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Asset Allocation Insights

USD EDITION

QUARTERLY REPORT | **SEPTEMBER 2025**

Tailwinds continue for International Equities and Emerging Markets. Falling intra- and inter-asset class correlations highlight diversification as key to support portfolio returns

Macro backdrop of slowing growth and higher inflation

US tariffs are changing trade patterns, and YTD the IMF has reduced 2026 growth forecasts for major regions. Most developed markets have little fiscal space to boost growth. Inflationary pressures are building, especially in the US.

Where do sovereign yields go from here?

Falling policy rates in the face of slowing growth and aging demographics are countered by developed markets' fiscal concerns and rising term premiums pushing up the long end. Country governance impacts cross-sectional difference in long yields across countries.

Tailwinds continue for international equities

Higher forecast earnings growth, lower valuations, positive momentum for their valuation up-ratings YTD all point to the potential for international equities to continue outperforming the US. Concentration risks are acute in US equities, and dollar weakness adds to the appeal of global equities for US$ investors.

A sharper rally in risky equites relative to macro backdrop calls for a greater role for fixed income

Slowing growth alongside high valuations in risk assets (equities & credit) seems puzzling. The richness of valuations is more acute in equities, while fixed income has the benefit of attractive yield income. Higher than target, yet <3.5% inflation have led to double digit returns YTD in inflation-linked bonds.

Re-rating of emerging markets (EM) continues with strong momentum

EM has widening excess growth & better fiscal policies relative to DMs, while major EM countries have strong Technology companies. The re-rating in recent years has picked up momentum and EM equities have outperformed DM over 3M, YTD & 12M. Capital inflows remain strong.

Alternatives: Listed infrastructure and commodities (mainly gold) highly accretive in portfolios

Listed infrastructure delivered double digit total returns, high income yield and better return & risk profile than listed real estate. Gold is an outperformer with significant tailwind (uncertainty & geopolitics).

Potential for US dollar weakness to continue with implications for currency returns and hedging

The US dollar has weakened YTD, and more so against EM currencies. The path of interest rate differentials, still strong dollar over LT history, and gradual de-dollarization indicate this could continue.

Decoupling (inter-asset class and intra-asset across regions) increases diversification opportunities

Equities (esp. US equities) have become less correlated with other asset classes (high yield being the exception). Commodities have almost zero to negative correlation to stocks and bonds.

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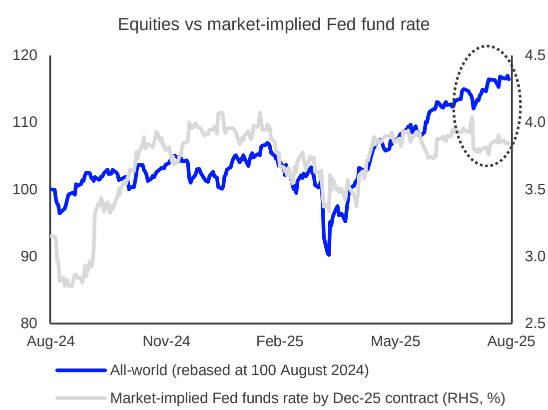
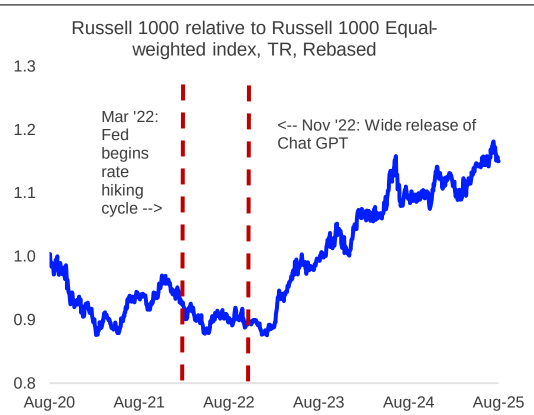
Markets front-ran the US Fed on rate cuts expected due to labor market weakness, sending equities to new highs (more than correlations might suggest). Market expectation of Fed funds rate by end-2025 fell to 3.8% from 4%.



The performance of the market-weighted Russell 1000 relative to its equally-weighted version shows the sharp rise in concentration risk in US equities in the last 3Y. The weight of top 10 stocks is 35% in the US vs. 10% in Dev x US.



Financial Markets Overview

Macro & Rates: The resumption of US tariffs in August, in most cases at levels lower than their initial announcements, has led to economic uncertainty remaining elevated but off their highs. The full impact of tariffs and the ultimate cost bearer (corporates or consumers) remains uncertain, but effects already include lower expectations for global growth, higher inflation expectations and sharply weaker labor markets (esp. in the US). 7-10 Y inflation-linked bonds having the best YTD returns within fixed income point to lingering inflation concerns. DM fiscal concerns led to higher term premium and steeper yields curves. The falls in US 7-10 year yields, contrary to increases in other DMs despite having the same fiscal concerns, reflect the slowdown concerns in the US.

It is important to note the deeply impactful structural shifts that are impacting financial markets. Better governance and ageing demographics, while slower moving forces, exert downward pressure on sovereign rates. Many countries have improved their governance in the past decade (notably Indonesia, China, South Korea, India, Italy among G-20) which has been reflected in comparatively lower yields (e.g. European peripherals with spreads in line with Germany). Central banks now holding more Gold than Treasuries points to active de-dollarization and more currency-led volatility.

Risk assets (Credit & Equities): The risk rally that started in late-April, after the pause of extremely high tariffs, continued. Credit spreads narrowed globally over 3M led by Euro bonds, with HY spreads tightening more significantly than IG during the recent risk-on rally. Euro bonds remain the main beneficiaries of US dollar weakness, and Euro HY spreads are narrower than their US & EM peers. High valuations globally, with 10-year spread percentiles in single digits, potentially imply lower future returns in credit.

In equities, YTD the US has underperformed FTSE All-World, while Dev Europe ex UK, UK, Japan, and China have outperformed. Over 3M, momentum shifted, with the US outperforming All-World, though China & Dev APAC ex Japan still lead over the US. The much larger valuation expansion in China, Japan & Dev APAC, and US EPS growth lagging UK & Dev Europe were contributors to a different world of other equity markets leading the US. With still lower valuations and higher 2Y forecast earnings growth, the YTD trend of global equities outperforming the US could continue.

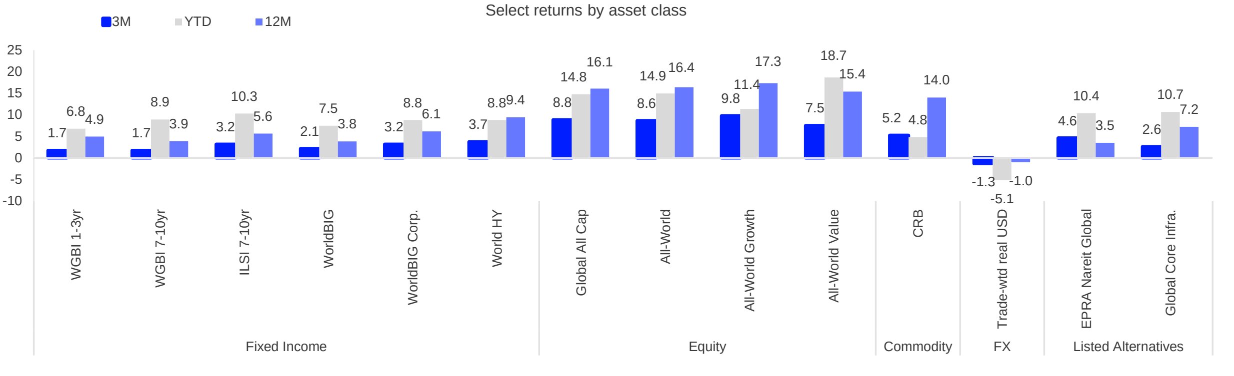
EM re-rating continues: IMF revised up (in July vs April) 2025 growth forecasts by a larger margin for EMs than DMs. China and Emerging market equities continued to lead earnings growth forecasts. EM equities outperformed DM over 3M/YTD/12M while EM 7-10-year government bonds had higher returns than for DMs, while EM $ IG corporate yields are only ~10 bps higher than US IG yields now. Foreign capital flows to EM bond markets were much stronger than to EM equity over 12M, led by China.

Commodities and currency: Oil price recovered over 3M, alongside an upward shift in the forward curve. But oil still saw losses YTD and over 12M, and its price remains under pressure as the demand and supply balance is tilted in favor of excess supply helped by OPEC+ unwinding voluntary cuts and Non-OPEC+ producers boosting output. Gold gained significantly YTD and over 12M, powered by safe-haven demand and central bank reallocation from US Treasuries. EM currencies showed stronger resilience than DM during the short-lived US dollar rally in July. Non-US currencies may have more room to rise as interest rate differentials turned favorable. Over a longer term, the predominance of the US dollar among global reserve currencies has gradually declined, as central banks shifted to alternatives.

Cross assets: The trend of equities outperforming bonds since Covid has resumed quickly from the April equity sell-off. High yield credit continued to benefit from higher correlation with equities. The US equity risk premium (ERP) has remained negative, lower than US credit spreads and ERP of peers in other regions. Over 1Y, improving sentiment benefitted equities & commodities, widening their performance gap with listed real assets. However, falling correlations to listed equities strengthen the diversification benefits of listed alternatives, implying they are getting driven more by their underlying real assets. Commodities have outperformed over 3Y, in absolute and relative terms to bonds, while underperforming relative to equities. In terms of risk-adjusted return, gold, World HY and US HY outperformed equities over 1Y and 3Y. Diversification benefits improved as inter- and intra-asset class correlations have declined markedly since end-2023, led by sharp reductions in US equity correlations.

Capital flows: Over 12M, global fund flows have seen strong positive momentum, despite some softening between March and May due to trade policy uncertainties. More recently, EM and Europe equities have led global fund flows over 3M and 6M, while North America and Japan equities experienced outflows (capital flows can serve as a proxy for investor sentiment). Within the US, cyclicals-related equity funds have gained momentum over 3M as market sentiment improved, led by Industrials and Basic Materials; while in fixed income, investors have favored high yield over broader corporate bonds on a relative basis (contributing to US HY outperformance vs IG). Emerging markets-focused funds have seen strong inflows in both equities and fixed income, leading other regions over 3M, in line with EM outperformance vs DM in both asset classes.

Chart 1: Equities outperformed over 3M (8.6% in USD), leading to YTD gains of ~15%. Commodities returned 5.2% over 3M, behind only equities, a reversal to their poor returns YTD relative to other asset classes. YTD saw double-digit returns in Global Core Infrastructure (10.7%), Listed Real Estate (10.4%), and ILSI 7-10yr (10.3%, best in fixed income). Within equities, Value significantly outperformed Growth YTD, despite lagging over 3M. US dollar lost another 1.3% over 3M.



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Macroeconomic Backdrop

Tight financial conditions (in the US), limited fiscal headroom, and softening labor markets in most developed countries pose risks to global growth.

Since peak-tight levels in 2022, financial conditions have loosened markedly for most DM economies as monetary policy has largely begun to ease and as liquidity conditions have improved. The US now remains the only major market exhibiting net-tight financial conditions (Chart 1).

Previously tighter financial conditions resulted in softer labor markets across most DM economies, but with limited increases to unemployment so far. Average wage growth between the US, UK and EU has slowed from a peak of 6.5% in March 2022 to 4.2% in June 2025 (Chart 2).

With financial conditions still tight in the US, high levels of public debt raise questions about the sustainability of fiscal spending as a tool for economic growth (Chart 5). Further deterioration in the US labor market remains a risk to its consumption-driven economy. Already, consumer credit growth has begun to slow, contracting y/y in June 2025 (Chart 3) and consumers are showing signs of stress (NY Fed). For businesses, the US ISM Manufacturing PMI has been in contractionary territory since March 2025; q/q private domestic fixed investment growth turned negative in Q2 (Chart 4).

Chart 1: In 2022, as central banks began to hike interest rates, financial conditions reached tight levels (>0). However, financial conditions have since loosened markedly for most markets but remain tight for the US.

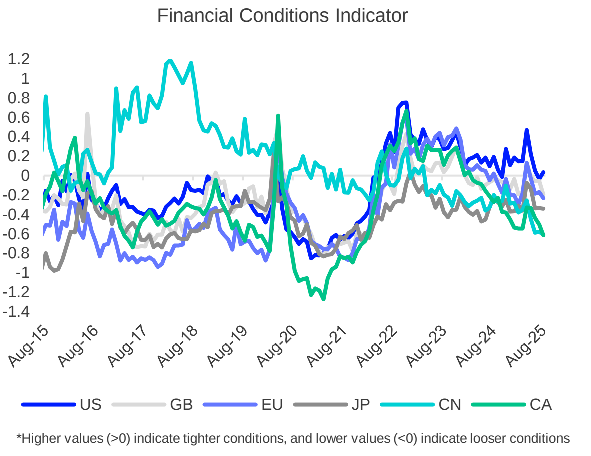


Chart 2: Tighter financial conditions since 2022 resulted in softer labour markets across the US, UK and EU, with wage growth declining across all three markets but with only moderate increases to unemployment.

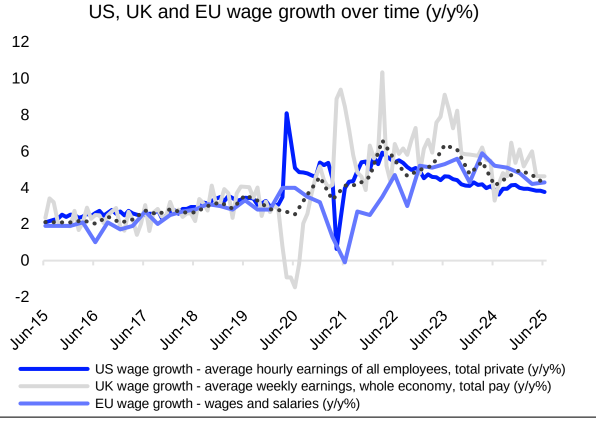


Chart 3: While consumer spending has remained resilient, softer labour markets & tighter financial conditions have seen growth in US consumer credit slow since 2022, with negative y/y growth in revolving credit as of June 2025.

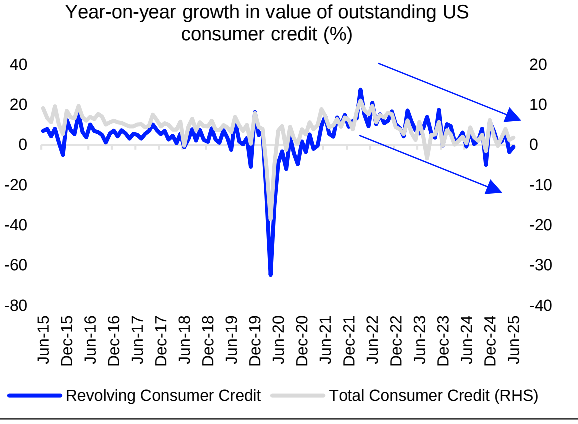


Chart 4: Since Mar 2025, the US ISM Manufacturing PMI Index has been in contractionary territory (<50). Private domestic fixed investment growth has also fallen since then, suggesting weaker business confidence.

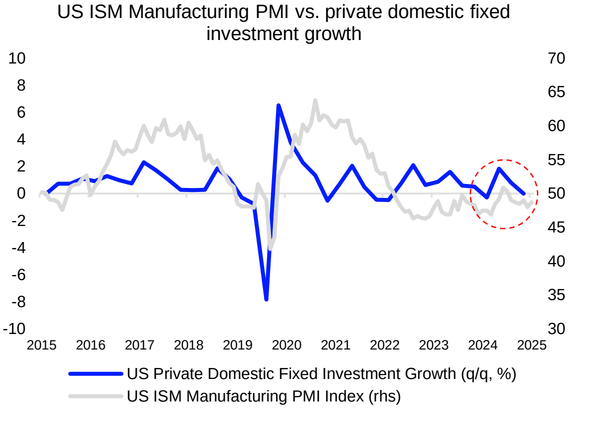
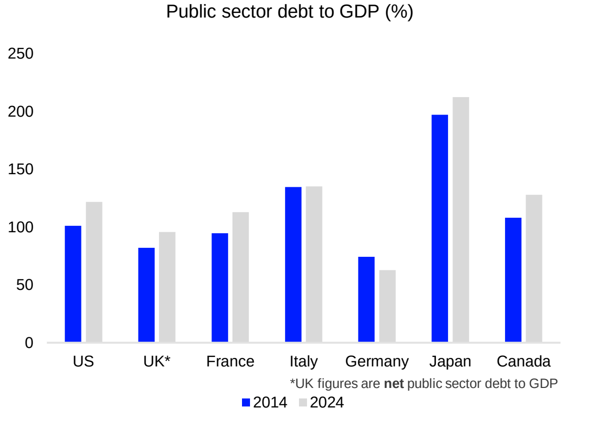


Chart 5: Increases in public debt levels (relative to GDP) in major DMs and the resulting impact on government bond yields have raised questions around the sustainability of fiscal spending as a tool for economic growth.



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Macroeconomic Backdrop (Continued)

Measures of economic policy uncertainty ease but the full effect of tariffs on growth & inflation is yet to be seen.

Since January 2025, global GDP growth forecasts for 2026 have fallen (Chart 1) in the wake of ongoing trade tensions and policy uncertainty. However, measures of policy uncertainty have fallen since their peak in April 2025 (Chart 2), which provided a relative tailwind to equities over bonds, and should help limit further deteriorations in growth expectations.

However, the full effect of US-imposed trade tariffs is yet to be seen. US tariff receipts picked up in Q2 (Chart 3) and are likely to increase further as temporary pauses and tariff payment deferral programs come to an end. With tariff receipts likely to increase over the remainder of the year, the question remains as to whether consumers or corporates will bear most of the cost. Already, US import prices have increased YTD (Chart 4) and are now at levels last seen during the Covid-19 supply disruptions.

Near-term inflation expectations are reflecting these dynamics: 1-3-year breakevens have picked up since June for the US, while continuing to decline for other major markets (Chart 5). The combination of weaker GDP growth forecasts and higher inflation expectations signal stagflationary concerns, especially in the US.

Chart 1: Elevated trade tensions and the subsequent global economic uncertainty has resulted in negative revisions to global GDP growth forecasts for 2026. This was consistent across DMs and EMs.

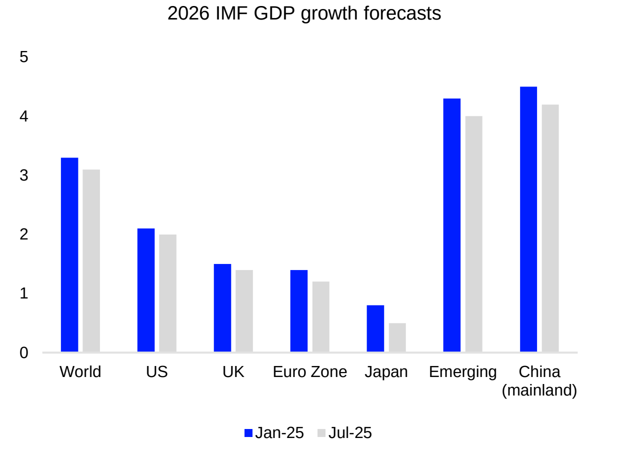


Chart 2: Higher levels of policy uncertainty (trade tensions) are a factor contributing to negative revisions to equity earnings growth estimates. However, measures of policy uncertainty, while high, are off their peak.

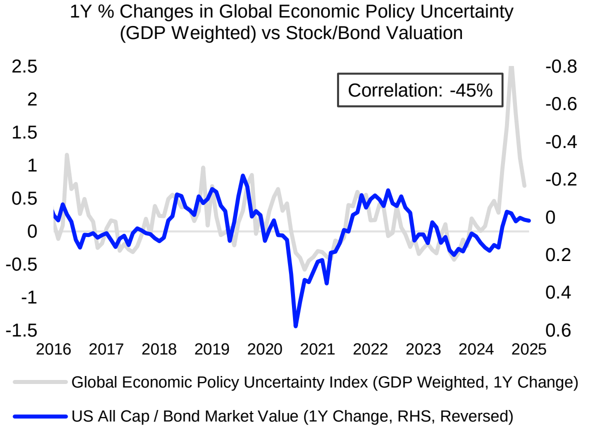


Chart 3: US tariff receipts have picked up markedly to start this year and are likely to increase further as temporary pauses to tariffs come to an end. The full effect of tariffs on corporate margins and inflation is yet to be seen.

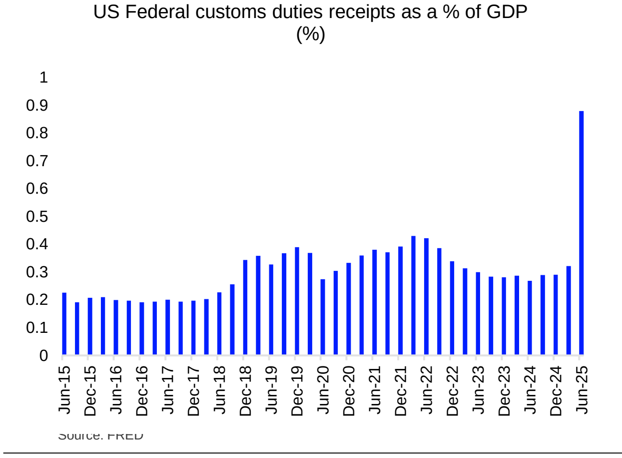


Chart 4: US import prices have increased in 2025 and are likely to increase further as tariff receipts increase. The question remains as to who will bear most of the cost between consumers & corporates.

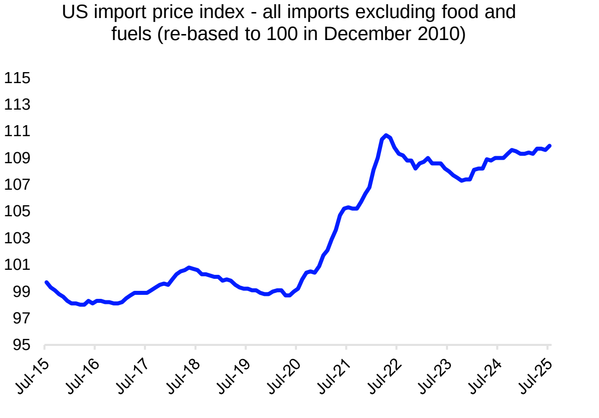
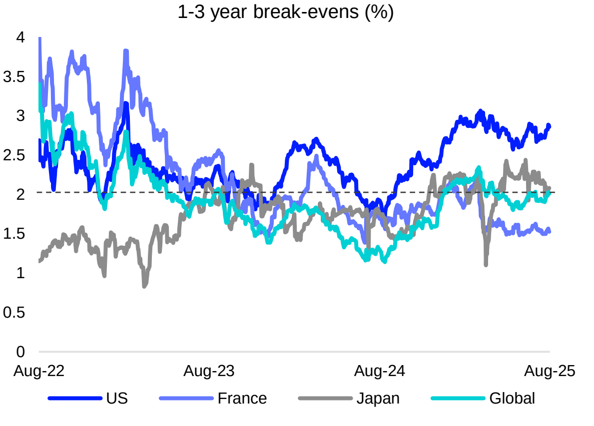


Chart 5: Already, the effect of tariffs are beginning to show in inflation expectations as 1-3 year breakevens have increased in the US in recent months while remaining stable or declining in other major markets.



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Long-term structural shifts impacting asset allocation

High quality of country governance is essential for development. Charts 1 & 2 show that the WGI (Worldwide Governance Indicators, World Bank) has a negative relationship with 7-10-year government bond yields; higher scores are associated with lower yields, as in G7 countries. Investors perceive countries with strong governance as less likely to default on their debt. Comparing data from 2013 & 2023 (Charts 1 & 2) shows that countries with better governance tend to have lower yields and is true for both DM and EM countries.
Demographics are another dimension to sovereign yields. Ageing population globally adds downside push to bond yields as elderly people tend to be more risk-averse and increase the demand for risk-free government bonds. Also, ageing population leads to lower labor supply and thus a lower neutral interest rate, which restrains long-term bond yields. While rates have moved up in recent years given Covid-disruption led inflation shocks and deteriorating fiscal situations in many DMs, the cross-sectional relationship holds; at a given point in time, countries with more aging demographics tend to have lower yields (Charts 3 & 4).
Central banks have significantly increased their allocations to gold (Chart 5) – a traditional safe-haven asset – driven primarily by EM economies such as China, Poland and Turkey. Meanwhile, they have gradually reduced their exposure to US Treasuries. About 95% of respondents in the Central Bank Gold Reserves Survey 2025 anticipate that gold holdings will continue to rise in the next 12 months, citing its value in portfolio diversification, inflation & currency hedging; trends to support the sustained strength of gold prices.

Chart 1: Higher WGI scores indicate higher quality of country governance. Developed countries (usually with higher scores) such as G7 generally have lower sovereign bond yields than EM countries.

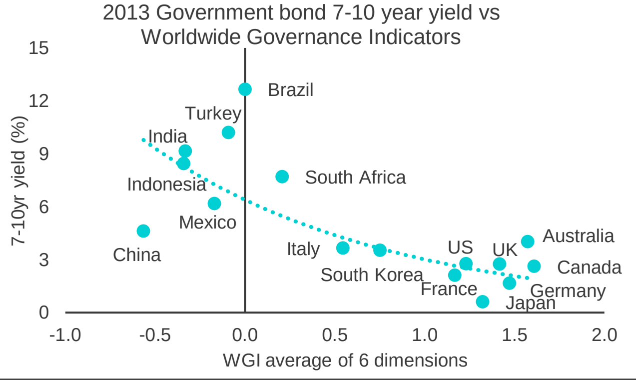


Chart 2: In the recent decade through 2023, bond yields of countries with improved & higher governance quality have fallen for both EM (China, India, Indonesia) and DM (South Korea, Japan, Italy) countries.

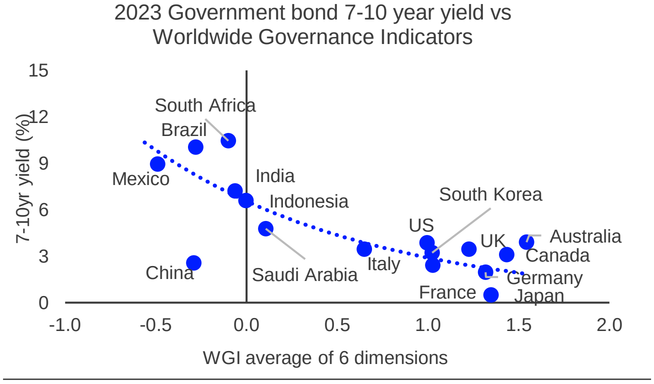


Chart 3: 2014 data shows ageing population is correlated with lower sovereign bond yields, so lower G7 yields are partly due to their ageing population. EM yields are helped by higher labor force vs DM, in addition to higher country risk.

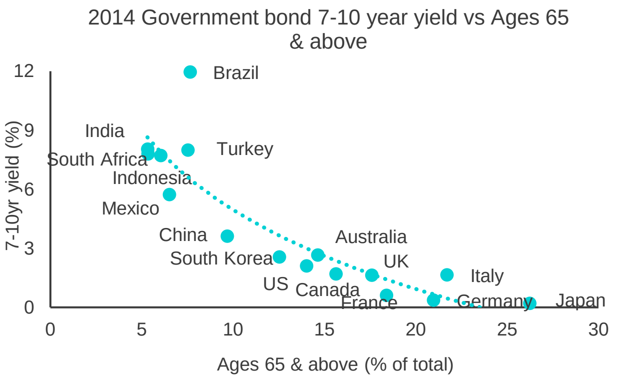


Chart 4: Most sovereign yields were higher in 2024 vs 2014, given rate hikes to combat post-Covid inflation, and fiscal concerns. Yet the relationship between (more) ageing demographics & lower yields still holds.

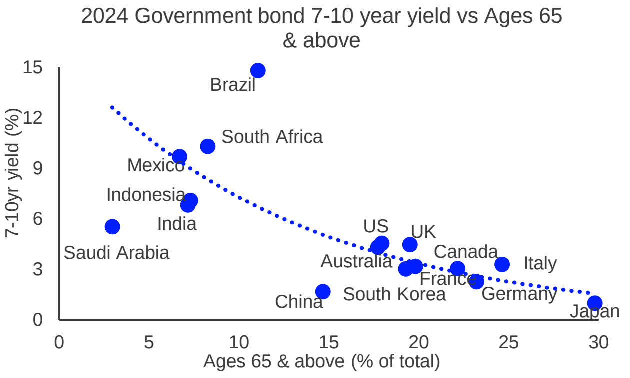


Chart 5: Official gold reserves as a % of total reserves surged to a multi-decade high of 27%, surpassing US Treasuries of ~23%, as central banks pivot amid geopolitical/economic and inflation risks, and US dollar weakness.

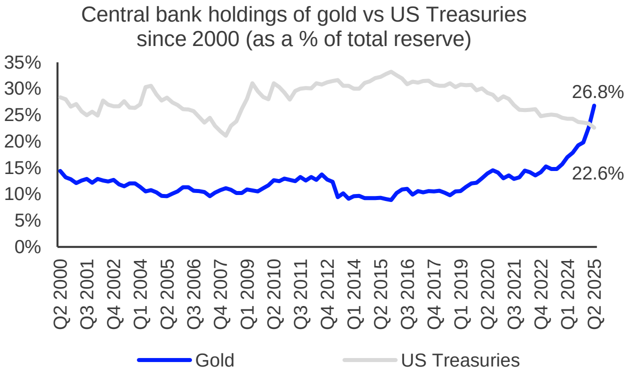
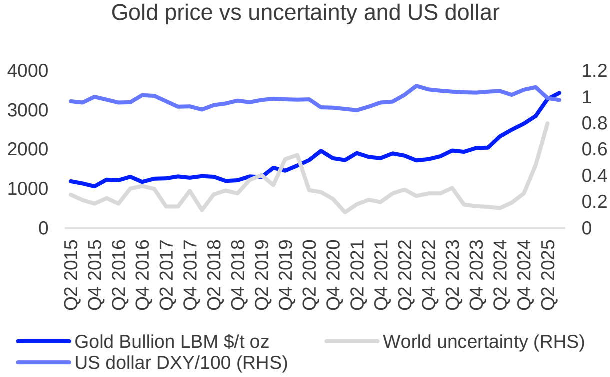


Chart 6: Gold has appreciated strongly, as its historical use as a hedge against geopolitical uncertainty, currency depreciation, and inflation is picking up again. It is helped by higher safe-haven demand & a lower USD.



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Sovereign Yield Curves

Lower US yields vs other G7 countries due to expectations for further Fed easing given labor market weakness.

7-10-year sovereign yields generally rose further over 3M, with anticipation of higher issuance a key driver in the UK, Germany, and Japan. Chinese yields also edged higher, as investors reallocated from low-yielding bonds to equities in search of higher yields. Only US yields fell over 3M, and YTD, on expectations of rate cut, despite elevated term premium (Charts 1, 2&3). The US Fed has a balancing act between deteriorating labor markets and increased inflation (& inflation expectations given expected timing of tariff impact), and the faster-than-expected labor weakness is tilting the balance towards (some) rate cuts. Investors should be cognizant of an upside risk to Treasury yields: Japan, the largest foreign creditor of US debt, may shift investments in Treasuries back to local bonds if JGB yields continue to rise on growth outlook and fiscal concerns. This shift also saves the need for currency hedging.

G7 20s/2s yield curves steepened again over 3M (Chart 4), as long yields marched higher (except the US). Fed's easing may drive more curve steepening in the US. Despite a Sep rate cut, the lower end of longer-run rate projection range increased to 2.6%, due to anticipated structural changes in the longer term.

Chart 1: A decoupling US: 7-10-year yield decreases in the US vs increases in Germany/UK/Japan, YTD. JGB yields surged to a multiyear high, driven by prospects of rate hike, sticky inflation, and rising fiscal risks.

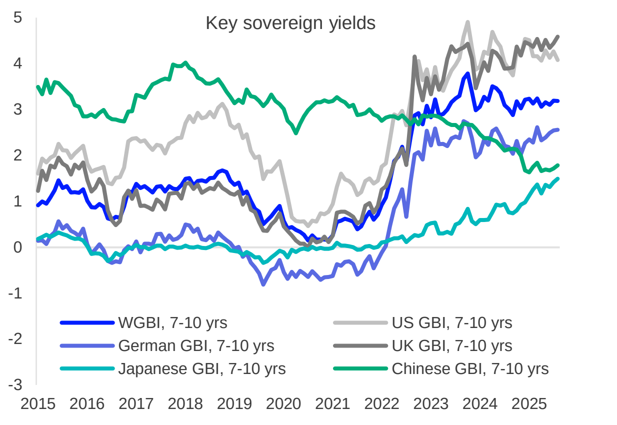


Chart 2: Over 3M, nominal yields increased ~15 bps in Germany, Japan, & Canada (driven by inflation breakevens). US 5-10yr nominal yields fell 25bps, to a 1-year low of 3.9%, mostly driven by real yields; reflects the clear slowdown in labor markets (& probably in the economy).

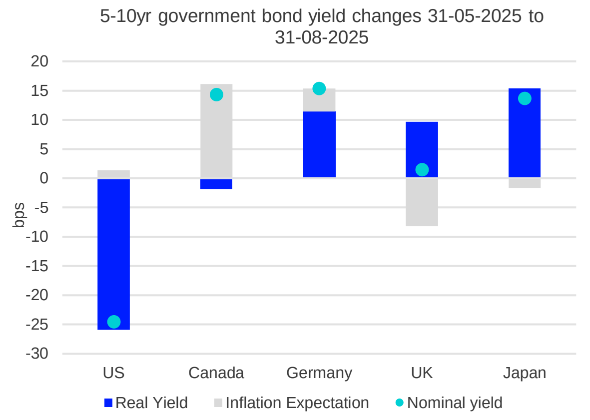


Chart 3: Despite lower Treasury bond yields, US Term premium remains near 10-year highs, (greater increase for the 10Y) due to higher issuance, fiscal concerns, inflation uncertainty (tariff impact), concerns on Fed institutionality, with 10Y term premium at 0.54 in August.

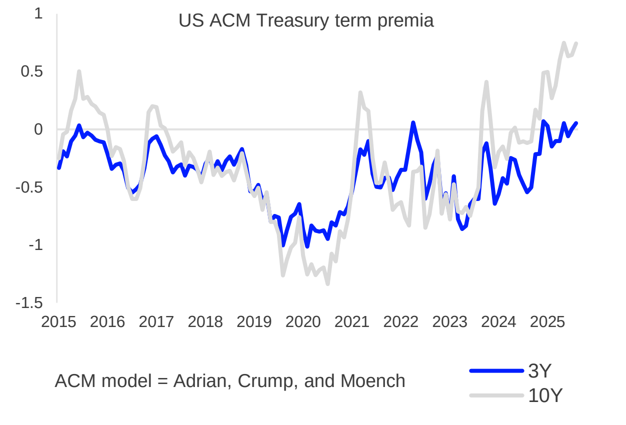


Chart 4: 20s/2s curves continued to bear steepen, led by Canada and the UK, while the US curve bull steepened on expectations of rate cut in September. YTD, Germany and the UK have led the curve steepening.

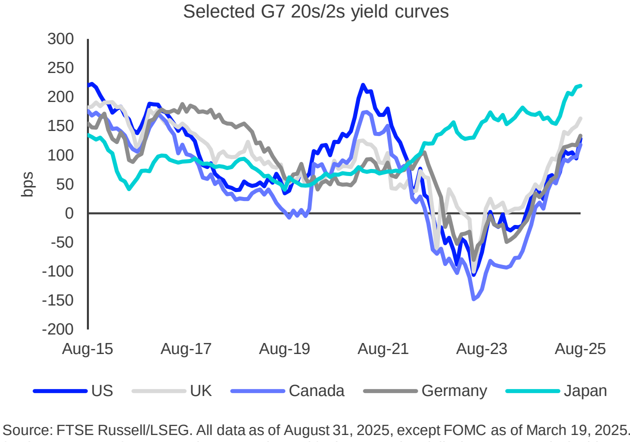
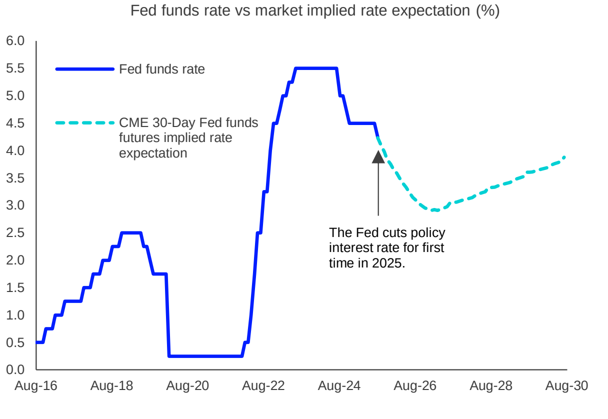


Chart 5: The Fed lowered its policy rate by 25bps to 4.25% in Sep, the first cut in 2025, acknowledging downside risks to employment have risen. Market expectation of interest rate by Dec-2025 was down to 3.8%.



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Credit

Credit spreads narrowed globally over 3M and YTD, led by Euro bonds, with HY spreads tightening more significantly than IG during the recent risk-on rally. Euro bonds remain the main beneficiaries of US dollar weakness.

Both lower yield per unit of duration risk and the tightening of credit spreads over 3M (Charts 1 & 2) reflect the risk-on sentiment among investors, as the impact of April's announced tariffs has diminished (Charts 4&5) and expectations of US monetary policy easing have come into focus.

Persistently high 7-10-year government bond yields, strong investor demand, eased volatility, and the risk-on rally have combined to drive credit spreads to 10-year lows for both IG and HY by end-August, with Euro bond spreads being the tightest (IG 71 bps; HY294 bps). US spreads narrowed to 82 bps for IG and 313 bps for HY, as corporate bond issuance slowed down since June.

Sharply narrowed spreads and a consistently strong EUR/USD helped Euro HY remain the top performer over 3M and YTD (Charts 2 & 3). Credit spreads YTD have generally tightened, erasing the spread widening upon tariff shock in 1H/25. US corporate bonds underperformed Euro and EM peers, in both IG & HY, over 3M, YTD and 12M, amidst a weaker US dollar.

Chart 1: Yield per unit of duration risk has decreased over 3M across the board, and moves were more significant in HY corporate than in IG. The metrics for Euro corporates remain lower than EM and US peers.

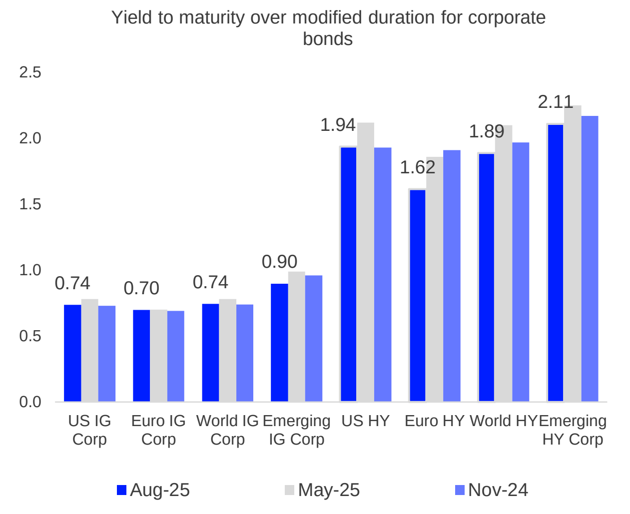


Chart 2: Credit spreads narrowed globally over 3M, led by Euro HY (-78bps). Euro spread moves were larger than peers. YTD changes are now mostly negative except US HY and EM HY, after the risk rally.

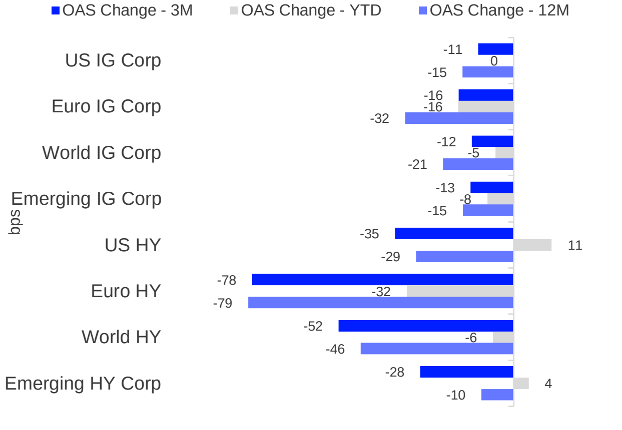


Chart 3: Credit bonds broadly gained 3%+ over 3M, while HY marginally outperformed IG amid the risk rally. Euro bonds remain the beneficiaries of US dollar weakness. YTD, global IG is on par with global HY (8.8%).

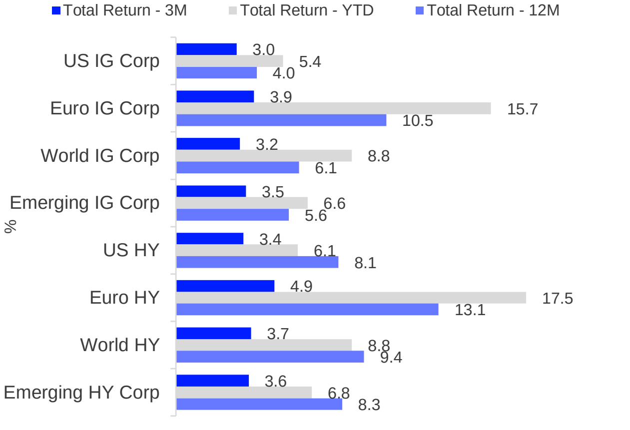


Chart 4: IG credit spreads reached new 10-year lows in Q3, helped by elevated government bond yields. EM IG spreads have converged to the US and Euro since 2022 when the Fed began rate hikes.

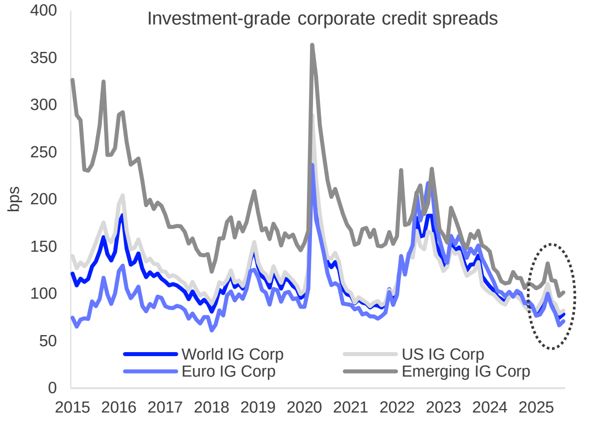
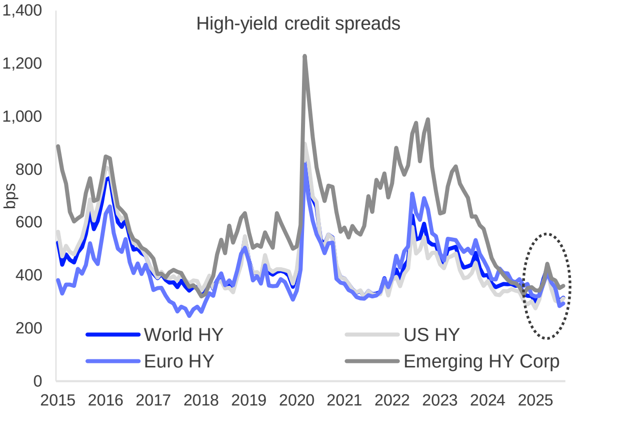


Chart 5: HY spreads also rolled over from April's tariff-related peaks, helped by the risk rally and their strong correlation to equities. Euro HY spreads (294 bps) are narrower than their US (313 bps) & EM (360 bps) peers.



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Credit (Continued)

Credit yields remain at relatively high percentile levels, due to persistently high risk-free rates, despite credit spreads tightening to decade lows. The valuation gap between US and Euro credit has narrowed significantly over 3M.

US liquidity conditions have eased, & markets are pricing in a lower probability of default, providing room for US HY spreads to tighten, as the one-off tariff effect seems to have faded (Chart 1).

The higher duration and slower policy easing have kept US corporate yields higher than Euro corporate (Chart 2), despite the greater yield decline in the US over 3M. Emerging HY yields have been falling towards US HY since 2024, as Chinese real estate dollar bonds recovered from property woes. Globally, corporate bond yields currently sit at historically high percentile levels (over last 10 years), particularly so in the IG space (near the 70th percentile in Chart 3). However, this is largely attributable to the high level of risk-free rates, rather than credit spreads which are relatively tight by historical standards (Chart 5). The slight difference between Euro and US spreads percentile levels observed in Chart 5 can be attributed to a more pronounced tightening of Euro credit spreads relative to those in the US on a q/q basis, despite the ECB easing faster than the Fed.

Chart 1: US liquidity conditions have improved further, helping the market perception of default probability staying near 10-year lows. The tariff effect has been very modest and short-lived. However, most tariffs went into effect in August, and their impact remains to be seen.

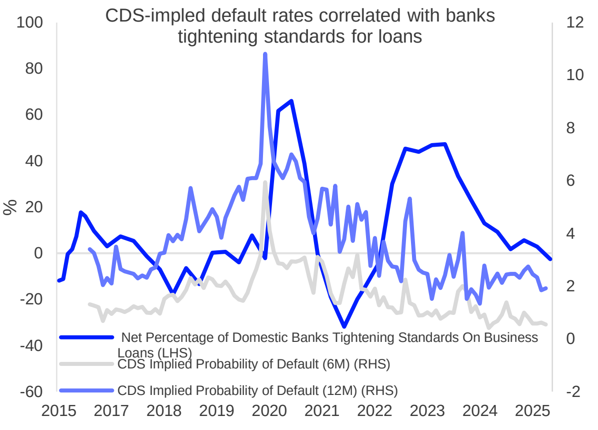


Chart 2: US corporate yields have stayed notably higher than Euro bonds, in both IG and HY, reflecting the higher duration and slower policy easing. EM $ corporate yields are only slightly higher than US yields.

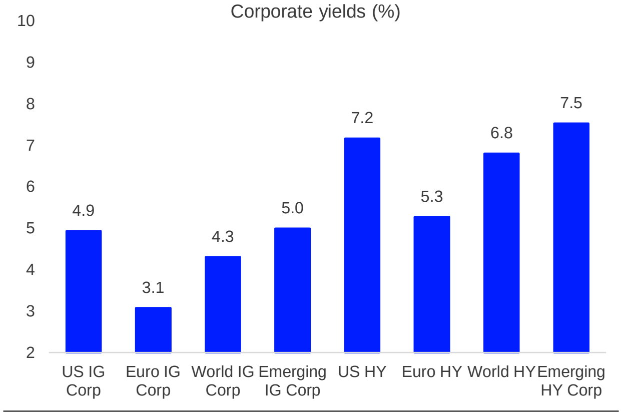


Chart 3: Euro corporate bond yields are at higher percentiles than the US, for IG & HY, despite the ECB easing at a faster pace. This may be due to anticipation of higher bond issuance in Bunds as part of fiscal expansion.

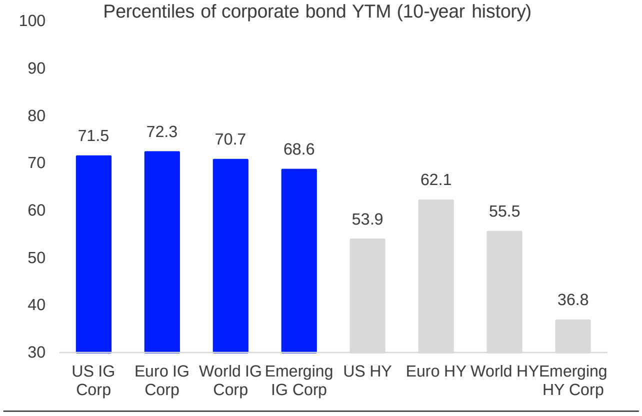


Chart 4: Global IG spread has remained on a downward trend for three years, since monetary tightening started. The recent cycle is longer than 2015-18, and the dive is deeper (moving further away from -1 SD).

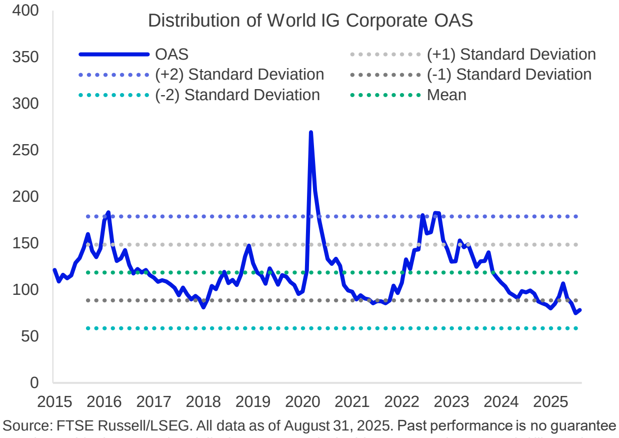
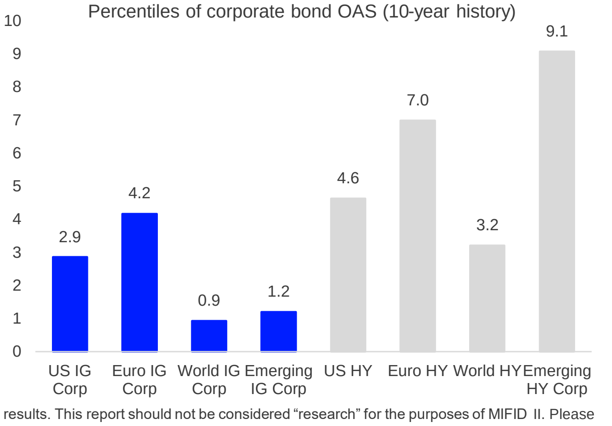


Chart 5: Valuation gap between Euro and US turned very modest by end-August, as Euro spreads tightened more, particularly in HY. Relatively high valuations globally imply potentially lower future returns in credit space*



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Equities

US reverses its YTD underperformance of All-World as risk-on sentiment benefits Technology and cyclicals over 3M. Chinese equities lead rest-of-world over 3M, YTD and 12M.

Equity market performance was broadly positive over 3M, with the US outperforming FTSE All-World after underperforming the broader index YTD (Chart 1). China led regional equity performance in USD over 3M, YTD and 12M, helped by easing trade tensions, a low-interest rate environment, & strong domestic participation in equity markets. YTD, valuation expansion in the US was far smaller than this tailwind for other markets (Chart 2), suggesting cross-market valuation spreads have narrowed.

Recent risk-on sentiment has benefitted cyclicals over defensives over the last 3M, with the three worst-performing industries all being defensive. However, outside of Consumer Staples, positive performance has still been relatively broad based over 3M, with narrower industry-level dispersion over 3M than YTD (Chart 3).

In the US, equity weakness appears to have bottomed out. EPS revision ratios troughed in April before turning net positive in June and August for large & small caps, respectively (Chart 4). Strong second quarter earnings supported this momentum, as the hurdle to outperforming analyst estimates in the US was at its lowest since end-2023 (Chart 5). This raises questions around the sustainability of high equity returns in a low growth environment.

Chart 1: YTD, the US has underperformed FTSE All-World, while Dev Europe ex UK, UK, Japan, and China have outperformed. Over 3M, momentum has begun to shift, with the US outperforming All-World, though China & Developed APAC ex Japan still lead over the US.

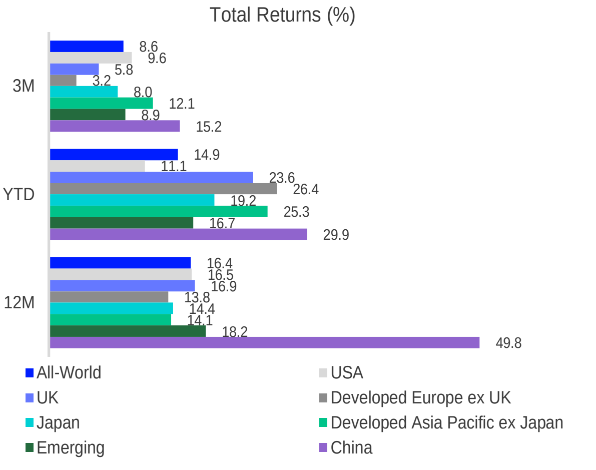


Chart 2: PE expansion was a minor contributor to US equity returns YTD unlike the large up-rating in China, Japan & Dev APAC. US EPS growth & dividends also lagged other DMs like the UK & Dev Europe.

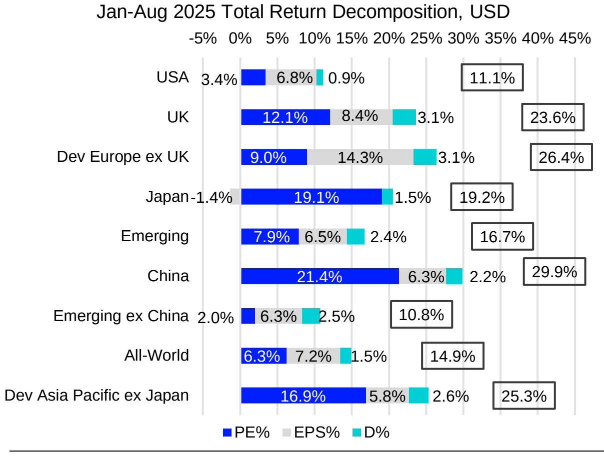


Chart 3: Over the last 3-months, risk-on sentiment has benefitted cyclicals over defensives. However, equity market momentum has been relatively more broad-based over 3M than YTD.

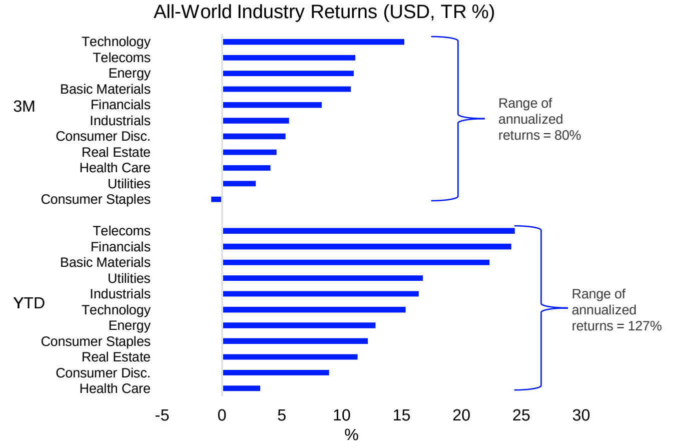


Chart 4: Earnings revisions for US equities bottomed out in April for both large and small caps but turned net-positive for large caps in June. Recently in August, net revisions also turned positive for small caps.

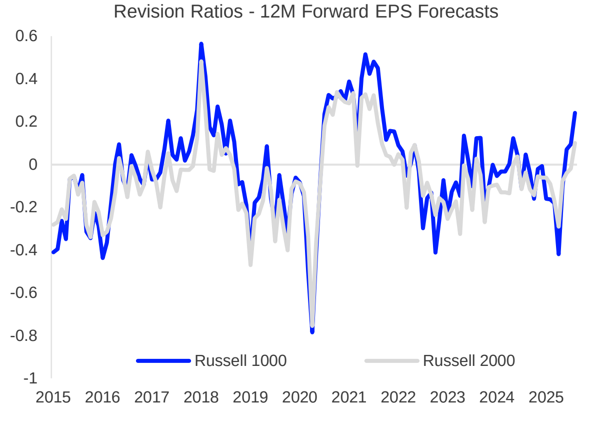
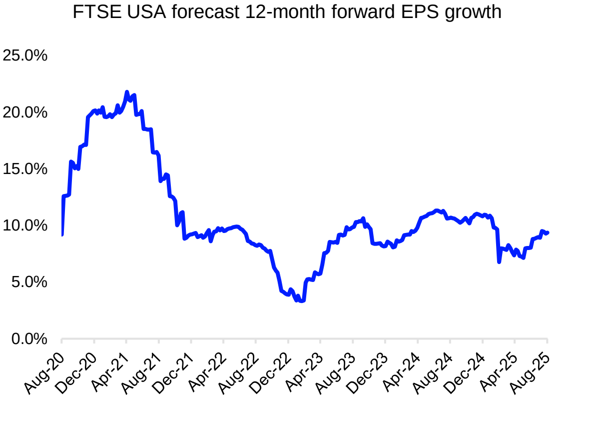


Chart 5: Q2 earnings beats provided a tailwind to US equities. However, growth expectations in June were at their lowest pre-earnings-season level since 2023, so the bar to outperforming analyst estimates was low.



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Equities (continued)

Valuations rebound over 3M, but growth forecasts suggest some compression in cross-market P/Es may be warranted.

After compressing earlier in the year, valuations expanded in most markets over 3M. US valuations have rebounded to near 10-year highs and remained well above those of other major equity markets (Chart 1). This comes despite expectations for earnings growth in the US to lag other markets over 2 years (Chart 2), raising questions around whether the valuation premium in the US is justified. Higher forecast EPS growth for Emerging versus Developed raises similar questions and suggest a positive re-rating in EM valuations may be warranted.

US valuations have also decoupled from macroeconomic variables. Historically, higher real yields have been correlated with lower equity valuations in the US, but recent divergence suggests that macro factors and fundamentals such as long-term cost of capital are less influential in driving valuations (Chart 4). Best-in-class margins & recent margin expansion may be one factor behind the US valuation premium (Chart 5).

At the industry level, Financials has been a standout over the past three years on a risk-adjusted basis, while Real Estate has lagged (Chart 3). Despite high volatility, high returns indicate that Technology has performed well on a risk-adjusted basis.

Chart 1: After falling earlier in the year, US valuations have since rebounded and remain near 10-year highs. Other developed markets, including Europe & the UK, continue to be relatively cheaper (forward P/E).

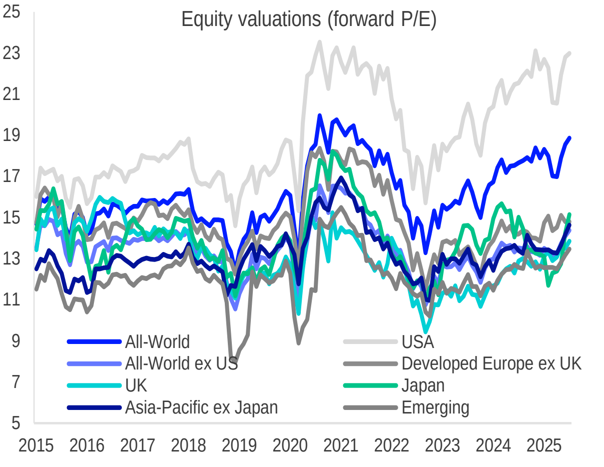


Chart 2: Despite higher valuations, 2Y forecast earnings growth remains far lower for the US than for other developed markets. China and Emerging markets continue to lead earnings growth forecasts. Their 2025 estimates are higher than those in 2024, while in most DMs they are lower.

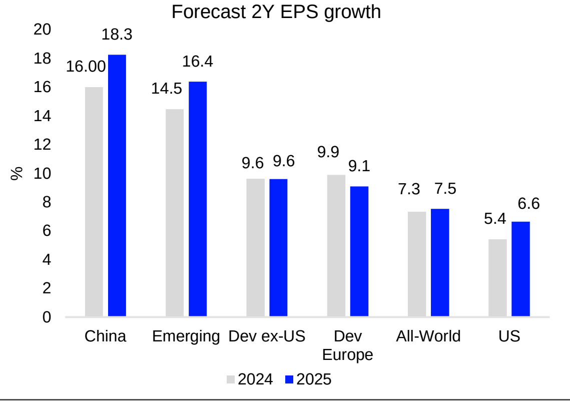


Chart 3: Strong returns in Financials YTD has seen the industry's return per unit risk increase in 2025. Real Estate remains a negative outlier, largely due to structural challenges within pockets of CRE such as office and retail. Energy & Basic Materials also showed more volatility relative to their return.

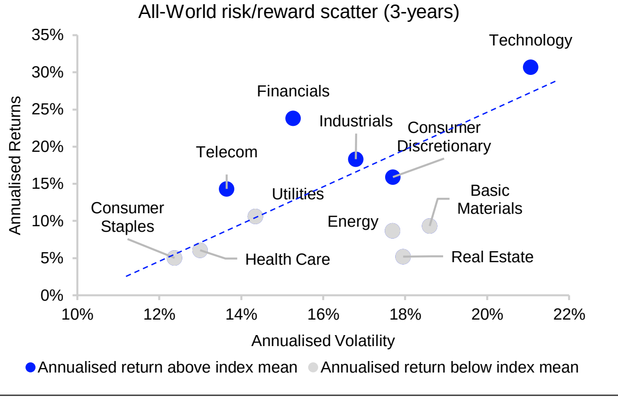


Chart 4: Historically, higher real yields have been correlated with lower equity valuations. However, since 2022, this has diverged, suggesting valuations are less tied to fundamentals such as long-term cost of capital.

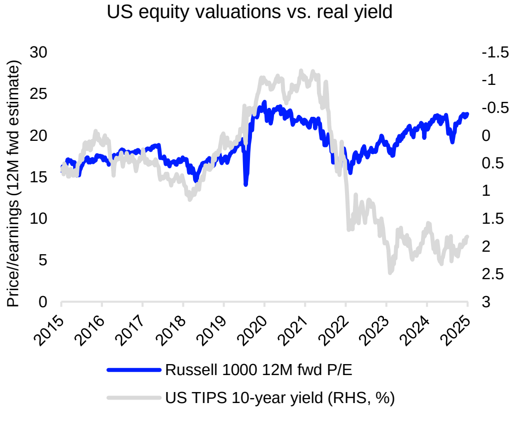
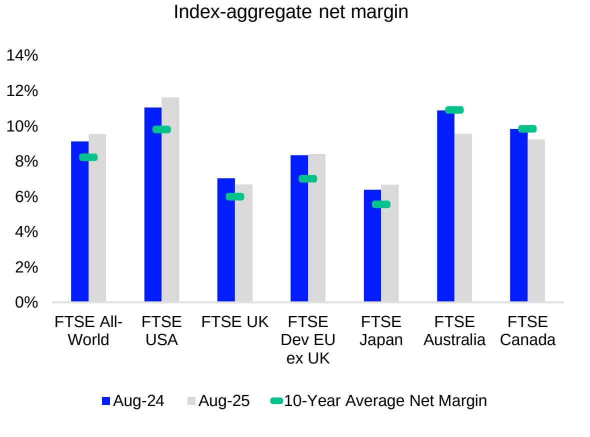


Chart 5: Best-in-class margins may support the US valuation premium. Despite fears that tariffs would erode corporate margins, the index-level margin for FTSE USA has grown over 12M and sits above its 10-year mean.



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Emerging Markets

Economic growth outlook for 2025 improved, reflecting tariff-related front-loading and better financial conditions. EM equities outperformed DM over 3M/YTD/12M. Foreign capital flows to EM bond markets were much stronger than to EM equity over 12M, led by China.

Emerging markets outperformed DMs in both equities and government bonds over 3M, as the IMF revised up 2025 growth forecasts by a larger margin for EMs than DMs. Technology industry boosted China and Taiwan equities over 3M. China's performance – a strong equity rally vs modest bond returns – may reflect local (but not foreign) investors' pivot from a low-yielding bond market to equities.

A promising India? Foreign investors pulled out of Indian equities on higher US tariff in the recent two months, stalling the rally in equities. But the tariff impact on India's economy may be limited given its limited reliance on trade and 60% of India's growth is driven by domestic demand. In fixed income, upgraded credit rating (long-term sovereign credit rating upgraded to BBB from BBB- by S&P, helped by progress in economic growth and fiscal consolidation), resilient foreign capital inflows, and index inclusion event (the inclusion of Indian government bonds in the FTSE EMGBI since September 2025) all bode well for Indian government bonds in the longer term. (Charts 4 & 5)

Chart 1: 2025 growth projections were revised slightly higher in July vs April by the IMF, for both EM and DM. This reflects front-loading ahead of tariffs and anticipation of fiscal expansion in China, Germany, and the US.

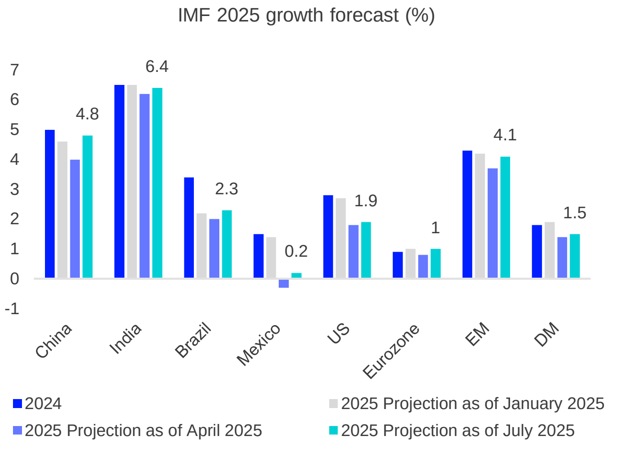


Chart 2: China, Taiwan and Brazil (collectively 60% of EM equity index weight) led EM equities outperformance vs DMs over 3M. EM equities gained 16.7% YTD, 2% over DM peers, despite a drag by Saudi Arabia.

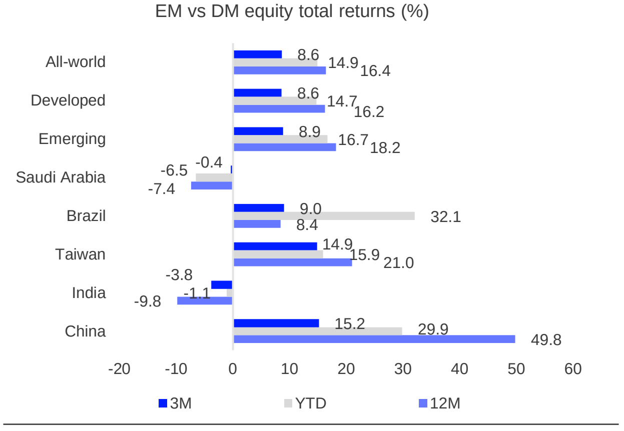


Chart 3: EMGBI (2.3%) outpaced DM (1.8%) over 3M in 7-10yr, narrowing gaps YTD. Top performing Brazil and Mexico continued to rally, extending their YTD gains over 30% (helped by both lower yields and currency gains).

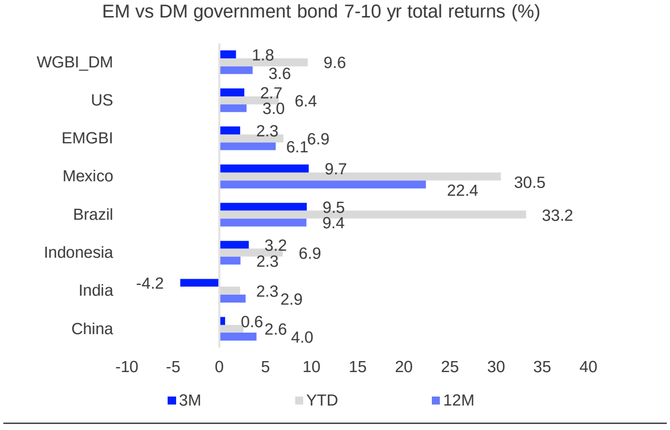


Chart 4: After a strong rally since March, Indian equities retreated in July and August, as foreign net flows turned negative amid higher US tariff on Indian goods. August marked the biggest sell-off in six months.

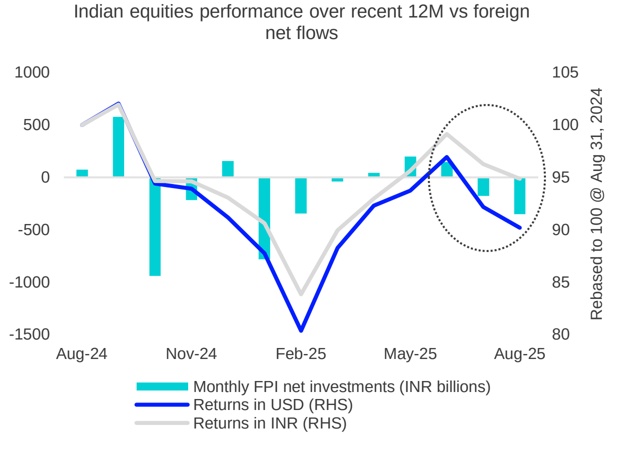
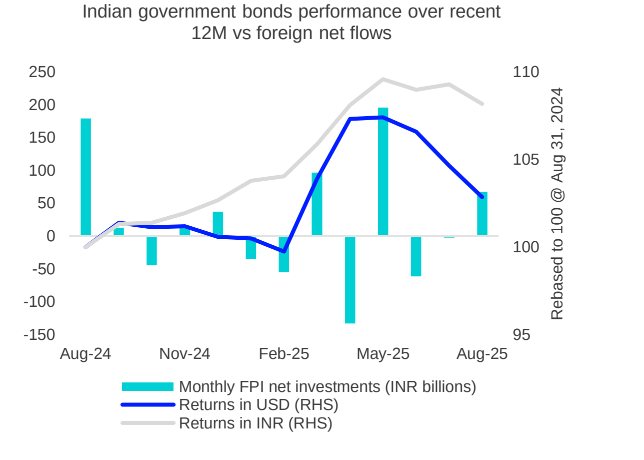


Chart 5: Over the past 12M, Indian government bonds have attracted net foreign inflows, whereas equities have experienced foreign outflows. Indian bonds outperformed equities over 12M, in line with net foreign investments.



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Commodities

Oil recovered over 3M, but still lagged YTD and 12M, with its demand and supply balance tilted toward a supply surplus. Gold led YTD and 12M gains.

Oil rebounded 6.6% over 3M, outperforming the broader FTSE Core Commodity CRB index (5.2%) and gold (4.8%). Gold has remained a remarkable outperformer YTD (31%) and 12M (38%), driven by higher official reserve demand, particularly in EMs. The broader Commodity index gained 14% over 1 year, and 20% in total over 3 years. But its performance relative to equities has weakened since 2022, as global inflation pressure eased and equities rallied strongly (Charts 1, 4, and 5).

Oil forward curve shifted upward over 3M, alongside an uptick in the spot price. But oil price has been rather weak (-8.8% YTD) due to an outlook of oil markets well supplied in 2025, as OPEC+ unwound voluntary cuts and Non-OPEC+ producers added output. Oil price is expected to peak around 2030, supported by demand from China and India (two largest crude importers in the region) by then. But India is well positioned to take the lead from China as the main driver of growth in global oil demand, helped by ongoing urbanization, rising income levels, and population expansion. Meanwhile, China's oil demand is projected to decelerate due to sluggish economic growth and rising adoption of electric vehicles. (Charts 2&3)

Chart 1: Gold (4.8%) underperformed oil (6.6%) and broader commodities (5.2%) over 3M, while maintaining its strong leadership over YTD and 12M. Oil price rebounded in July on concerns about supply disruptions.

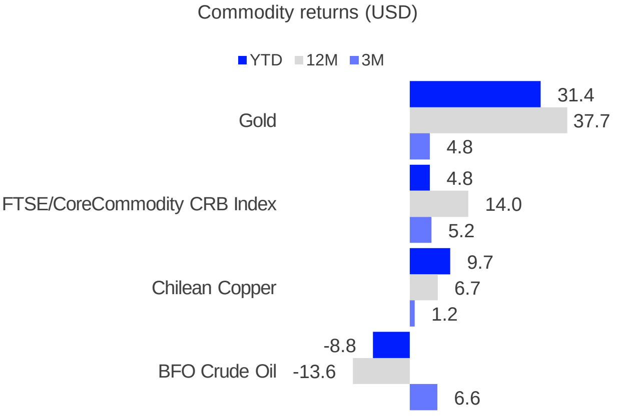


Chart 2: WTI forward curve moved upward in August compared with May, reversing the downward trend from Feb to May, in line with spot price increase. Oil price is projected to peak in 2031 but expected to stay in $60-65/barrel range over the foreseeable future.

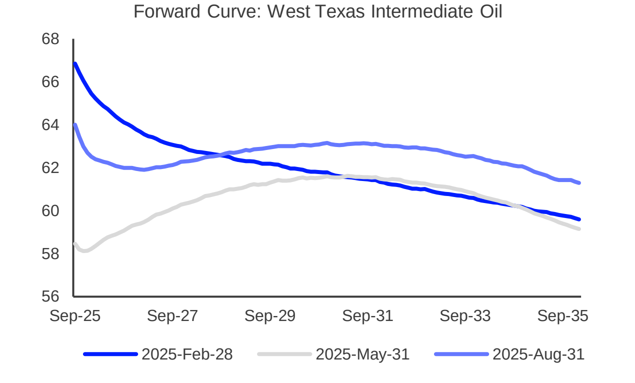


Chart 3: India is projected to replace China as the largest source of growth in global oil demand: China's demand for oil will have plateaued by 2027-2030 and is set to decrease with surging usage of electric vehicles. India is seeing a pickup in economic growth rates & still growing population.

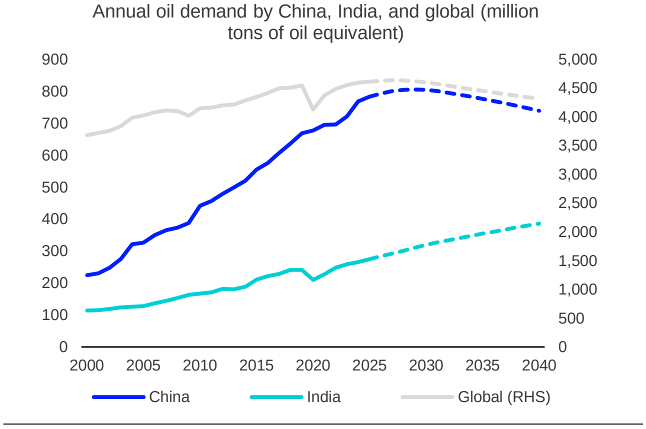


Chart 4: Commodity index had 3Y total returns of 20% in absolute terms and 8% relative to bonds. But its level relative to equities has declined by 27%. This reflects tamed inflation and focus shift to growth and profitability.

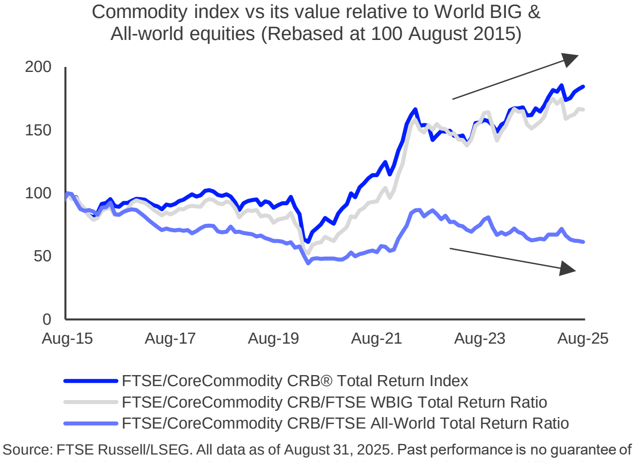
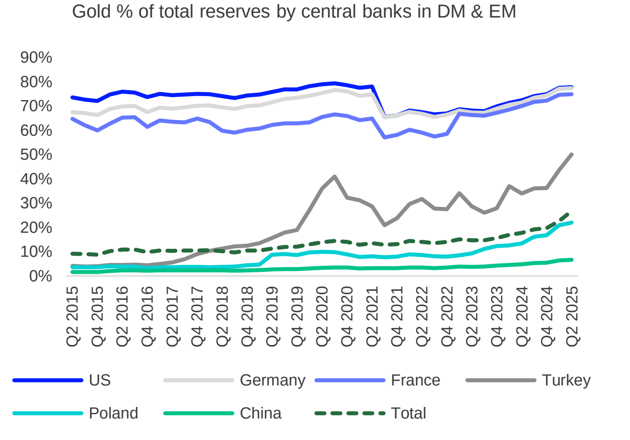


Chart 5: Gold price has been buoyed by increasing central bank purchases amid heightened uncertainties, seen in both DM and EM. But EM central banks have increased their holdings in gold at a faster pace than DMs.



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Listed Alternatives

Falling correlations strengthen the diversification benefits of listed alternatives despite weaker recent performance.

Both FTSE Global Core Infrastructure and FTSE EPRA Nareit Global Real Estate have seen positive performance over 3M but have lagged traditionally higher risk assets such as equities and commodities over this period. Improving risk-on sentiment benefitted equities and commodities relative to listed real assets, widening their performance gap and resulting in a weaker risk/return profile for listed real assets (Chart 1).

Within infrastructure, Developed has led Emerging infrastructure over both 3M and 12M horizons (Chart 2), however, both developed and emerging core infrastructure indies have lagged their respective equity counterparts over both horizons. Within real estate, sector performance within EPRA Nareit Developed has been largely positive over both 3M and 12M (Chart 3), with healthcare leading sector performance over 12M and lodging/resorts leading performance over 3M. Industrial and industrial/office have seen performance momentum improve over 3M while data center performance has softened.

Although 12M rolling relative performance vs. global equities has softened YTD (Chart 5), real assets still offer diversification benefits given falling correlations (Chart 4).

Chart 1: Over 1Y, improving sentiment benefitted equities & commodities, widening their performance gap with listed real assets. Within listed real assets, infrastructure led real estate (higher returns & lower volatility).

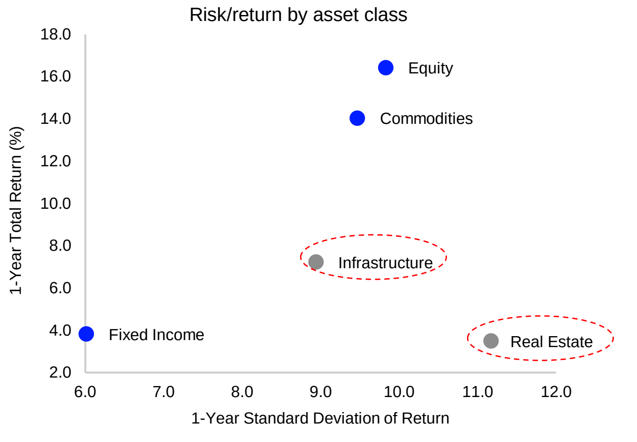


Chart 2: Global infrastructure gained over 3M & 12M, with Developed consistently leading EM. However, both Developed and Emerging listed infrastructure lagged their respective equity indices over both horizons.

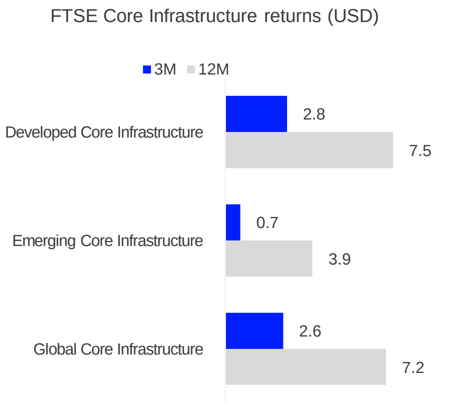


Chart 3: EPRA Nareit sector performance has been largely positive over 3M and 12M. Industrial and Industrial/office, have seen performance momentum improve over 3M while Data center performance has softened.

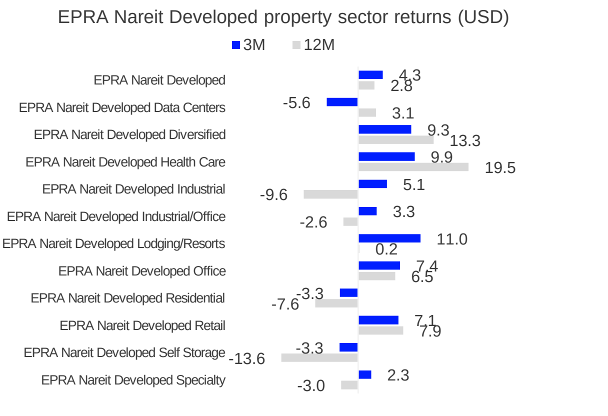


Chart 4: Correlations between listed alternatives and global equities have fallen drastically since mid-2024, strengthening the case for adding alternatives to a multi-asset portfolio for diversification benefits.

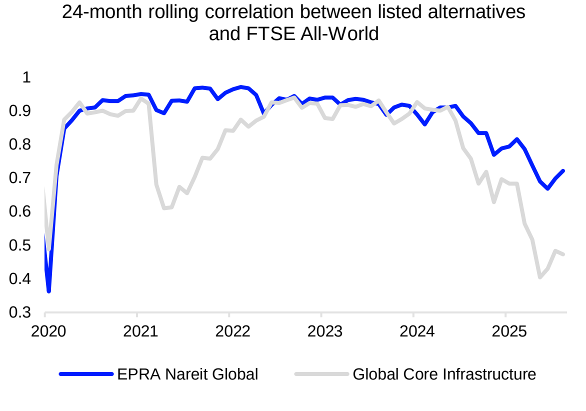
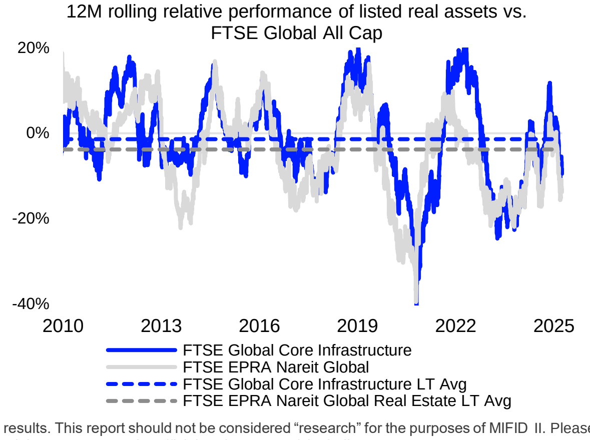


Chart 5: 12M rolling relative performance for listed real assets vs equities has softened YTD as improving risk-on sentiment has benefited global equities in the wake of easing policy uncertainty since May 2025.



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Currencies

Interest rate differentials (expectations of Fed easing) and central bank diversification of reserves have been main drivers of foreign exchange rates. Currencies of both DM and EM have broadly appreciated against the USD.

The US dollar hovered near the lowest levels since 1Q/22 over 3M, as various dollar indices show (Chart 1). It's notable that the US dollar managed a modest rally in July against DM currencies, namely Japanese yen, British pound, and Euro (Charts 2&3). This explains the tick up of the DXY index in July. However, the broader trade-weighted index move is muted, due to its larger exposures to currencies of major EM trading partners such as Mexico and China. Having gained 13.8% YTD, the Brazilian real appears to have more room to appreciate against the US dollar, as implied by the wide interest rate differential (Chart 4). All these point to the resilience in EMs.

As the US dollar fell toward pre-Fed rate hike levels, its predominance among global reserve currencies has gradually declined over the recent decade. This trend is reflected by central banks' reallocation to alternative major currencies, notably the British pound and the Euro, amidst heightened uncertainties over US trade and fiscal policies (Chart 5).

Chart 1: The US dollar made a modest rally against DM currencies in July, while almost being flat against the broader trade-weighted index (having larger weights in EM currencies). Both indicators register a 3M loss in USD.

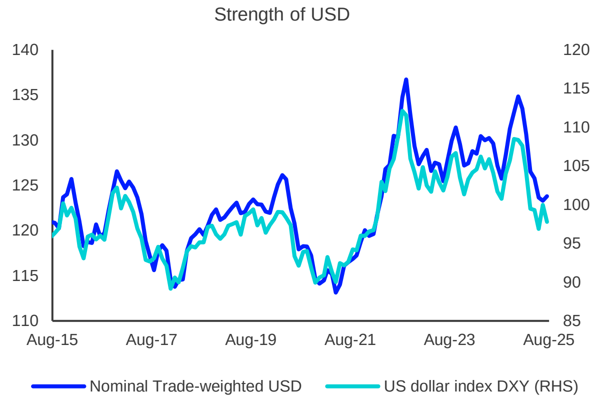


Chart 2: Euro remains strong vs the USD and has gained 13% YTD despite a rebound in the US dollar in July, as the interest rate differential has resumed supporting the Euro amid expectations of Fed easing.

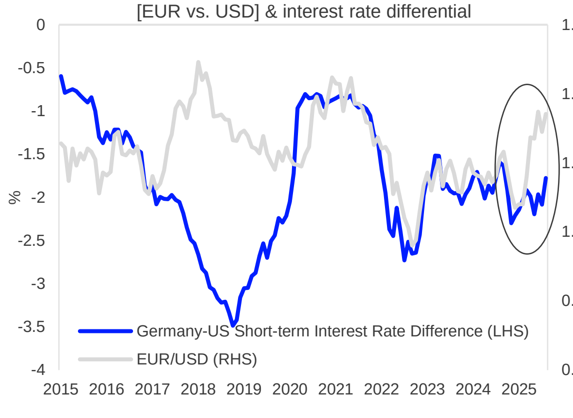


Chart 3: Interest rate differential has been a major driver of GBP against USD over 3M, as the Fed's easing pressure picked up quickly in August on weaker labour market. GBP gained 7.9% YTD.

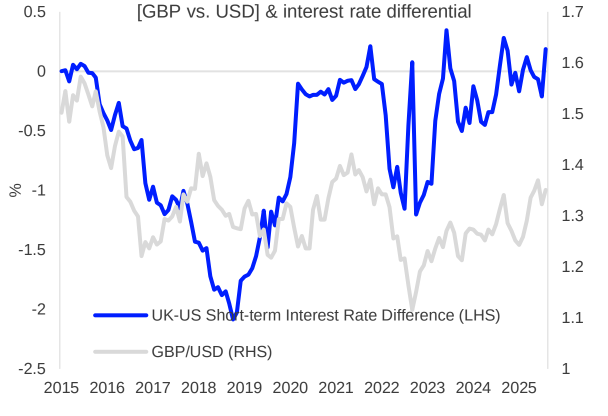


Chart 4: The Brazilian real appreciated against the US dollar by 5.6% over 3M and 13.8% YTD, outperforming most DM and EM currencies. But the interest rate differential implies more room for the real to rise.

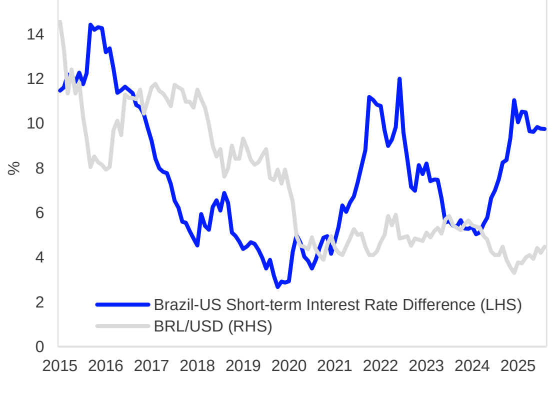
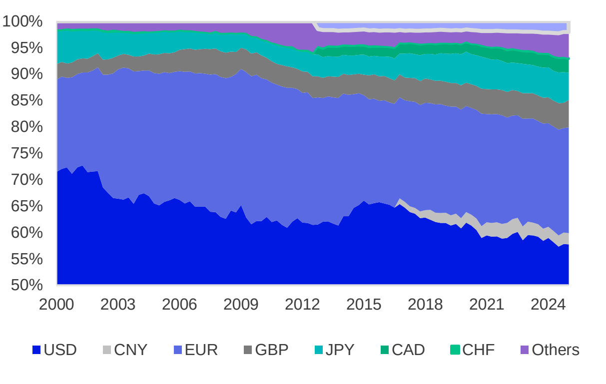


Chart 5: The British pound has seen a remarkable increase in its share of global reserves – rising to 5.2% in Q1 2025 from 4.7% in the previous quarter. The Euro's share also increased, while US dollar trended lower.



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Capital Flows

Global fund flows regain momentum after softening in the months of peak trade policy uncertainty. EMs see increased attention from both bond and equity investors.

Over 12M, global fund flows have seen strong positive momentum, despite some softening in flows between March and May as global trade tensions peaked and as economic uncertainty remained high (Chart 1). Money market funds have led global fund flows by asset class, as investors continue to see value in short-term debt.

Within Equities, emerging markets fund flows have seen increased momentum in recent months, while North American-focused funds have seen net-outflows over both 3M and 6M, (Chart 2), likely due to profit taking given recent positive performance for US equities. At a sector level, cyclicals-related funds have seen a momentum shift in the US over the last few months on the back of improving market sentiment (Chart 3).

Emerging markets-focused funds have also seen strong flows within fixed income, as elevated concerns around developed market fiscal positions have encouraged investors to look outside of DM bond markets (Chart 4). Breaking down US bond flows by type shows that MBS-related bond funds have led flows over 12M, while investors have favored high yield over broader corporate bonds on a relative basis (Chart 5).

Chart 1: Despite some softening between March and May as trade policy uncertainty reached peak levels, global fund flows have seen strong positive momentum over the past 12M. However, low-risk money markets saw the highest inflows while equities saw the least (as % of AUM).

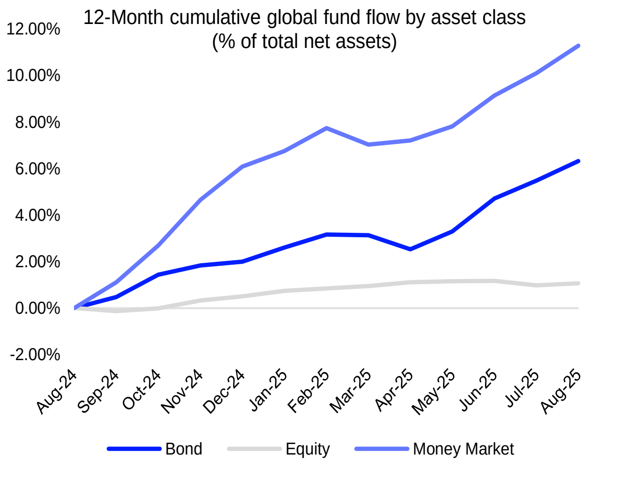


Chart 2: Within equities, momentum has picked up in EM: EM-focused funds saw net inflows over the past 6M vs. outflows over 12M. Profit taking was a likely driver behind recent outflows from NA-focused funds.

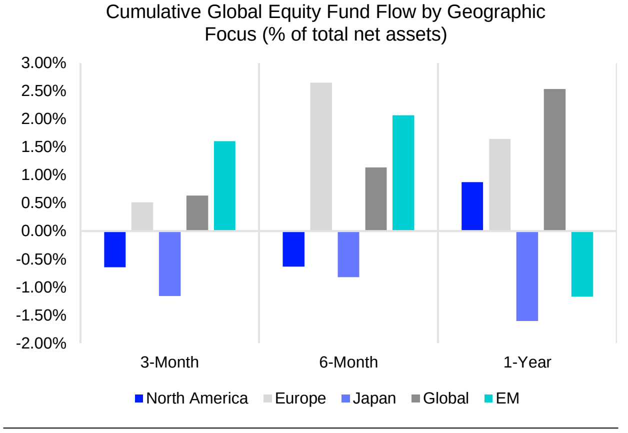


Chart 3: At a sector level, cyclicals-related funds have seen a momentum shift over the last few months as market sentiment has improved. Industrials-related funds have led 3-month average fund flows.

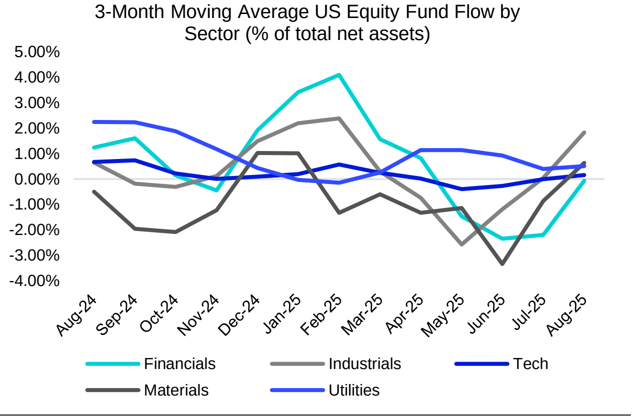


Chart 4: Within fixed income, Emerging Markets-focused funds have led 3M fund flows, with investors looking outside of DM markets, partly due to concerns around DM fiscal positions.

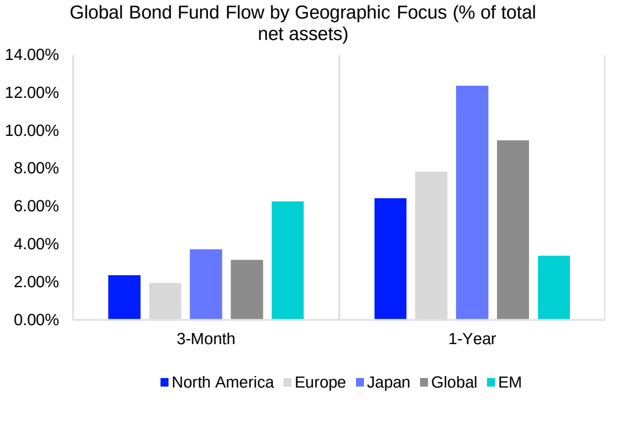
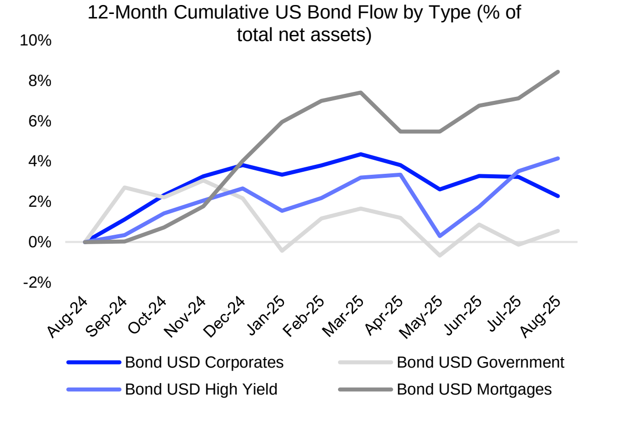


Chart 5: Fund flows by bond type show that MBS-related funds have led bond fund flows over 12M. Interestingly, in recent months, investors have favored High Yield bond funds over broader corporate bond funds.



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ISM PMI, stock-bond valuation, equity risk premium vs. credit spreads, point to overvaluation risk in the US equity market. Copper-gold ratio reinforces the conclusion.

Risk on or risk off? Historically, both a higher copper-to-gold ratio and a higher relative valuation of equities over bonds have been interpreted as a shift toward risk-on market sentiment. But these two metrics have decoupled in the recent four years, with equity relative values holding up well and a rapid increase in gold price. It may be attributed to investors' optimism about longer-term growth, and their pivot from government bonds to gold (driven by central banks) as a pursuit of risk-free asset.

Multiple metrics in macro and financial markets suggest that US equities may be overvalued vs US bonds. Risk-on rally resumed despite PMI remaining subdued (Chart 2); relatively high P/E ratio despite high risk-free rate (high discount rate) in Chart 3; equity risk premium (ERP) fell into negative territory, a sharper fall than credit spreads (Chart 4). In addition, the US has the lowest dividend vs sovereign yield premium (-2.9%). AI-driven earnings growth optimism and expectation of a structural shift to higher yields may explain the current valuation to some extent, but a negative ERP is likely to signal an underestimation of risk in the equity market. ERP also stayed near 10-year low levels elsewhere (Chart 5).

Chart 1: The falling copper-gold ratio alongside rising stock-bond valuation in recent years shows a disconnect from their historically positive correlation. Investors rotating into equities vs bonds (risk-on) alongside into gold vs the bell-weather copper (risk-off) indicates mis-pricing opportunities.

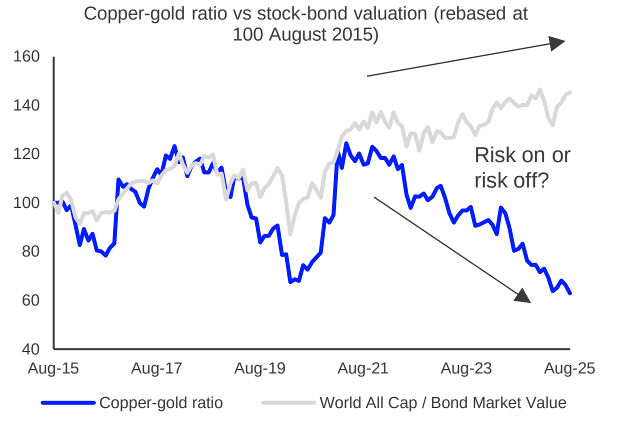


Chart 2: A disconnect between the US stock-bond valuation and the ISM PMI has been a key theme since 2022, as the PMI stayed in contractionary territory (<50) while stock-bond valuation rebounded sharply to a 10yr high.

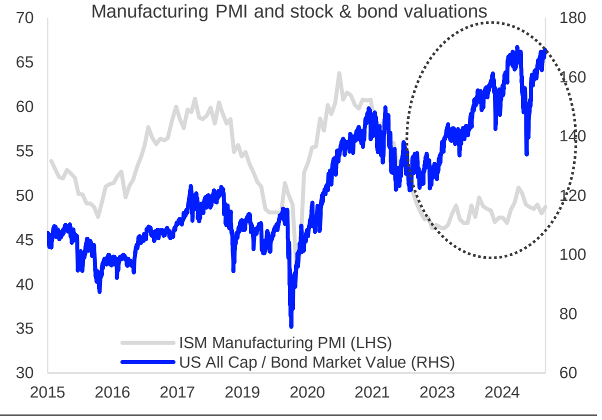


Chart 3: The stock-bond valuation disconnect is also evidenced by rising forward P/E ratio vs elevated real yield from 2023. But a similar disconnect between 2016-2018 ended in a significant market correction in 2018.

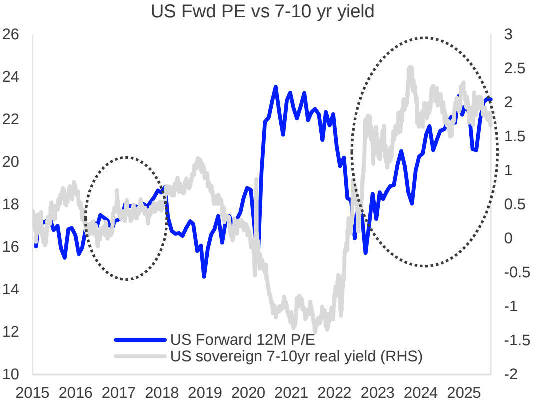


Chart 4: As a result of the relatively high US equity valuation, the equity risk premium has fallen significantly from its 2020 peak (a deeper dive than US credit spreads) and remained extremely compressed.

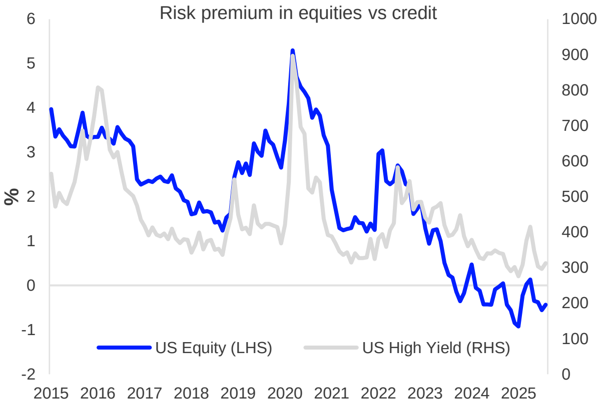
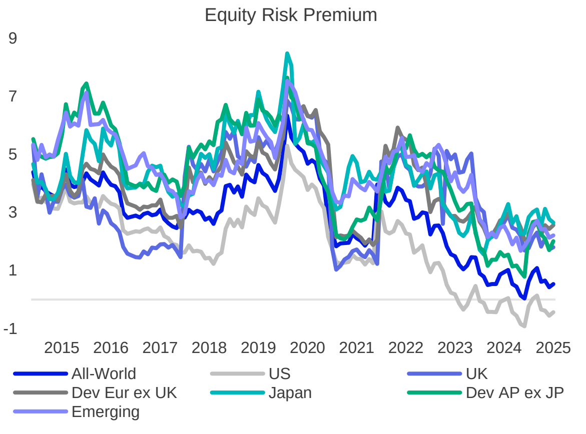


Chart 5: Outside the US, ERP have also fallen from 2020 highs and remained compressed. UK had the lowest ERP of 1.8% by end-August, while Japan (2.7%) and Dev Europe ex UK (2.6%) had the highest ERP.



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Cross Asset: Return and Risk (continued)

Gold and HY (World & US) lead in risk-adjusted returns (boosted by lower volatility in 1Y vs 3Y). Gold continues to outperform in absolute & risk-adjusted-return. World HY experienced a sharp increase in return/risk, which is now much higher than for world equities. EM equities recovered strongly: from being a laggard over 3Y to a leader over 1Y.

Over 1Y, gold (37.7%) continued to far outperform other asset classes, particularly driven by central bank reallocation from US Treasuries to gold. Within equities, emerging markets (18.2%) took the lead in 12M returns, largely helped by China & Taiwan (see page 11). Russell 2000 was the worst equity performer in 12M (8.1%) despite rallying in August. Alternatives like EPRA Nareit real estate (3.5%) and global core infrastructure (7.2%) lagged equities. High yield (World & US) continued to benefit from higher correlation with equities. The loss in oil (-13.6%) narrowed over 3M due to base effect.

FTSE 100 and Russell 1000 have remained among top performers over the past 1Y & 3Y. Meanwhile, the outperformance of EM equities over 1Y contrasted with their underperformance over 3Y, indicating their recent strong momentum. Equity gains generally have slowed down (1Y returns of 8-18% vs 3Y annualized returns of 10-20%).

The return/risk ratio for gold remained above 3, almost double that of best performing equities (FTSE 100 and Emerging both at ~1.7). EM equities now rank among the highest return/risk over 1Y (1.7), in contrast to being a laggard over 3Y (0.7). World HY saw a faster pick-up in risk-returns (1.7 over 3Y to 2.8 over 1Y) than world equities (1.3 to 1.7). Global Core Infrastructure return/risk improved from 0.4 over 3Y to 0.8 over 1Y, but the ratio for EPRA Nareit stayed at 0.3.

Chart 1: Over 1Y, gold remained the top performer with returns of 37.7%, followed by EM equities (18.2%), FTSE 100 (16.8%), and Russell 1000 (16.2%). Equities broadly outperformed EPRA Nareit (3.5%), fixed income assets, and Global Core Infrastructure (7.2%). In terms of return/risk ratio, gold (3.1), World HY (2.8), and US HY (2.5) are among the top performers, while oil (-0.7), EPRA Nareit (0.3), and Russell 2000 (0.4) underperformed.

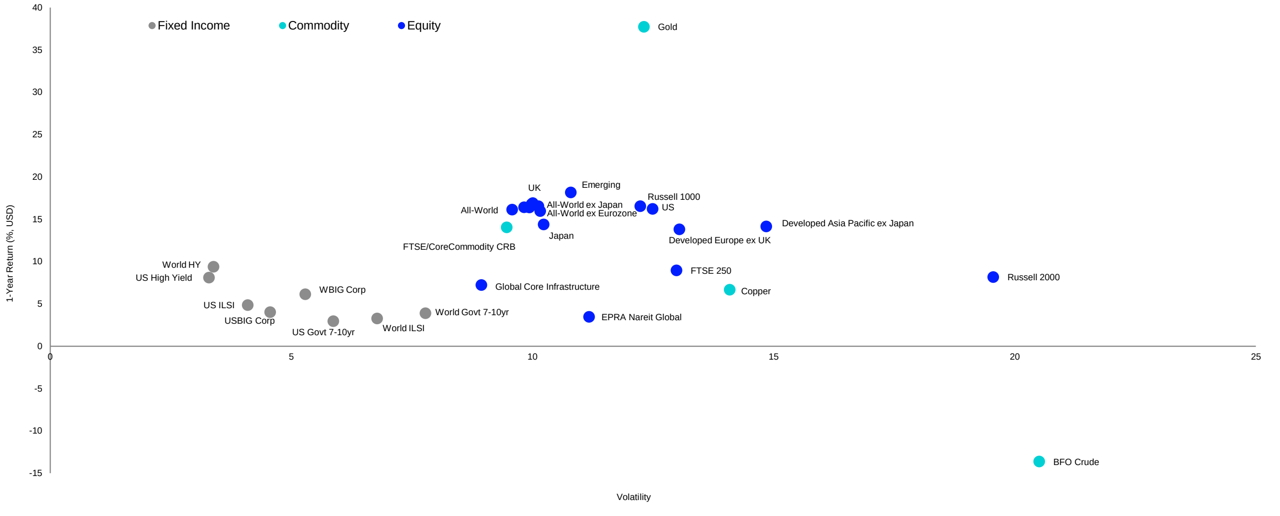
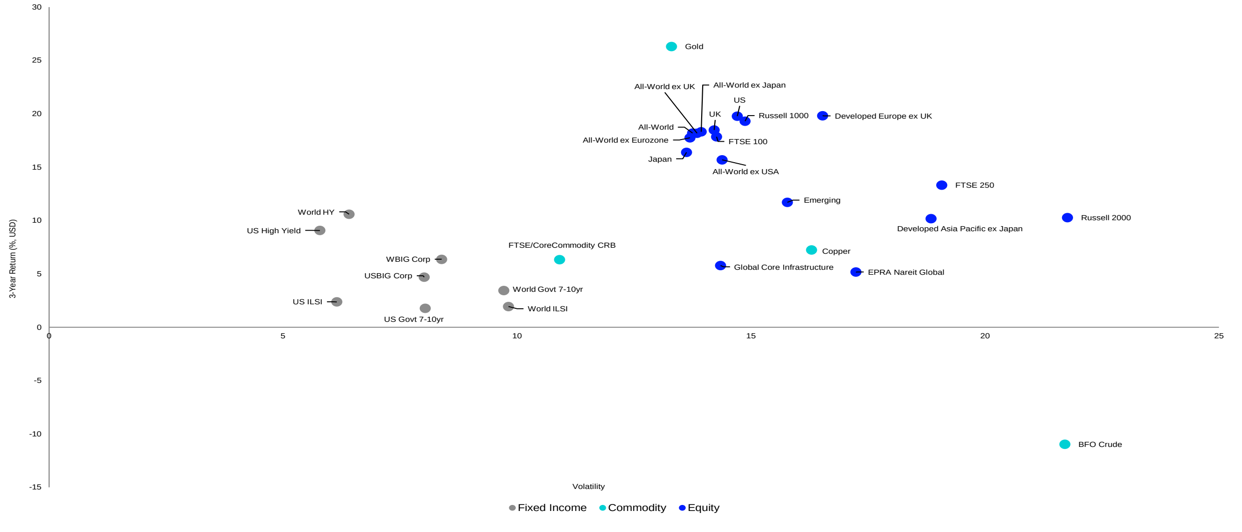


Chart 2: Over 3Y – Gold delivered an annualized return of 26.3%, mainly driven by 2024/25 rallies. Developed Europe ex UK (19.8%), US large-cap equities (19.3%), FTSE 100 (17.9%), and Japan (16.4%) posted returns of 16-20%. Gold (2.0), World HY (1.7), and US HY (1.6) provided the highest risk-adjusted returns over 3Y, similar to over 1Y. The ratio was the lowest for oil (-0.5), World ILSI and US Govt 7-10yr (both at 0.2).



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Cross Asset: Correlations

Diversification benefits improve as inter- and intra-asset class correlations have declined markedly since end-2023. Within equities, the US appears the least correlated with other key assets over 1Y, followed closely by Emerging Markets. Crude oil has been largely negatively correlated with other assets. Gold continues to provide diversification, especially for US equities.

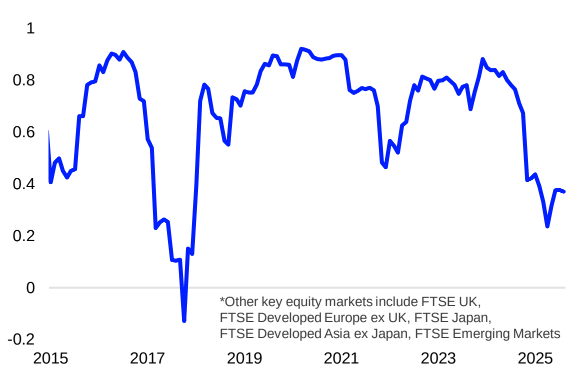
Divergent monetary policy and divergent regional impacts from changes to global trade have caused both intra- and inter-asset class correlations to decline over the past 24 months. For US equities (Russell 1000), the average rolling 12-month correlation with other key equity markets has fallen over the past two years, from 0.88 at the beginning of 2024 to around 0.37 as of end-August 2025 (Chart 2). A similar phenomenon has occurred across asset classes as well, with US equities' average rolling 12-month correlation with other key non-equity assets declining from a peak of 0.7 at the end of 2023 to around 0.2 as of end-August 2025 (Chart 3). For multi-asset investors, the implication is that; the benefits of a diversified portfolio have improved, creating a more convincing argument against highly concentrated portfolios, especially given recent volatility. Looking at individual asset correlations, within equities, the US has shown lower correlations with other equities and fixed income assets compared to other equity markets. Meanwhile, the UK saw the highest correlations with other equities and fixed income assets. Outside of equities, crude oil performance has been negatively correlated with most key assets/indices over 1Y and, excluding US high yield and US equities, has been a better diversifier than Gold. Listed real assets, which include real estate and infrastructure, have seen correlations with equities fall when comparing 1Y vs. 3Y numbers. As a result, listed real assets have been more correlated with bonds than with equities over 1Y. Within fixed income, intra-asset correlation, specifically those between US and global fixed income indices have also fallen.

Chart 1: 1-Year Correlation – Crude Oil performance has been negatively correlated with most key assets/indices over 1Y and, excluding US high yield and US equities, has been a better diversifier than Gold. Within equities, the US has shown lower correlations with other equities and fixed income compared to other key markets while Emerging markets have also shown lower (<0.5) correlations with most assets. Listed real assets were more correlated with bonds than with equities.

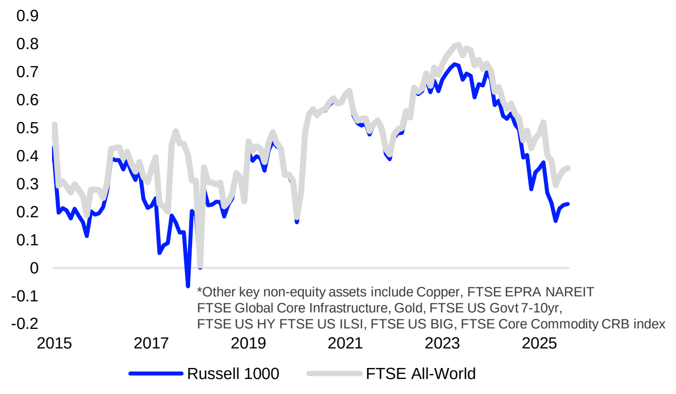
	Russell 1000	Russell 2000	All-World	All-World ex USA	UK	Dev Europe ex UK	Japan	Dev Asia Pac ex Japan	Emerging	US Govt 7-10yr	US ILSI	US High Yield	USBIG Corp	World Govt 7-10yr	World ILSI	World HY	WBIG Corp	Global Core Infrastructure	EPRA Nareit Global	Gold	BFO Crude
Russell 1000	1.00	0.91	0.94	0.43	0.49	0.23	0.29	0.63	0.22	0.14	0.13	0.87	0.43	0.09	0.16	0.58	0.22	0.39	0.55	-0.53	0.13
Russell 2000	0.91	1.00	0.84	0.36	0.46	0.14	0.40	0.54	0.07	0.23	0.23	0.74	0.44	0.15	0.21	0.50	0.26	0.51	0.61	-0.37	0.08
All-World	0.94	0.84	1.00	0.70	0.70	0.51	0.51	0.82	0.43	0.33	0.31	0.94	0.56	0.35	0.41	0.79	0.46	0.47	0.72	-0.36	-0.03
All-World ex USA	0.43	0.36	0.70	1.00	0.87	0.90	0.78	0.90	0.69	0.62	0.60	0.69	0.63	0.76	0.79	0.92	0.80	0.50	0.80	0.20	-0.38
UK	0.49	0.46	0.70	0.87	1.00	0.88	0.67	0.76	0.35	0.67	0.67	0.65	0.68	0.65	0.68	0.74	0.69	0.65	0.83	0.06	-0.25
Dev Europe ex UK	0.23	0.14	0.51	0.90	0.88	1.00	0.69	0.70	0.42	0.57	0.57	0.50	0.49	0.70	0.72	0.76	0.69	0.39	0.65	0.32	-0.37
Japan	0.29	0.40	0.51	0.78	0.67	0.69	1.00	0.62	0.35	0.43	0.32	0.39	0.32	0.67	0.58	0.66	0.60	0.29	0.61	0.16	-0.47
Dev Asia Pac ex Japan	0.63	0.54	0.82	0.90	0.76	0.70	0.62	1.00	0.68	0.55	0.52	0.77	0.66	0.67	0.75	0.91	0.76	0.58	0.77	0.03	-0.17
Emerging	0.22	0.07	0.43	0.69	0.35	0.42	0.35	0.68	1.00	0.38	0.42	0.55	0.50	0.45	0.52	0.71	0.57	0.23	0.50	0.15	-0.20
US Govt 7-10yr	0.14	0.23	0.33	0.62	0.67	0.57	0.43	0.55	0.38	1.00	0.94	0.43	0.92	0.84	0.88	0.65	0.91	0.73	0.79	0.16	-0.39
US ILSI	0.13	0.23	0.31	0.60	0.67	0.57	0.32	0.52	0.42	0.94	1.00	0.47	0.91	0.70	0.80	0.61	0.82	0.75	0.79	0.29	-0.28
US High Yield	0.87	0.74	0.94	0.69	0.65	0.50	0.39	0.77	0.55	0.43	0.47	1.00	0.68	0.35	0.45	0.84	0.51	0.46	0.76	-0.28	-0.07
USBIG Corp	0.43	0.44	0.56	0.63	0.68	0.49	0.32	0.66	0.50	0.92	0.91	0.68	1.00	0.69	0.78	0.73	0.84	0.78	0.86	-0.06	-0.22
World Govt 7-10yr	0.09	0.15	0.35	0.76	0.65	0.70	0.67	0.67	0.45	0.84	0.70	0.35	0.69	1.00	0.96	0.74	0.95	0.61	0.72	0.33	-0.64
World ILSI	0.16	0.21	0.41	0.79	0.68	0.72	0.58	0.75	0.52	0.88	0.80	0.45	0.78	0.96	1.00	0.80	0.99	0.69	0.77	0.35	-0.47
World HY	0.58	0.50	0.79	0.92	0.74	0.76	0.66	0.91	0.71	0.65	0.61	0.84	0.73	0.74	0.80	1.00	0.83	0.53	0.84	0.08	-0.35
WBIG Corp	0.22	0.26	0.46	0.80	0.69	0.69	0.60	0.76	0.57	0.91	0.82	0.51	0.84	0.95	0.99	0.83	1.00	0.71	0.82	0.26	-0.48
Global Core Infrastructure	0.39	0.51	0.47	0.50	0.65	0.39	0.29	0.58	0.23	0.73	0.75	0.46	0.78	0.61	0.69	0.53	0.71	1.00	0.83	0.18	-0.27
EPRA Nareit Global	0.55	0.61	0.72	0.80	0.83	0.65	0.61	0.77	0.50	0.79	0.79	0.76	0.86	0.72	0.77	0.84	0.82	0.83	1.00	0.09	-0.46
Gold	-0.53	-0.37	-0.36	0.20	0.06	0.32	0.16	0.03	0.15	0.16	0.29	-0.28	-0.06	0.33	0.35	0.08	0.26	0.18	0.09	1.00	-0.34
BFO Crude	0.13	0.08	-0.03	-0.38	-0.25	-0.37	-0.47	-0.17	-0.20	-0.39	-0.28	-0.07	-0.22	-0.64	-0.47	-0.35	-0.48	-0.27	-0.46	-0.34	1.00

Chart 2 & 3: Plots of the average 12M correlation between US equities and other assets show that both intra- and inter-asset class correlations have fallen broadly over the past two years. Whereas interest rate hikes across most markets in 2022 & 2023 dominated market sentiment and saw asset prices move in unison, divergent monetary easing has allowed for other more idiosyncratic factors to drive asset returns. For multi-asset investors, lower correlations between equities & other assets provides a more convincing argument for diversification. For equity investors, lower cross-market correlations emphasize the importance of regional selectivity.

Average 12-month rolling correlation between Russell 1000 & other key equity markets*



Average 12-month rolling correlation between equities & other key non-equity assets*



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Appendix 1: List of indices used in report

Name	Mnemonic/Code
World Government Bond Index 1-3yr	WGBI_1-3
World Government Bond Index 7-10yr	WGBI_7-10
World Inflation-Linked Securities Index 7-10yr	ILSI_7-10
US Treasury 1-3yr	US_TSY1-3
US Treasury 7-10yr	US_TSY7-10
Germany 1-3yr	DE_TSY1-3
Germany 7-10yr	DE_TSY7-10
World Broad Investment-Grade Bond Index Corporate	WBIG_CORP
US Broad Investment-Grade Bond Index Corporate	BIG_CORP
Euro Broad Investment-Grade Bond Index Corporate	EBIG_CORP
Emerging Markets US Dollar Broad Bond Index Corporate – Investment-Grade	EMBBI_CORP_IG
Emerging Markets US Dollar Government Bond Index	ESBI
US High-Yield Market Index	HY_MKT_US
Pan-European High-Yield Bond Index - EUR	EUROPE_HYM_EUR
Emerging Markets US Dollar Broad Bond Index Corporate – High-Yield	EMBBI_CORP_HY
US Inflation-Linked Securities Index 10 yr+	ILSI_US_10+
FTSE World Broad Investment-Grade Bond Index (WorldBIG®)	WBIG
FTSE US Broad Investment-Grade Bond Index (USBIG®)	BIG
FTSE Euro Broad Investment-Grade Bond Index (EuroBIG®)	EBIG
FTSE World High-Yield Bond Index	WHYM
Russell 1000 Index	R1000
Russell 2000 Index	R2000
FTSE Global All Cap Index	GEISLMS
FTSE All-World Growth Index	AWORLDSG
FTSE All-World Value Index	AWORLDSV
Russell 1000 Growth Index	R1000G
Russell 1000 Value Index	R1000V
FTSE USA Index	WIUSA
FTSE UK Index	WIGBR
FTSE Developed Europe Index	AWDEURS
FTSE Developed Europe ex UK Index	AWDEXUKS
FTSE Japan Index	WIJPN
FTSE Developed Asia Pacific ex Japan Index	AWDPACXJ
FTSE China Index	WICHN
FTSE Emerging Index	AWALLE
FTSE All-World Index	AWORLDS
FTSE Global Core Infrastructure Index	FGCII
FTSE EPRA Nareit Global Index	ENHG
FTSE Europe ex UK Index	AWEXUKS
FTSE Asia Pacific ex Japan Index	AWPACXJA
FTSE USA All Cap Index	LMSUSA
FTSE Developed Index	AWD
FTSE All-World ex US Index	AWXUSAS
FTSE Global Large Cap Index	GEISLC
FTSE Global Small Cap Index	GEISSC
FTSE Developed Large Cap Index	LCD
FTSE Developed Small Cap Index	SCD
FTSE Developed Growth Index	DGWLD
FTSE Developed Value Index	DVWLD
Refinitiv Commodity Index	RTCI
FTSE/CoreCommodity CRB® Index	RJEFCRT
Russell 2000 Implied Volatility Index	RVX
Brazilian GBI	BR_TSY
Mexican GBI	MX_TSY
Chilean GBI	CL_TSY
Indonesian GBI	ID_TSY
India GBI	IN_TSY
Chinese GBI	CN_TSY
EMGBI	EMGBI
US GBI	US_TSY
German GBI	DE_TSY
Japanese GBI	JP_TSY
FTSE World Government Bond Index	WGBI
World Uncertainty GDP Weighted Average	WDEPUUNGR
US Economic Policy Uncertainty Index	USEPUPOLR
US Trade Policy Uncertainty Index	USEPTRPUR
World Inflation-Linked Securities Index	ILSI
FTSE Bitcoin Index	FTBTC
University of Michigan: Consumer Sentiment - Current	USUMCONCH
University of Michigan: Consumer Sentiment - Expectations	USUMCONEH

Appendix 2: Methodology Reference Guide

Report calculations

- Unless noted otherwise, all performance calculations are in US dollar.
- Methodology details of the Financial Conditions Indicator are available at - [Building the FTSE Russell financial conditions indicator | LSEG]
- Methodology for calculation of Upgrade-Downgrade ratio in credit markets: Fallen angels, corporate bonds downgraded from IG − a minimum rating of BBB- with S&P, Moody's or Fitch - to a HY credit rating of BB+ or below, are not included in the calculation of downgrade ratio, as they were not included in the high yield index.
- All credit spreads are with reference to the US 7-10 year Treasury bond index.
- Option-adjusted spread percentiles are calculated by comparing current index-level spreads (as of 31 May) to a fixed, historic 10-year window of month-end index-level OAS.
- Risk premium in equity is calculated as the earnings yield (E/P) of the All-World Developed index minus the yield of US Treasury 7-10 years. Risk premiums in high yield are their credit spreads relative to yield of US Treasury 7-10 years.
- Equity volatility is measured as rolling 24-month annualized volatility using monthly observations.
- Correlation matrix among asset classes is calculated using monthly returns over the time frame of analysis mentioned in the chart heading.
- Earnings yield is calculated as the inverse of PE ratios for the indices in these four asset classes - equity, fixed income, listed real estate, listed infrastructure.
- In currencies, Euro and GBP are quoted as number of US dollars per unit of foreign currency. Yen and CAD are quoted as number of units of foreign currency per unit of US dollar.
- Currency exporters and importers classification is based on the commodity exposure in the macroeconomy of the country.
- Fund flow to geographic markets based on geographic mandate of fund as defined by Lipper. Flow % of AUM is defined as the nominal dollar flow divided by previous month's asset under management. Rebased cumulative fund flow commencing at the beginning of the 12 month period (sign inverted in rebasing if initial month flow is negative). Rebasing figure is sensitive to the first month's flow. Figures subject to revision.
- Page 17 uses the Refinitiv/CC CRB Total Return index (US $). Page 12 used the RFV Commodities Price index. The return for commodities is very dependent on the index used, given the huge return dispersion among different commodities and their differing weights in the indices.
- For sustainable investment flows, the data used is the same as the Responsible Investment definition used by Lipper, a tighter definition than just the Ethical restriction.
- For US bond type flow data, the data used are the monthly bond fund flows in US domiciled USD bond funds, as defined by Lipper Global Fund Classification.
- Leverage ratio is defined as total debt divided by historic 12M EBITDA (latest fiscal year).
- In comparing equity dividend yields with sovereign 7-10 year yields, we are using the closest approximation. For Developed Europe ex UK that includes FTSE EMU Government Bond Index with 9 countries (DMs within Euro Area, namely Austria, Belgium, Finland, France, Germany, Ireland, Italy, Netherlands and Spain) and Developed APAC ex Japan is proxied by FTSE Asia Pacific Government Bond Index which apart from the 5 developed markets (Australia, NZ, Hong Kong, Korea and Singapore) also includes 5 EMs (China, Indonesia, Malaysia, Philippines, and Thailand).
- Trade-weighted policy rate differentials are calculated using the Nominal Trade-weighted USD index weights from the Federal Reserve at (https://www.federalreserve.gov/releases/h10/weights/). Historical policy rates are downloaded from LSEG. Yearly trade weights are multiplied with monthly levels of policy rates to calculate an aggregate trade weighted policy rate.
- All data is as of August 31, 2025, with the exception of the most recent FOMC projections that was released June 18, 2025.

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