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AIP

13th October 2025

The make-or-break earnings season

The US Q3 earnings season comes at an opportune time. Investor positioning and valuations in US equities are stretched after global equities scaled record highs. The USD has bounced 3% after hitting a 3-1/2-year low in September thanks to the continued government shutdown and renewed political and policy uncertainty in France and Japan. Meanwhile, the gold rally has accelerated in recent weeks, with the precious metal crossing USD 4,000/oz for the first time, amid renewed concerns about fiat currencies due to increasing dominance of fiscal policy across Developed Markets. US earnings are expected to beat expectations again on the back of the AI-driven investment wave, sustaining the equity rally over the next 6-12 months. Nevertheless, this global set-up warrants a diversified allocation across asset classes and regions, with hedges. Gold, while facing a near-term road bump due to one-sided (bullish) positioning, remains a key portfolio hedge.

Equities

What is expected from the US Q3 earnings season? Do you expect curbs on the export of semiconductor equipment to China to impact the US technology sector?

Robust earnings growth should drive US equities higher over the next 6-12 months, including preferred sectors of technology, communication services and healthcare. Further export restrictions would likely lead to volatility in the US technology sector, but growth should remain intact, driven by AI investments in the US.

Bonds

G3 government bonds have experienced yield curve steepening over the past week. What were the drivers and what is the near-term outlook?

G3 government bond yields (US, Europe, and Japan) rose over the past week amid the US government shutdown and political and policy uncertainty in Japan and France. The 5-to-7-year maturity bucket is in favour which offers a good balance between yields versus fiscal and inflation considerations. Investors can also consider adding French bank bonds on dips, as there is potential for recovery amid these challenges.

Currencies

Should continue adding to gold at current levels?

Gold is poised for a pullback in the near-term but continue to see positive long-term structural drivers. Investors who are over-allocated to gold may consider taking partial profits and rebalancing their portfolios. For investors who are under-allocated, wait for a pullback towards USD 3,850 before gradually building positions. Meanwhile, AUD/USD may edge higher towards resistance at 0.67, given higher commodity prices, a softer USD outlook and a more hawkish RBA policy versus the Fed.

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