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Extending investment horizons to navigate volatility

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The ambivalent outcome to the Alaska summit points to a continuation of geopolitical uncertainty. This compounds the ongoing erosion of confidence in US policymaking and could well lead to increased volatility in financial markets. Investors would do well to respond by focusing on the medium-term outlook and look beyond short-term market swings. Our preferred market segments of global and China tech, India equities, and Transformational Innovation Opportunities all align well with this longer investment horizon.

With the Alaska summit between Presidents Trump and Putin leaving the war in Ukraine still largely unsettled. Although the potential reduction in geopolitical uncertainty has failed to materialize, President Trump seemed to defer further punitive measures on Russia, including secondary sanctions on buyers of Russian oil. US equities have reacted mildly negatively with the S&P 500 down around 0.7%, but the Euro Stoxx 600 and MSCI India (MXIN) have risen 0.8% and 2.5% possibly in reaction to the non-imposition of secondary tariffs. With the negotiations still continuing, how should investors react?

With the respective positions of Russia and Ukraine remaining far apart, no decisive developments in the war itself, the fighting looks set to persist for some time as negotiations drag on. We think financial markets will likely refocus on the health of the global economy and the outlook for interest rates. But here lies another recent development that investors will need to contend with: market concerns about data accuracy and the independence of the Federal Reserve. A Reuters survey of market participants in July highlighted the saliency of both issues with respondents communicating a high level of unease. While data accuracy has been declining for a while now—at least since the Covid pandemic—the specter of political interference rose more recently. Although the risk is still at low levels, it would further compromise data quality.

Amid the somewhat erratic US policymaking both domestically and externally, data quality issues could well amplify market volatility by making it harder to separate out the signal from the noise when evaluating the US economy. This in turn

likely erodes investors' confidence in their economic views, making them more susceptible to flipping between different narratives. A key implication is that markets might be more likely to overshoot when pricing in a particular macro narrative, leading to a quick reversal. This makes timing the market even more difficult, and investors would be well advised to focus on the medium-term outlook (around 12-18 months) and look beyond short-term market swings. Below are three investment avenues with extended investment horizons that can help investors ride out the turbulence.

Global and China tech sector. Although tech valuations are at multi-quarter highs as cyclical risks around margins and supply chain adjustments are becoming more apparent, AI growth trends remain robust with strong monetization and capex trends. This underpins our global tech EPS growth forecast of 15% for 2025 and 12.5% EPS growth for 2026. In the near term though, to better ride out the volatility from additional tariffs and other trade restrictions, we continue to maintain a balanced exposure within our AI portfolio, and recommend investors to rebalance some of their AI exposure in favor of laggards.

On China, we also view the tech sector as Attractive, despite intensified competition among internet players. The sector is supported by a strong earnings growth outlook and favorable AI-driven trends. The recent progress on easing chip restrictions could spark a revival in AI development and adoption, and catalyze a recovery in broader sentiment on the sector. Furthermore, the sector trades at compelling valuations, both on an absolute basis and relative to US tech.

India equities could see 2 years of strong EPS growth. We think that the recent escalation in tariff tensions most likely represents a negotiation maneuver rather than a permanent deterioration in diplomatic relations. India appears to be caught in the crossfire, and trade tensions with the US could persist for the near term. Notwithstanding this, the key driver for India equities remains its strong earnings growth story, especially as the downgrade cycle is nearing a bottom. The large share of domestically-generated revenues makes it one of the most insulated equity markets in Asia. RBI easing and benign inflation should pull the 10-year Indian government bond yield lower to 6% around the end of the year, from around 6.5% currently. Private consumption and government spending continue to support the economy and should fuel earnings growth of 11.6% in FY26 (2Q25-1Q26) and 14.1% in FY27. Our "Attractive" view on Indian equities is thus based on the potential for enduring outperformance.

Transformational Innovation Opportunities (TRIOs). We think structural transformation in three key areas – Artificial intelligence, Power and resources (P&R), and Longevity – will power markets in the coming decade. The risks of semiconductor tariffs and further AI restrictions suggest investors should adopt a balanced positioning within "AI" portfolios. For P&R, valuations have become compelling given our expectations of strong organic revenue and earnings growth. For Longevity, while we do see the potential for some mean reversion in valuations, we ultimately believe that the sector appears well-positioned to benefit from lengthening life spans. Companies within these themes continue to deliver robust earnings growth. We see potential dips as opportunities to gradually increase exposure in our TRIOs.

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