	Likely	States "some level of consumer pricing... will be needed" due to a significant ($1B+) direct impact on specific product lines. Mitigation via innovation-linked pricing.

Regular readers of our strategy piece might notice the shift from our usually convicted language to cautious pragmatism. Afterall, **who really knows?** Part of our hesitant to subscribe to a more maligned US economy due to higher tariff is because much has changed in the world of AI in the last 6 months. Consider this: $225 billion annual investment in US data centres, an additional $280 billion yearly upgrading America's antiquated electricity grid, and consensus revenue projections for semiconductor demand in 2025 has increased by $200 billion since the start of the year. The AI-inspired capex sojourns could perhaps offset tariff-induced drags on consumption.

Data centres build up multiplier effect

Table 1: Data center GDP impact model, ex power generation

	2023	2024	2025	2026
Data Center Supply (GW)	17.4	25.1	34.6	47.2
Change	4.0	7.7	9.6	12.5
Construction cost ($bn/GW), ex land costs	10	10	10	10
Ratio of IT equipment to construction cost	1.5	1.5	1.5	1.5
Import shares				
Construction	15%	15%	15%	15%
IT equipment	25%	25%	25%	25%
Total spending ($bn)	101	196	244	319
Construction	41	78	98	128
IT equipment	61	117	146	191
Total domestic value-added	80	155	193	252
% of nominal GDP	0.3%	0.5%	0.6%	0.8%
Real %y/y (deflated with GDP deflator)		89%	22%	28%
%pt-contr. to real GDP		0.26%	0.12%	0.18%
Nominal GDP ($bn)	27,721	29,189	30,563	31,773

Source: BEA, SemiAnalysis, Cushman & Wakefield, J.P.Morgan. Supply estimate from JPMC Communications Infrastructure equity analysts from 2024 onward, with 2023 to 2024 change derived from SemiAnalysis

Mag7 AI capex increasing every qtr

Falling back to our data-backed methodology of incorporating nowcast, forecast and recession watch monitor, **it is not conclusive that a recession is inevitable even as data has deteriorated from our last quarter data. The Nowcasting model** we track shows global growth at sub-par level of 1.5% with the US slowing to 0.3% yoy and is a drop from 1.0 ppt from 2Q25. Consensus forecasts for global growth for the full year of 2025 and 2025 have been nudged lower but still at respectable growth of 2.7% and 2.8% respectively. **The US has seen the largest downgrade by 0.8 and 0.4 ppt for 2025 and 2026 respectively but avoids a recession with growth of 1.4% this year and growing just above its long-term potential of 1.6% for 2026.**

Nowcaster has slipped; but no US recession. Likewise, no recession in full year forecast

3Q25 Strategy	Nowcaster GDP Growth (Annualised)	Change from 2Q25 publication
Global	1.5	-1.0
Developed Markets	0.2	-0.7
Emerging Markets	3.6	-1.4
US	0.3	-1.0
Euro Area	0.3	-0.1
Germany	-1.5	-1.3
France	0.5	0.5
Japan	-0.8	-1.0
UK	-1.7	0.9
China	3.8	-2.5
India	7.5	0.4
Brazil	0.1	-4.6

Source: Goldman Sachs

	GDP Forecast by Economists			Change from 2Q25 publication	
	2024	2025(F)	2026(F)	Change 2025(F)	Change 2026(F)
Global	3.1	2.7	2.8	-0.2	-0.2
Developed Markets	1.7	1.3	1.5	-0.4	-0.3
Emerging Markets	4.0	4.1	4.0	-0.1	-0.1
US	2.7	1.4	1.6	-0.8	-0.4
Euro Area	0.8	0.9	1.1	-0.4	-0.4
Germany	-0.1	0.1	1.1	-0.2	0.1
France	1.1	0.5	0.8	-0.2	-0.3
Japan	-0.2	0.8	0.7	-0.4	-0.2
UK	0.9	1.1	1.2	0.1	-0.2
China	4.8	4.5	4.2	0.0	0.0
India	6.8	6.3	6.3	0.0	-0.2
Brazil	3.1	2.1	1.6	0.1	-0.1

Source: Bloomberg

Our US recession watch list remains benign with only 2 of ten indicators are in past recession territory (CEO Confidence Index and ISM PMI-Services). It is worth noting the CEO Confidence Index and the ISM Services are one of the worst leading indicators of a recession with 25- and 16-months lead time till. Similarly, only 1 of the 7 indicators in the global recession watch list we track are flashing red. They are the Global Manufacturing PMI, but it has given many false alarms of an impending recession ever since post Covid.

Recession watch lists for US and Global are not flashing many Reds

Indicator	Reading			
NDR Recession Probability Model[1]	0.0	3.6	50.0	99.3
Housing Starts (Smoothed 3-Mo Change)	-23.7	1.5	-7.9	23.0
NDR Economic Timing Model	-24.0	17.0	0.0	27.0
NDR Composite Leading Index	-14.4	-1.4	-2.6	18.1
National Financial Conditions Index[1]	-1.1	-0.5	0.9	5.2
Initial Claims for Unemployment Insurance (4-wk Avg)[1]	179.0	245.5	500.0	5288.3
Conference Board's Consumer Confidence Index	25.3	93.0	63.2	144.7
Conference Board's CEO Confidence Index	24.0	34.0	43.0	82.0
ISM Manufacturing PMI	29.4	48.5	48.0	77.5
ISM Services PMI	37.8	49.9	51.4	67.5

Indicator	Reading			
Global Recession Probability Model[1]	0.7	28.9	70.0	99.8
OECD Composite Leading Indicator for G20 Economies	89.0	100.5	100.0	104.8
Share of OECD CLIs Above 100[2]	0.0	88.2	50.0	100.0
Global Manufacturing PMI	33.8	49.6	50.0	57.6
Share of Manufacturing PMIs Above 50[2]	0.0	31.4	50.0	100.0
World Trade Volume (Smoothed Year-to-Year % Change)	-19.4	4.5	1.5	21.6
Sentix Economic Expectations Index	-36.2	5.7	0.0	37.7

Has the USD hegemony finally capitulated? The truth again is who really knows? Of late, many newly minted FX experts are commenting we are seeing the beginning of the USD demise as the reserve currency of the world. It also does not help President Trump's twaddle on unilateralism is alienating both friends and foes. We wrote many years ago about the curious case of USD 7 years itch (7 to 9 years actually). Since its abandonment of the Bretton-Woods accord in 1970, the USD exhibits an interesting trend of 7 years up followed by 7 years down cycle. Are we at the cusp of another down cycle?

Each of the USD down cycle since then was accompanied by its own endogenous economic shocks. The early 1970s was the abandonment of the peg to Gold, followed by a series of unintended consequences that led to the Middle East embargoing oil to the US. The 1985 decline was on the back of the Plaza Accord and subsequently the Louvre Accord (1987) that saw its US major trading partners agreeing to depreciate the USD on the same issue we are facing now; a strong USD eroded US industrial base that led to the widening of its trade deficit with its trading partners. During this cycle, it was made worse with the Savings and Loan Crisis in 1985. The 2000 downcycle was the unwinding of the infamous Dotcom bust. Since peaking in 3Q22, the DXY Index has fallen 10% (6% were from this year alone) raising the convenient prediction the next 7 years downcycle has begun, or the more insidious, the end of the mighty Greenback as the reserve currency.

The curious case of USD 7-year itch

Source: Bloomberg

However, it must be emphasized. Unlike owning a stock say Nivida, which is a singular argument do you like NVDA or not, FX isn't. It is always a relative game. If you don't like the USD, sell it, and buy what? In each of down cycles, there was also an exogenous alternative developing. In the 1970s downcycle, it was Deutsche Mark (The emerging economic powerhouse) and Swiss Franc (safe haven). In the 1980s, it was the Yen that dominated (the next economic powerhouse challenging the US). Then in the 2000, it was the birth of EUR (someone's wild dream) that became the alternative to the USD and then there was the China de-pegging in 2005. But with each downcycle, the USD recovered to engineer another prolonged upcycle as its economy adjust, recalibrate, and often pivot to another source of growth.

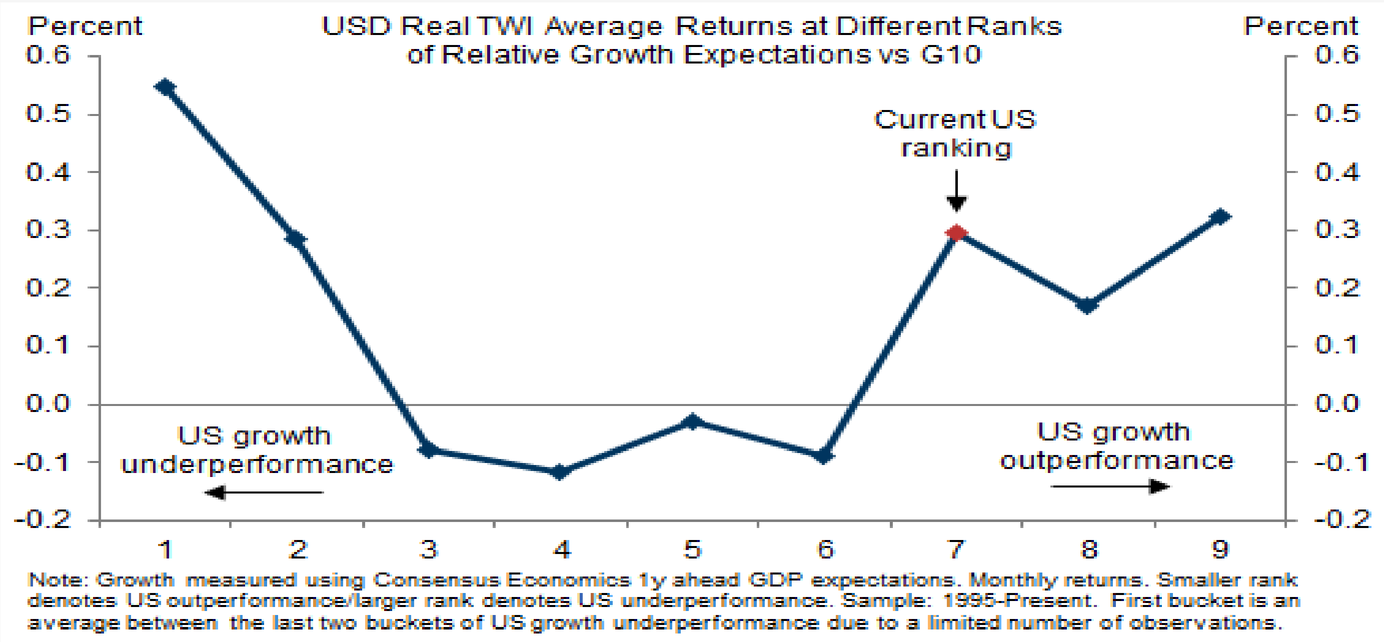
Then there is the TINA (There Is No Alternative) question? Which other countries can absorb all the selling of the USD that you can buy into? China? It has a closed capital accounts even though as early as 2010, they have explored opening, but ideology changes, domestic tumults, and fear of massive outflows have all put a halt to this initiative. The EUR? An economic bloc flawed with political landmines, imperfect policy coordination, and rapidly ageing demographics? Yen? A country which has even worse demographics and anaemic long-term growth potential than Europe and has the distinction of the highest Debt/GDP ratio in the world. SGD? You ought to be joking. The US economy is $30trn and the Singapore is a 1/40th size of the US. Gold? Sure, we do own it, but it is most easily fungible for trade settlements and is a negative carry asset. Bitcoin? Sure, but it is in limited supply and try convincing the public to transact in BTC.

To add to the mix of if not USD who else, there is also the issue of settlements systems. Right now, more than half of the FX flows are traded via the SWIFT system. The weaponization of SWIFT onto the Russian have added impetus to alternatives such as CIPS (China backed system) or block-chain networks, but both networks are still in its infancy and volumes through them are incomparable to SWIFT. E.g., SWIFT handles over $2trillion of volume compares to CIPS of only $50-100bn a day. We are witnessing plenty of newly created stablecoins but even those are still tethered to a currency.

Could the USD weakness in recent months simply be a case of its over-valuation correction rather than a tectonic shift away from it? We disagree with consensus view that US exceptionalism is permanently impaired. Even after post-liberation day tirades and downgrades, US growth is forecast to be higher than the Euro Zone and Japan. Granted the delta of change often matters more in the repricing of risks and clobbered with self-inflicted policy uncertainty risk, we still think it's premature to call for the end of USD as a reserve currency. If one subscribes to AI as the game changer for decades to come, nowhere in the developed world aside from the US, and to some extent China, has dominated this frontier technology. Nobody has ever heard of a OpenAi, Grok, Gemini, LLaMa equivalent from Europe, Japan or UK!

It has been a while since we revisited the **Dollar Smile concept which posit the USD will rise in two circumstances**. When the US outpaces global peers, or conversely, when global crises ignite flight-to-safety instincts, the dollar strengthens. In between these two circumstances of exceptionalism, the USD can depreciate if its growth is lower than the rest of its major trading partners on both relative and absolute basis. Currently languishing between these extremes, we believe the narrowing US growth differential explains the dollar's recent softness. A global downturn, however, could swiftly reignite dollar strength.

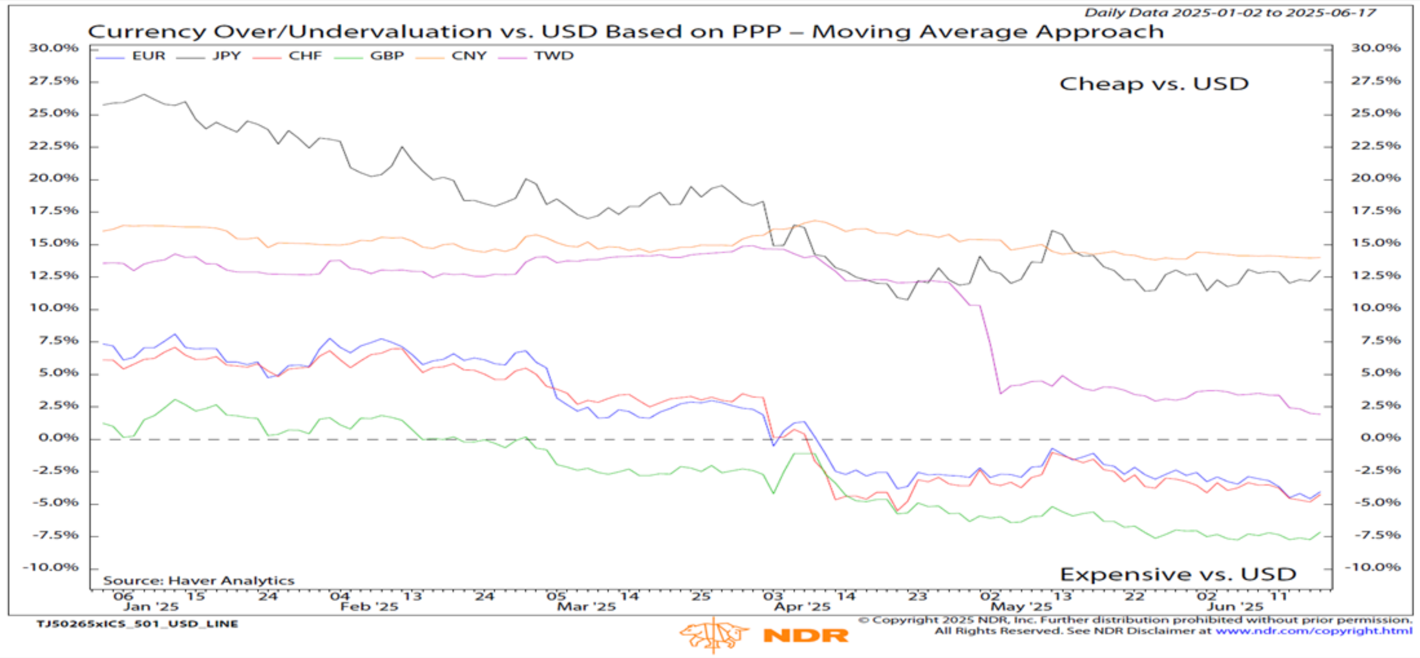
Will the Dollar Smile prevails? Who really knows?



Source: Goldman Sachs

If we based on textbook **Purchasing Power Parity fundamentals, the USD is no longer expensive relative to EUR, Swiss Franc and Pound as compared to the start of the year.** In fact, they are now 5 to 7.5% more expensive against the USD, whereas the at start of the year all of them were under-valued by 3 to 7.5%. The USD is only expensive against the Yen and CNY (still more than 10% expensive to these pairs) and TWD (narrowed to less than 2.5% from 12% at the start of the year).

There is a price to everything: USD over-valuation has corrected in a short time



Our longstanding caution over America's and many developed economies fiscal irresponsibility remains which wrote in this edition of the Navigator [Now I know when I must retire](). Trump's recent "Big, Beautiful Bill" reignites this concern again. A rebellion by bond vigilantes against relentless US fiscal profligacy could precipitate a crisis far graver than the conventional recessionary script.

> "**The next global recession could be triggered by bond vigilantes revolting against further funding of profligate governments**. In a classic private sector recession fuelled by intolerable debt levels, defaults rise, lenders suffer, and a destructive cycle of retrenchment in profits, employment, and GDP growth ensues until sufficient resets are achieved. However, in a public debt default scenario, yields spike, dragging down capital markets, financial institutions that are large holders of government debt go under, and currency devaluation occurs. This pushes inflation up as growth struggles and the country moves into dreaded stagflation. If it is Argentina that we are talking about, the world brushes that aside. If it is the US, I think it is time to retire."

However, as we always confess, predicting such outcomes is a perilous game.

Asset Allocation Strategy

Equities: Remain Neutral and balanced. On average, equity bear markets lead 5.5 months before a recession is officially declared and end 3.5 months ahead of the end of a recession. **There has never been a case when the bear market ended before a recession starts.** Based on this empirical data and the fact that the market is just 5% shy from the high post DeepSeek and Liberation Day selloffs, **a recession would be needed for the market to hit a new low.** Even though nobody really knows with certainty a recession is imminent, our analysis suggests it is unlikely for now.

We have studied past bear market corrections 1928 till now. In a non-recessionary bear market correction, the S&P500 typically corrects 15 to 16%, but recoups much of its losses within 3 months of the trough. It then consolidates for another 3 months before staging a higher move. It is uncanny that the recent market moves parallel to this history. Markets peaked in Feb 2025, then corrected by 21% post liberation in April, it has since recovered an over the next 2 months and is 3% shy from the Feb high. If history does repeat, we should expect the market to consolidate from Jul to Sep as we assess the confluence of tariff and two ongoing wars.

Bear markets lead start and end of recession

Post-War Recessionary Bears

Equity Bear Market (DJIA)			Recession		Lead time (months) to recession	
Start	End	% Drop	Start	End	Start	End
6/15/1948	6/13/1949	16.3	11/1948	10/1949	5	4
1/05/1953	9/14/1953	13.0	7/1953	5/1954	6	8
4/06/1956	10/22/1957	19.4	8/1957	4/1958	16	6
1/05/1960	10/25/1960	17.4	4/1960	2/1961	3	4
12/03/1968	5/26/1970	35.9	12/1969	11/1970	12	6
1/11/1973	12/06/1974	45.1	11/1973	3/1975	10	3
9/08/1978	4/21/1980	16.4	1/1980	7/1980	16	3
4/27/1981	8/12/1982	24.1	7/1981	11/1982	3	3
7/16/1990	10/11/1990	21.2	7/1990	3/1991	0	5
1/14/2000	9/21/2001	29.7	3/2001	11/2001	14	2
10/09/2007	3/09/2009	53.8	12/2007	6/2009	2	3
2/12/2020	3/23/2020	37.1	2/2020	4/2020	0	1
Median		22.7			5.5	3.5

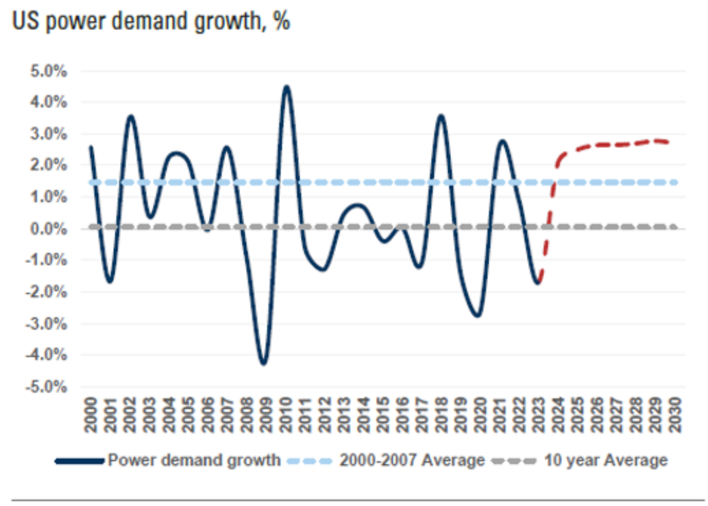
Source: Ned Davis Research, National Bureau of Economic Research.

Non-recession bear market trajectory

Combining our latest mark-to-market assessment of macroeconomics and with the empirical data quoted above, we remain constructive on equities and the only reason we have not upgraded our view to Overweight is our cognizance that a great dose of humility is required. We have been reducing our underweight in US equities in the past few months and increasing our positions across the AI opportunity set while retaining our overweight in Japan and China and underweight in Europe. We have made no changes to our key fund manager and ETFs expressions aside from adding in the low-beta ETFs in US utilities and healthcare. On balance, we would categorize our equity positioning as 45%/55% in low-beta ETFs or managers versus high-beta positions.

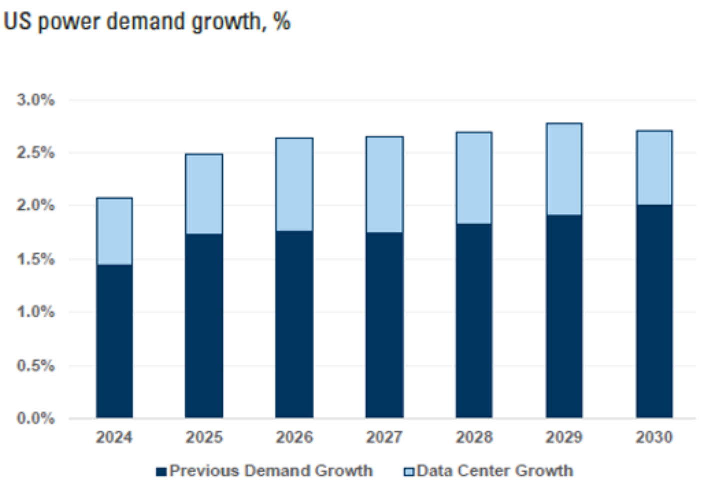
Back in July 2024, we wrote in our Navigator Now I know when I must retire, we advocated for the Utilities sector ETF as a 2nd derivative of the AI play. Power is a major bottleneck for the US to achieve its AI supremacy. It is estimated an additional 50GW of incremental power is needed just to support US data centre demand into 2030, translating to over $100bn capital investment per year. The advent of DeepSeek has further galvanised US tech companies to spend more in data centre build out. The DeepSeek moment has also speed up the transition from LLM to inference computing. We believe all these two factors will accelerate the Jevons Paradox and will be beneficial for the utilities. Hence, power demand is forecast to grow 2.4% CAGR for next decade versus two decades of near zero growth. Over the next two-years, the utilities EPS is forecast to grow 19% CAGR in-line with S&P500 but trades at lower valuation relative to S&P and its own long-term historical average. There is also dividend support of 3.4%, doubling that of S&P.

Power demand outpacing historically



Source: EIA, Goldman Sachs Global Investment Research

Data centre is an important driver

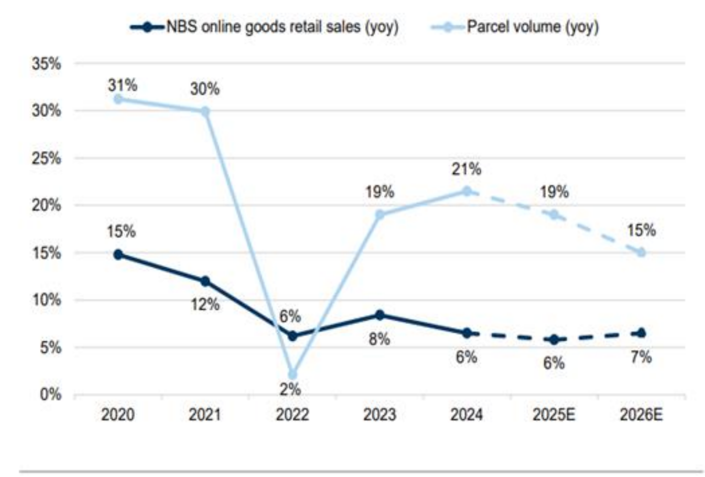


Source: Goldman Sachs Global Investment Research

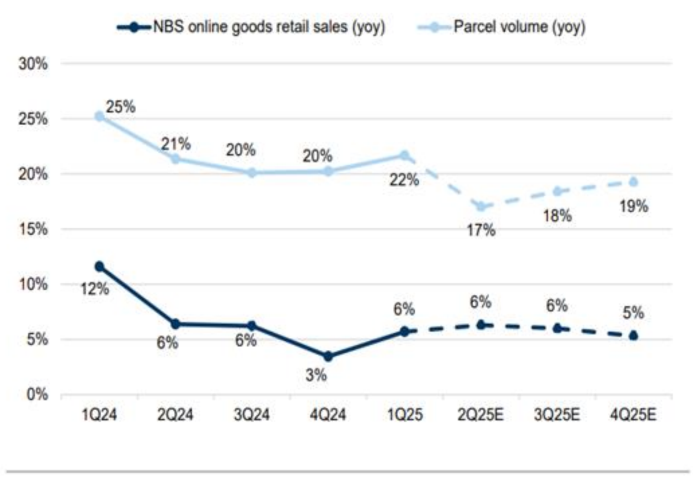
We have been adding China AI, e-commerce, technology, and robotics ETFs throughout the first half. There are three drivers underpinning this bullish view. First, their e-commerce business, which remains the biggest earnings contributor, is stabilizing. Second, AI adoption is re-invigorating the demand for their cloud business. Lastly, there has been a seismic shift in the authorities' attitude towards promoting private enterprise and particularly in the technology space.

After a couple of volatile years and declining trend, China e-commerce growth is projected to grow at CAGR of 5%. NBS online goods retail sales and parcel volume growth in the next two years is projected to stabilise at 6% and 17% respectively. This is in comparison to last 3 years where we see volatile spikes in NBS online goods retail sales from 12% to 6% and parcel volume growth from 30% to 2%.

China e-commerce market is expected to stabilize after years of volatile growth



Source: NBS, SPB, Goldman Sachs Global Investment Research



Source: NBS, SPB, Goldman Sachs Global Investment Research

The China's cloud market is forecast to grow at a 14% CAGR, reaching RMB 1 trillion by 2028. The launch of DeepSeek in February marks a seminal inflection for China AI ambition. As shown in the chart below, amid tightening US export bans on Nvidia' advanced Blackwell chip, DeepSeek illustrated China can train competitive models without 5nm GPUs. DeepSeek latest model, DeepSeek R1, which computes at just $0.14 per million tokens, while GPT 4.5 remains at $7.50. The latest news of Huawei's Ascent chip is another important development that suggests the bifurcation of AI technology between the East and the West is a given. At present, the 98% cost advantage in China's Gen Ai is already yielding results. 83% of Chinese organizations have adopted GenAI versus 65% in the US (Source: Coleman Parkes Research)

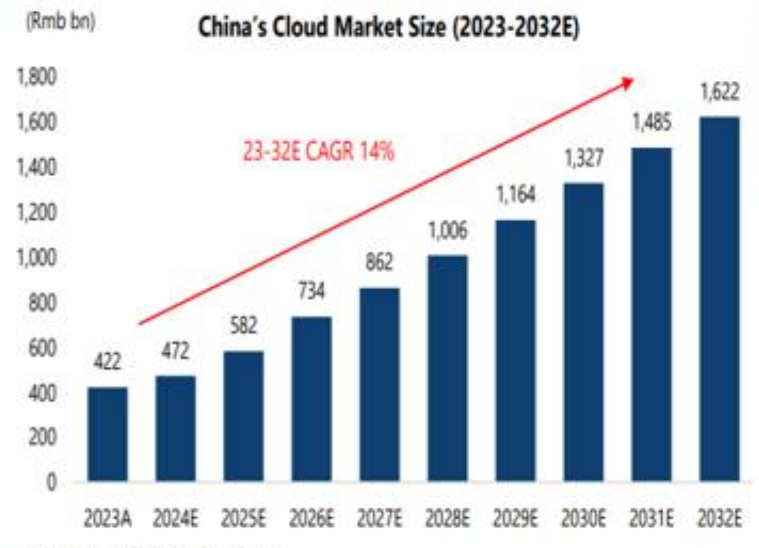
AI computing is not just about hardware but engineering and the cost of powering it

	Deepseek R1	ChatGPT 4.5	Savings with DeekSeek
Cost / 1M Token	$0.14	$7.50	$7.36 **(98%)**
Cost / 100M Token	$14.00	$750.00	$736.00
Cost / 1B Token	$140.00	$7,500.00	$7,360.00

Source: Crelo Studios

Evidently earning revisions across China's tech sector have been broad based since the start of the year. Cloud infrastructure providers are the biggest beneficiaries, reflecting growing investor conviction in the long-term value of China's own iteration of the AI revolution.

China cloud: 14% CAGR growth



Source: Jefferies estimates

EPS for cloud providers revised higher

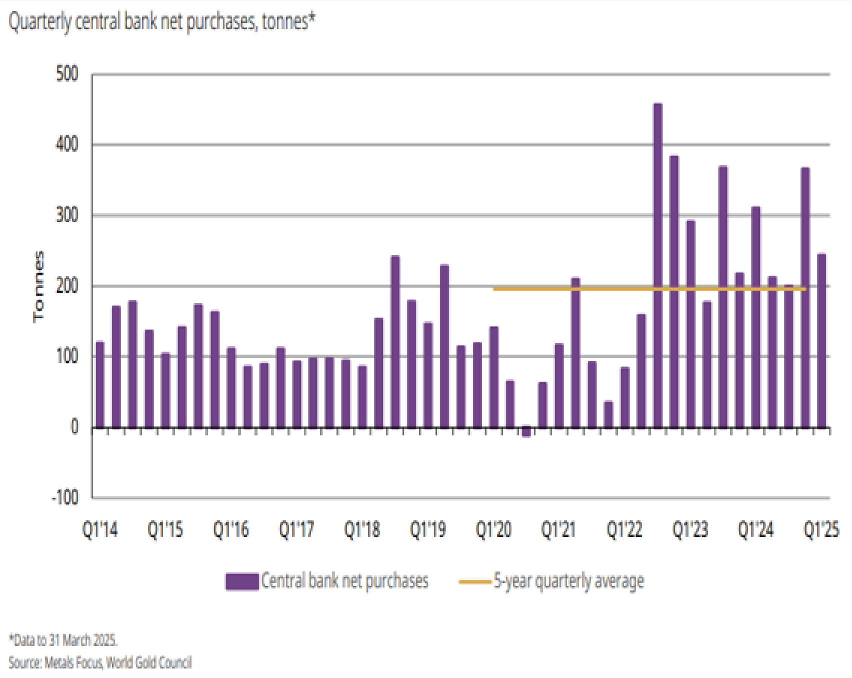
	CY2025			CY2026		
	New	Old	Revision	New	Old	Revision
Ali Cloud	20.1%	11.2%	8.9ppts	20.1%	12.0%	8.1ppts
Tencent Cloud	20.5%	12.2%	8.3ppts	17.4%	12.0%	5.4ppts
Baidu Cloud	27.2%	14.4%	12.8ppts	18.6%	13.4%	5.2ppts
KingSoft Cloud	19.0%	12.6%	6.4ppts	16.5%	13.5%	3.0ppts

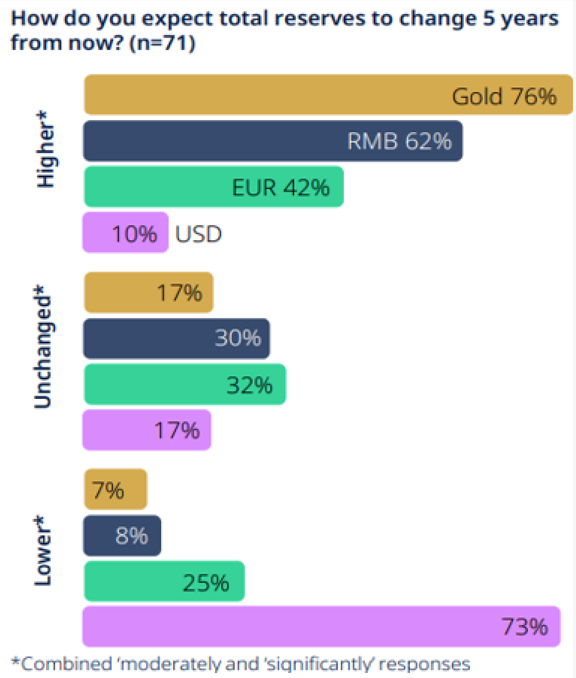
Source: Visible Alpha

Fixed Income: Will be reducing the Underweight. Even with a whippy US10 yield and an over-compensatory 30-year yield, our fixed income positions have managed to generate net returns ranging from 3 to 5% in the first half of the year. Focusing on owning excellent quality credits, active duration management, and investing outside of US debt markets were the reasons for their decent performances. Furthermore, the current high coupon rate compensates for convexity in bond pricing relative to the movement in rates. The schism between Powell and is supposed successor Chris Waller will shape Fed's move from hereon till Powell's end of term in 2026. There is sympathy for Governor's Waller dovish views. Europe's trimmed core inflation has fallen from its high of 5.8% 2Q23 to 2.2% as of May this year. In that time, ECB had cut rates by 235bps. In the US, Core PCE has fallen from a high of 5.65% to 2.5% currently but the Fed has only cut by only 100bps. Our analysis on inflation and growth intersect does indicate Fed is behind the curve or worse the Fed has become political choosing to engrain its independence than following the modus operandi of following the data.

Commodities: Global tensions have escalated and that have provided bids for USD alternatives such as Gold and Bitcoin. We adjust our full-year target of Gold towards \$3300 to \$3800 as we are surprised by central banks' lack of price sensitivities in adding to their gold stockpile. The latest World Council of Gold survey from central bankers indicates 95% of the respondents expect their gold reserves will increase over the next 12 months. They cited gold's performance during times of crisis, portfolio diversification and inflation hedging as the key themes underpinning their intentions. Interestingly, majority of respondents expect to see a moderate to significant lowering of their US dollar holdings over the next five years with Gold and RMB taking precedents.

Central banks: A constant buyer even at higher price **Increasing Gold, RMB, reducing USD**





Over the past three months, we have seen two important developments in crypto space. First, the passage of the GENIUS Act is widely seen as a watershed moment and major milestone for the digital asset industry. By crafting federal rules, Congress is effectively acknowledging that crypto assets have a place in the U.S. financial system rather than existing in a legal gray zone. This regulatory recognition indirectly benefits Bitcoin's legitimacy. The second is the slew of MNCs like JP Morgan, Walmart and Amazon issuing or considering issuing their own stablecoins. Big institutions adopting stablecoins implicitly endorse the underlying blockchain technology that also powers Bitcoin. Both are significant signalling events. We need to further study the interplay with great stablecoins adoption versus the price of Bitcoin. On one hand, the increase in adoption of crypto assets including stablecoins by major institutions should promote greater interest in Bitcoin. But because stablecoins are tethered to a major currency, their price fluctuation should be less volatile than Bitcoin. This characteristic could also divert the flows away from Bitcoin to stablecoins. Or it could be a two-tier system where stablecoins serve as transaction layer to global finance while Bitcoin act as a "digital gold" proxy.

Asset	Current Market Cap	High-end estimate	Share of Crypto Market
Stablecoins	$250–260 bn	$2.0 trn	~8–9 % of overall crypto
Bitcoin	$2.03–2.05 trn		~62–63 % of total crypto

Source: Coinstats

Separately, if stable coins ecosystem should grow to $2trn as some experts have estimated, this could mint a phenomenal new buyer of US Treasury Bills. As stablecoins are required to be backed by "high quality liquid assets" and is likely to be short duration, a 70% allocation of this market to T-Bills would mean an incremental buyer of $1.4trn or 22% of the current US T-Bill stock and perhaps this could drive down US borrowing cost too!

On oil, we need to remind readers before the recent Israel-Iran hostilities, oil price has retreated from $71 at the start of the year to as low as $57 in May. This is due largely to a surplus of oil in excess of more than 2million barrels per day. The surplus is entirely driven by higher oil supply from OPEC, not because of lower demand which has increased yoy. Iran's seaborne exports 2.1mn bpd (or less than 2% of global oil production) and 70% of that demand is going to China. Even if Iran's entire oil export is taken out, China will be worst hit as Iran accounts for under 10% of China's oil import. Moreover, Saudi, UAE and Kuwait has excess of 3.5mn bpd of spare capacity it can readily turn on more than offsetting the unlikelihood of total embargo on Iranian oil export. Furthermore, the US is expected to add 1.1mn bpd of production over the next 2 years. Hence, unless the Stratis of Hormuz is shut for months, we do not believe oil prices will rise above $80 and if based on current demand and supply fundamentals, a $60-65 oil is more likely in the coming 12 months. It is also noteworthy Iran exports 58% of its oil and 90% of that export is routed through the Straits of Hormuz. So does Saudi at 75%, UAE 83% and Kuwait 54%. Any attempted closure by Iran will be suicidal and incite even more hostilities from their Sunni neighbours.

Alternatives: No change with 30% allocation to hedge funds. This fund of hedge fund strategy (GARP) has shown its worth in providing low-correlated returns to bond and equities while generating 9.8% return in the last 12 months on volatility of less than 3%.

Cash/FX: Cash is reduced as opportunities arose in the US equities, USD alternatives and fixed income.

Featured Picture/Quote:

"The most familiar arrangement of human civilizations is that of the Westphalian system as conventionally understood. The idea of the sovereign nation-state, however, is only a few centuries old, having emerged from treaties that are collectively known as the Peace of Westphalia in the mid-seventeenth century. It is not the preordained unit of social organization, and it may not be suited for the age of AI. Indeed, as mass disinformation and automated discrimination trigger a loss of faith in that arrangement, AI may pose an inherent challenge to the power of national governments."

— Henry A. Kissinger, Genesis: Artificial Intelligence, Hope, and the Human Spirit

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Risk Disclosure