amova Asset Management

Balancing Act
Monthly Insights: Global Multi-Asset (October 2025)

Overweight to growth assets increased, position on defensives maintained

By the Multi-Asset Team

28 October 2025

Snapshot

Global equities surged in September, driven by the US Federal Reserve (Fed)'s first rate cut of the year and guidance for two more cuts by year-end. Risk-on sentiment was also boosted by new deals on artificial intelligence (AI) capital expenditure (capex) rollouts over the next few years. The S&P 500 Index rose 3.5%, while the Stoxx Europe 600 gained 1.5%, defying typical seasonal weakness. In Asia, Taiwan and South Korea's tech-heavy markets led gains while Chinese tech stocks also rallied on expectations of policy support and easing US-China trade tensions. Markets largely shrugged off concerns about a potential US government shutdown, which could delay key economic data releases. Overall, the MSCI All Country World Index climbed 3.5% in US dollar (USD) terms.

In fixed income, US Treasury (UST) yields fell early in the month following a weak August jobs report, then rebounded on stronger domestic data. At the end of September, the 2-year UST yield settled at 3.61% and the 10-year at 4.15%, both slightly lower from the end of August. Credit spreads narrowed modestly.

Gold prices soared 11.9%, driven by safe-haven demand amid shutdown risks, trade war concerns and geopolitical tensions. In contrast, West Texas Intermediate crude oil fell 2.6%, pressured by fears of oversupply amid ongoing OPEC+ production hikes. Real estate, measured by the FTSE NAREIT Global Real Estate Index, edged up 0.9%, reflecting modest gains in property markets.

Cross-asset[1]

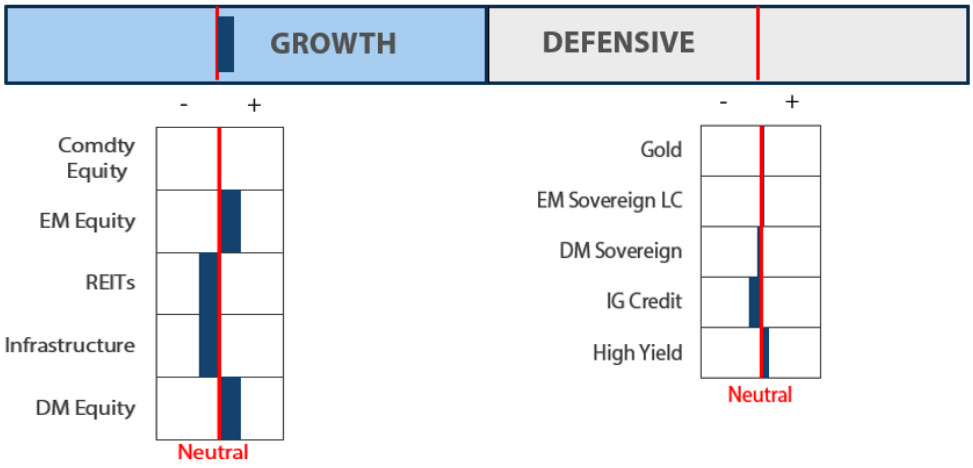
As of the end of September, we increased our long-held overweight growth asset score marginally, while maintaining our defensive score at neutral. We continue to expect growth assets to perform well throughout the remainder of the year, as the backdrop is supportive for taking risk. The legality of trade tariffs will now be decided by the US Supreme Court, which should drag into the first quarter of next year. Meantime, the start of a rate cutting cycle by the Fed and tax cuts should drive risk-on sentiment in the near term. With the S&P Global PMI expanding for the fourth successive month, we expect global growth to remain robust and support earnings growth over the next 12 months. With respect to defensives, we maintain our neutral view given that the positives from the Fed rate cutting cycle would be offset by current extremely tight credit spreads. The next few months of payrolls will be key to the trajectory of the Fed's cuts. Inflationary pressures have not eased as much as we would like, potentially limiting how far interest rates can fall despite market expectations.

Within growth assets, we maintained our overweight in developed market (DM) equities, as the US in particular continues to be resilient and shows signs of strong earnings growth. While valuations have become somewhat expensive on a price-to-earnings (P/E) basis, we believe the concentration in mega-tech names and their high return on equity (ROE) validate the increase in index weights and support further upside in the near term. The coming quarterly reporting season may confirm our positive view on the US. In DMs outside of the US, we like selective countries such as Canada and Singapore, whose exposure to financial sectors will benefit from deregulation and increased economic activities. The other area that we expect to perform well in the near term is emerging market (EM) equities, which we increased our overweight position, as a weaker dollar and falling cash rates are typically a boon for EMs.

For defensives, we maintained our scores for investment grade (IG) credit (underweight), DM sovereigns (underweight) and EM sovereigns (overweight), while reducing our exposure to high yields and adding to gold. While we continue to like IG credit, we retained our underweight as credit spreads are now at the tightest levels not seen since the mid-2000s. From a macro perspective, we do not foresee any scenarios that could widen credit spreads. However, given the mean-reverting nature of credit spreads, it makes sense to be cautious and favour gold instead. We maintained a marginal underweight on DM sovereigns as valuations are expensive, and this has favoured countries such as France, Australia and Japan, which have steeper curves, as the hedged yields are quite attractive. However, these allocations do involve risks, with France and Japan in particular presenting political risks which enhance their yields. It appears that the days of "risk-free" sovereigns are slowly becoming history, with most governments running debt-to-GDP ratios in excess of 100%. This makes gold the more attractive asset for our overweight position. We maintain a small overweight on EM sovereigns with the view that the dollar will weaken, which is good for these regions.

[1] The Multi Asset team's cross-asset views are expressed at three different levels: (1) growth versus defensive, (2) cross asset within growth and defensive assets, and (3) relative asset views within each asset class. These levels describe our research and intuition that asset classes behave similarly or disparately in predictable ways, such that cross-asset scoring makes sense and ultimately leads to more deliberate and robust portfolio construction.

Asset Class Hierarchy (Team View)[2]



[2]The asset classes or sectors mentioned herein are a reflection of the portfolio manager's current view of the investment strategies taken on behalf of the portfolio managed. The research framework is divided into 3 levels of analysis. The scores presented reflect the team's view of each asset relative to others in its asset class as at 30 June 2025. Scores within each asset class will average to neutral, with the exception of Commodity. These comments should not be constituted as an investment research or recommendation advice. Any prediction, projection or forecast on sectors, the economy and/or the market trends is not necessarily indicative of their future state or likely performances.

Behind the trends: research in action

Growth assets

Growth assets remain appealing, as we believe that global economic growth will stay resilient and earnings growth will resume globally with the uptick in S&P Global PMI. The legality of the use of trade tariffs will now be decided by the Supreme Court in the first quarter of the new year. Market sentiment remains risk-on, with global equity indices continuing to hit new highs with the start of the Fed's rate cutting cycle. Investors will be fixated on the US labour data in the coming months as they look for signs that could influence the Fed's stance on interest rates. Inflation globally remains contained, providing room for central banks to implement supportive measures to bolster economic growth.

Overall, earnings growth remains on an upward trajectory, providing support for growth assets. Market estimates for earnings growth for the coming quarter had not been revised higher since "Liberation Day", and this could present a low bar for corporate beats, setting the stage up nicely for more positive momentum. In the short term, the passing of the US tax bill is positive and could help boost consumption and corporate profits while anticipated Fed rate cuts in the coming months may further support continued economic activity in the US.

Conviction views on growth assets

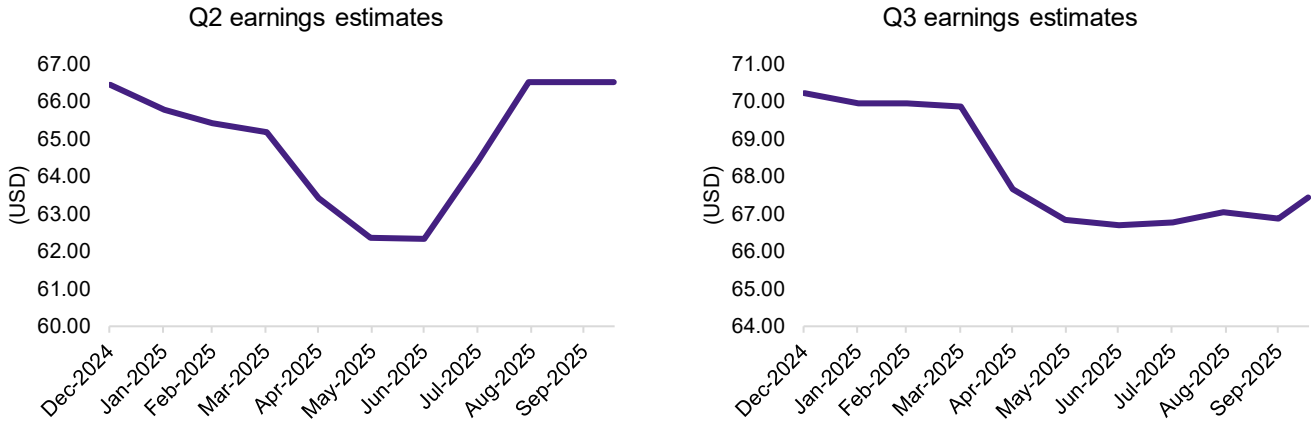
- **Overweight exposure to US growth maintained for now**: We continue to like the US for its secular long-term earnings growth driven by technology and healthcare innovations. We are also positive on increasing energy demand from data centres with the significant AI capex outlay over the next few years. There remains potential for positive surprises in the market, such as responses from central banks and relief from import tariffs.
- **Overweight on Singapore and Canada:** We still have an overweight position in Singapore due to its defensive attributes. Singapore offers high dividend yields and low beta. The market is also strong in terms of relative valuation metrics and is least likely to be targeted by Trump's tariff policies, given Singapore's trade balance deficit. We also like Canada for its heavier exposure to financials, energy and materials sectors which will provide good diversification from technology.
- **Increased our overweight exposure to EMs**: Within EM, we prefer selective markets, such as India, which benefit from domestically driven economies and structural long-term growth stories. We also like Taiwan for its exposure to the technology sector, as it is a key supplier of semiconductors for the secular growth trend of AI capex rollout. A weaker dollar would be tailwinds for the region as central banks are able to cut rates to support economic activity.
- **Neutral on commodity-linked equities**: We continue to believe that commodity-linked equities will continue providing good diversification against inflation in the longer term. The fundamentals of the sector remain compelling due to both cyclical and secular factors.

Prelude to Q3 earnings season

After a strong second quarter (Q2) earnings season which saw many corporates beat the top and bottom lines whilst giving better-than-expected guidance for the year, many investors are looking for clues on whether the same stellar performance could be sustained into the third quarter (Q3). Since the start of the year, earnings have been revised lower through time and especially closer to "Liberation Day" on 2 April when President Trump announced his trade tariffs. Markets were spooked by the massive import tariffs as fears of inflation coupled with slower growth as a result led to renewed calls for global recession. The earnings growth of both Q2 and Q3 cratered since then, reaching its low in May. Trump has since dialled back the magnitude of tariffs as trade deals are being struck and corporates showed that they were able to weather the increases in import tariffs better than expected.

Q2 earnings estimates for S&P 500 firms were revised higher through the reporting season, with revised estimates eventually reaching levels not seen since the start of the year. On the other hand, it is interesting that Q3 earnings growth estimates are still lingering near lows seen in May and are yet to be adjusted higher despite a good Q2 reporting season (See Chart 1). What this implies is that analysts have been slow to revise their estimates, setting a low bar to beat in the current Q3 earnings season.

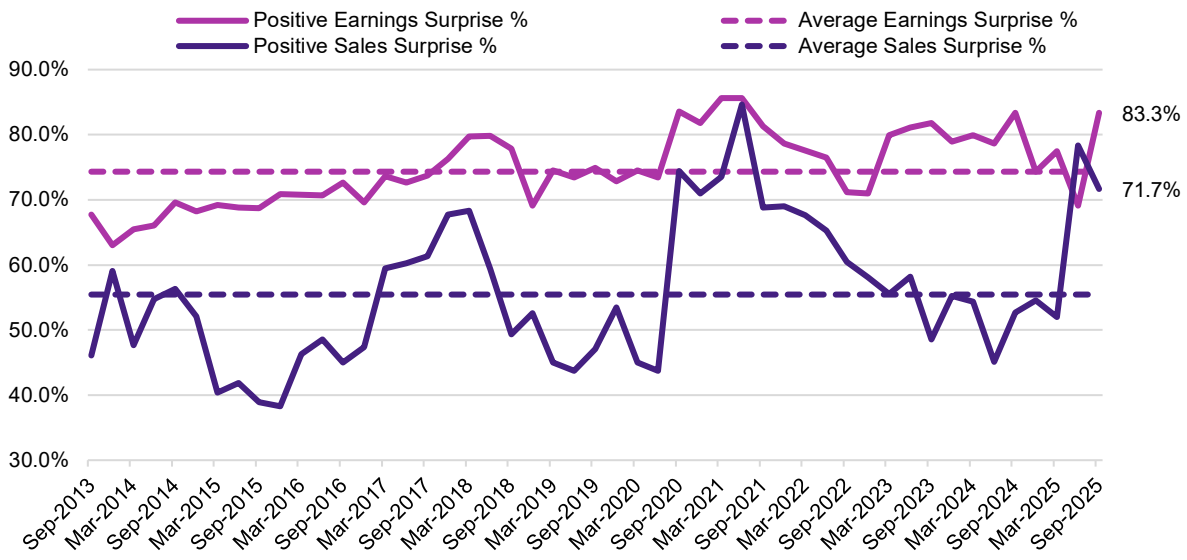
Chart 1: Low bar to beat for S&P 500 firms



Source: FactSet, October 2025

As we kicked off the Q3 earnings season, more than 10% of the S&P 500 companies have reported their earnings so far with firms in the financial sector leading the charge. As expected, results are turning out to be very strong with 83% of these companies surpassing market expectations, exceeding the historical average beat rate of 74% (See Chart 2). This quarter's results were encouraging, with 72% of companies beating sales estimates—one of the best quarters in years compared to the historical average of 55%. We attribute this strong performance to a weaker dollar, which provided a tailwind for companies with overseas revenue, similar to what we saw in Q2. As we move through the quarter, we expect companies with a higher percentage of overseas revenue, such as those in the technology and communications sectors, to benefit from a weaker dollar.

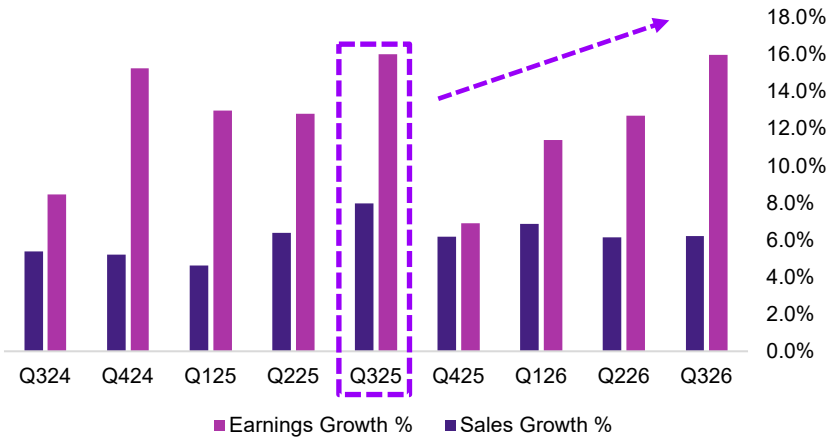
Chart 2: S&P 500 companies' earnings are off with a bang



Source: Bloomberg, October 2025

The quality of the earnings surprise was notably strong, with the magnitude of beats averaging almost 16% year-over-year (YoY)—well above the pre-earnings season average of 8% YoY. Likewise, sales outperformance was impressive, coming in at 6% YoY, the highest in the past three years and in line with consensus estimates. A key positive was the continued expansion in corporate margins, which signals a healthy corporate environment. We believe that operating margins are a leading indicator for corporate earnings health and any downturn in margins typically portends a labour market downturn which can trigger economic slowdowns. Corporate guidance was also largely positive with many firms, particularly banks, reporting increased activity. This is supportive of further economic expansion, despite fears of potential tariff impacts.

Chart 3: Earnings and sales growth best in quarters



Source: Bloomberg, October 2025

Defensive assets

Defensive assets performed well during September, with the Bloomberg Global Aggregate returning approximately 0.6% in USD terms over the month. The defensive market was boosted by a second weak non-farm payrolls (NFP) report in the US, which again pushed policy rate expectations lower for the Fed. Gold was again the standout performer among defensives, rising almost 12% over the month and over 48% year to date in USD terms. With the spectre of lower policy rates, weaker dollar, higher deficits and potentially sticky inflation, the backdrop for defensive assets appears to remain positive despite our long-term valuation metrics pointing towards expensive valuations. This month's Balancing Act shifts to Japanese politics, where a surprise shift in the Liberal Democratic Party (LDP) leadership has moved the outlook for Japanese assets in the near term.

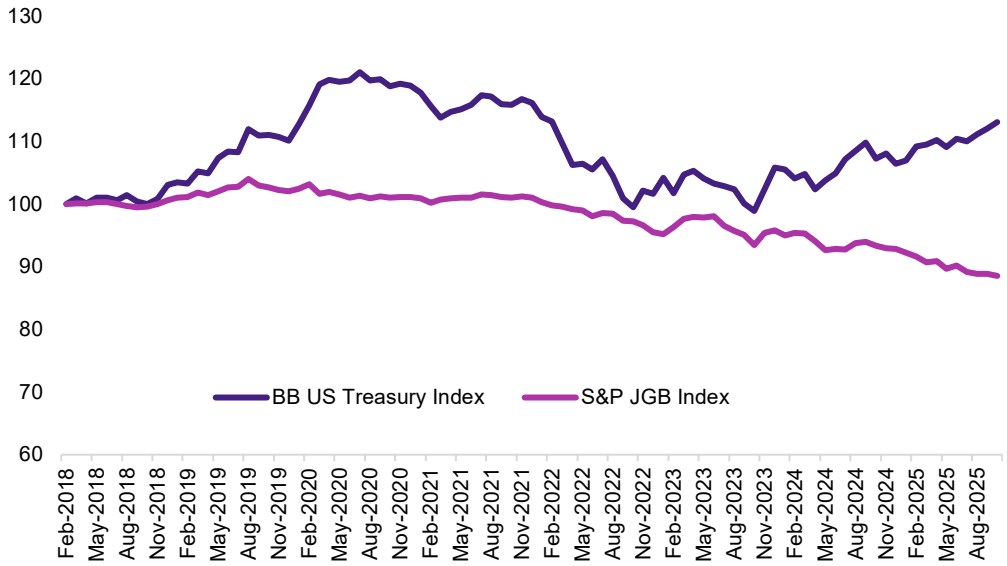
Conviction views on defensive assets

- **Underweight exposure to IG credit spreads**: Credit spreads have performed well over the past three months, hitting levels not seen since the mid-2000s. While we cannot foresee what will shift spreads wider in the near term, the fact that spreads are a mean-reverting series means that we continue to maintain our underweight position in the asset class. We prefer to keep exposures short, in the 1–5 year maturities to limit spread duration.
- **Gold expensive but necessary:** With prices rising for over a year now, gold has reached high valuations versus the US money supply. Despite this, we are growing more positive on the asset class once again as the macro backdrop involving expectations of weaker dollar, pervasive inflation, and the Fed's independence at risk give rise to gold potentially serving as a strong hedge compared to sovereign bonds.
- **Overweight duration in selective countries**: While we expect the trade deals to be less impactful than the market expectations, central banks do not have this luxury. With the risk of growth slowing, a number of central banks should continue easing, including the Bank of England, Reserve Bank of Australia and the Fed. We like to use Australia as our overweight in duration as among the developed markets it has the largest link to China, and while trade deals could materialise for US allies, China will likely be singled out and face higher tariffs.

Japan: a new leader for the ruling LDP

In a result that surprised markets, early in October the Japanese ruling LDP elected Sanae Takaichi as party leader, overcoming betting markets' favourite Shinjiro Koizumi. Following the result, Japanese risk markets moved broadly, with the Nikkei jumping some 2.9%, the yen selling off almost 2.9%, and 30-year Japanese Government Bonds (JGB) yield rising about 14 basis points in the trading session that followed. These drastic moves reflect the more expansionary views of Takaichi (chosen as prime minister late in October following a parliamentary vote), who has been critical of the Bank of Japan (BOJ) moving rates higher and previously called for income tax cuts. Given Japan's high levels of government debt, persistent deficit and currently higher-than-average inflation, the timing does not appear ideal to push expansionary policy; we will likely see additional pressure mount on the long end of the JGB curve if this policy set progresses unopposed. Interestingly, as Chart 4 below shows, while the JGB market performed stronger in 2022, the sell-off has since merged into a death by a thousand cuts as an overly easy policy has morphed into prolonged rises in yield which now appear set to continue.

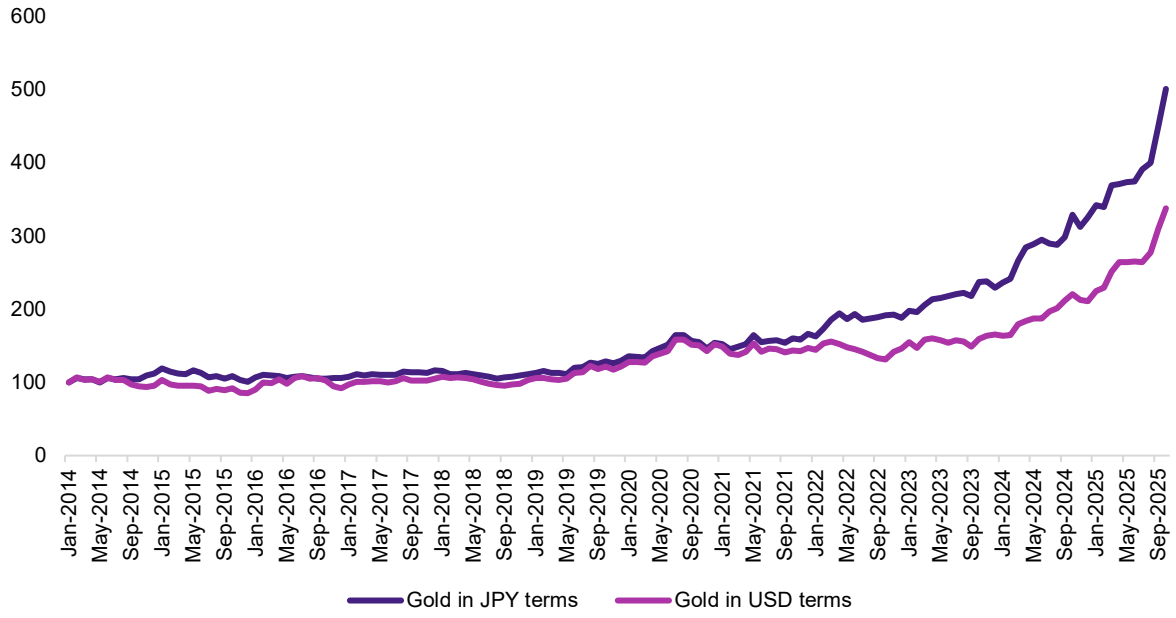
Chart 4: JGB performance vs USTs



Rebased to 100 on February 2018
Source: Bloomberg, Amova Asset Management, October 2025

The victory has also appeared to spill over into other asset classes, with gold in Japanese yen (JPY) terms performing particularly strongly. Currently, the market is extremely focused on the "debasement trade", whereby hard assets such as gold are being held in place of government bonds to provide protection against prolific government spending and currency debasement. This appears to be particularly the case when expressed in JPY terms; Chart 5 below shows gold increasing roughly two-fold over the past three years against the yen, outperforming the debasement trade that has occurred in USD terms. We continue to look for signs whether the market is questioning the solvency of governments globally.

Chart 5: Gold prices in JPY and USD



Rebased to 100 on January 2014
Source: Bloomberg, Amova AM, October 2025

On the Japanese asset side, while Takaichi's policy stance has been viewed as expansionary, some indigestion could occur politically as junior coalition partner Komeito left the ruling party bloc, forcing the LDP to form a new coalition with Nippon Ishin (Japan Innovation Party). Nippon Ishin favours relatively expansionary policy, leading markets to expect equities to continue grinding higher. However, the coalition will not quite have the numbers to form a majority, making continued political turmoil likely over the short-term. Similar to political outcomes in other countries, the tough fiscal position and debt overhang have made it extremely difficult for Japanese politicians to govern, and the constant rotation of prime ministers signals more deadlock is ahead. We have begun favouring JGBs again despite the uncertain fiscal outlook, although we prefer to keep our duration profile controlled, focusing on a 3–5 year maturity range, where the income may overcome any capital changes. We also continue to view gold as a hedge against poor fiscal management, and despite the debasement narrative, we still see bonds playing a role in portfolio construction—as the can of poor government finances is likely to be kicked down the road once again.

Process

In-house research to understand the key drivers of return:

Valuation	Momentum	Macro
Quant models to assess relative value	Quant models to measure asset momentum over the medium term	Analyse macro cycles with tested correlation to asset
Example for equity use 5Y CAPE, P/B & ROE	Used to inform valuation model	Monetary policy, fiscal policy, consumer, earnings & liquidity cycles
Example		
+	N	N
Final Score +		

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