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AIP

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The case for lower Fed rates

US job creation ground to a halt in Q4 2025 and core inflation settled at a four-year low. Meanwhile, the US probe against Fed Chair Powell and President Trump's plans to revamp the Fed Board highlight growing pressure on the Fed to ease policy with 75bps of Fed rate cuts this year, adding downside risks for the USD. There is an opportunity to lock in yields on high quality 5-7-year USD bonds and short duration high yield debt. An oil shock, potentially from any escalation in Iran, is a key risk to this outlook. Hedge the risks through gold and gold mining equities, US inflation-protected bonds and by turning bearish on USD/CAD. A Supreme Court decision to strike down President Trump's tariffs or Fed Board member Cook's challenge against Trump's decision to fire her are other risks, especially to longer-maturity bonds, although the president is likely to use other means to reimpose some tariffs, if necessary.

Equities:

The US financial sector is poised for healthy earnings growth and remains a core holding for us. Existing investors should retain their holdings, while those under-allocated to US financials can use the current pullback to build their exposure in tranches. Interest rate caps seem unlikely, given the current lack of support in Congress.

Bonds & FX

Volatility in US government bonds is likely to persist. Avoid long-tenor bonds and believe a bond portfolio with 5–7-year maturity offers the best balance between the positives from short-end rate cuts and longer-tenor interest rate volatility. The USD remains glued to the US 10-year government bond yield for direction. Expect the USD to remain rangebound around 98.6-99.6 until a new catalyst provides direction.

FX

USD/CNH downside is likely limited. There is a growing resistance to a strong currency from China's authorities, as the country relies on exports to support growth and sees limited benefit from a strong currency for imports. Technically, USD/CNH looks heavily oversold, with near-term support zone at 6.94-6.95.

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