

The Way We See It

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Goji Consulting Limited

enquiry@goji-consulting.com

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U.S. STAGFLATION appears confirmed by the Fed's Chairman: How well will they actually navigate in this volatile and tumultuous phase?

A brief update report which serves to review the recent market development and to offer our outlook for the rest of the year and beyond.

Review of Developments

- Global Economies

Recent estimates from the Atlanta Federal Reserve indicate that the U.S. economy is expanding at an annualised rate of 3.5% in Q3, a marked acceleration from the 1.3% growth recorded in the first half of the year. This momentum is underpinned by resilient consumer demand, a rebound in net exports, and a surge in capital investment—particularly within the technology sector. However, this robust performance contrasts with softer labour market data, notably subdued non-farm payroll figures through July.

Despite the rebound, a Bloomberg survey reveals that roughly one-third of economists still anticipate a mild recession within the next year. GOJI's base case remains more constructive, favouring a soft-landing scenario characterised by moderate yet sustained growth. This outlook hinges on proactive intervention

from both monetary and fiscal authorities to preserve macroeconomic stability.

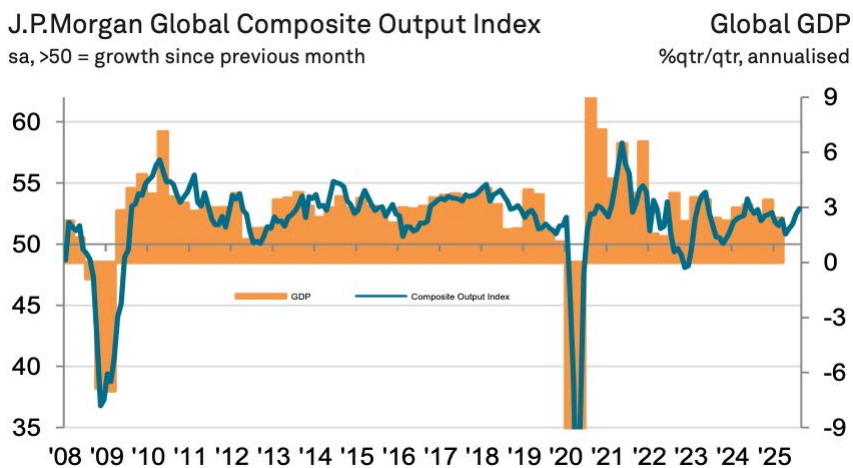
Outside the U.S., economic activity across major developed markets remains tepid. While Q3 data is pending, anecdotal evidence from Europe and Japan suggests continued sluggishness, particularly in export-reliant industries. Uncertainty surrounding the Trump administration's tariff regime continues to weigh on sentiment and profitability.

China, once expected to offset global weakness, is now showing signs of deceleration. Partial indicators point to softer consumption and investment, with private forecasts suggesting a slowdown in year-on-year GDP growth from 5.2% in June to approximately 4.5% in Q3. This reflects a more cautious domestic outlook and adds to the broader narrative of global economic fragility.

Inflationary pressures have eased across OECD economies, with most central banks nearing the end of their rate-cutting cycles. In the U.S., core inflation—measured by the PCE deflator—has moderated to around 3%, still above the Federal Reserve's 2% target. While the Fed's chairman at Jackson Hole put more emphasis on the weaker jobs data, the GOJI team believes that it could be a very risky decision to play down rising inflationary pressures in the US economy.

GOJI's base case remains: we anticipate a soft-landing scenario - subdued but stable growth.

J.P.Morgan Global Composite PMI™



Source: J.P.Morgan, S&P Global Market Intelligence

Fed fund futures are pricing in an almost 100% certainty of a 25bps rate cut in September. The question is whether the Fed may panic and cut by 50bps.

Further complicating the macroeconomic backdrop, President Trump has unveiled a sweeping tariff framework targeting a wide array of trading partners. The new regime imposes average tariffs of 15% on OECD countries and 20% on emerging markets. These measures are likely to suppress global growth and elevate U.S. consumer prices, functioning effectively as a consumption tax. For investors, this implies potential margin pressure in consumer-facing sectors and heightened volatility in trade-sensitive assets.

Geopolitical risks remain elevated, with ongoing conflicts in Ukraine and Gaza continuing to disrupt regional stability. These developments underscore the importance of integrating geopolitical risk into portfolio construction.

In summary, the global economic environment remains fluid and below long-term potential. GOJI advocates a disciplined investment approach anchored in diversification, tactical positioning, and a keen sensitivity to macroeconomic inflection points. While risks persist, opportunities remain for investors prepared to adapt with agility and foresight.

- Global Markets – review of August

Global financial markets in August continued to reflect a nuanced balance between optimism and caution. The V-shaped recovery in U.S. equities, which gained momentum through Q2 and July, extended into August, supported by sustained investor enthusiasm for mega-cap technology stocks—particularly the “Magnificent Seven.” This rally was fuelled by growing confidence in artificial intelligence as a transformative force across industries, alongside expectations of a 25bps rate cut by the Federal Reserve in September.

Market expects 25bps rate cut by the Fed in September.

Equities outside the United States also posted improved returns, aided by a weaker U.S. dollar. The market has largely absorbed the impact of the recently imposed 15% U.S. tariff on European goods, with investor sentiment remaining resilient.

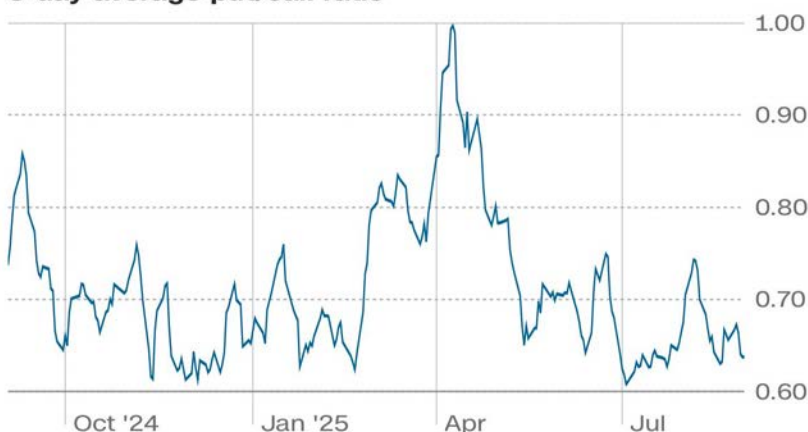
On the constructive side, the AI-led growth narrative continues to underpin upward revisions to global economic and corporate earnings forecasts. There is increasing conviction that monetary policy across the U.S. and other OECD economies will remain broadly accommodative. Concurrently, fiscal support measures—both domestic and international—are expected to persist. In response to U.S. trade actions, both Europe and China have implemented expansionary monetary and fiscal policies aimed at mitigating the economic fallout, which may help stabilise broader macroeconomic conditions.

However, concerns regarding the sustainability of the recent equity rally are beginning to surface. A substantial portion of the S&P 500's 29% rebound from its April trough to August's record high has been attributed to retail-driven momentum, short-covering by hedge funds, and algorithmic buying from trend-following CTAs. The limited participation from institutional investors raises questions about the durability of the rally, particularly in light of persistent recessionary and stagflationary risks in the U.S. economy.

Concerns about the sustainability of the recent stock market rally are emerging.

Put and Call Options – Extreme Greed

5-day average put/call ratio



Last updated Aug 29 at 5:14:24 PM EDT

Near-term performance of various asset classes

Asset Class Index	US Equities MSCI USA	Global Equities MSCI World	Global ex US Equities MSCI World ex USD
1 month	1.96%	2.64%	4.42%
3 months	9.66%	8.50%	5.62%
YTD	10.90%	14.12%	23.25%
FY 2024	25.08%	19.19%	5.26%

Asset Class Index	US Corporate Bloomberg US Corporate	US Treasury Bloomberg US Treasury	US Aggregate Bloomberg US Agg
1 month	1.01%	1.06%	1.20%
3 months	2.97%	1.92%	2.48%
YTD	5.30%	4.48%	4.99%
FY 2024	2.13%	0.58%	1.25%

Asset Class Index	Global Govt Bonds Bloomberg Global TSY	Global Aggregate Bloomberg Global Agg	GEM Equities MSCI EM
1 month	1.41%	1.45%	1.47%
3 months	1.11%	1.84%	9.87%
YTD	6.85%	7.21%	19.63%
FY 2024	-3.58%	-1.69%	8.05%

Asset Class Index	Asia ex Japan Equities MSCI AC AxJ	China A MSCI China A Onshore	China Offshore MSCI China
1 month	1.29%	12.82%	4.94%
3 months	10.40%	22.75%	14.14%
YTD	19.33%	21.99%	29.23%
FY 2024	12.51%	11.91%	19.67%

Asset Class Index	Global Commodities CBR	Gold Spot Price	USD Norm. Broad USD Index
1 month	0.86%	4.60%	-1.23%
3 months	4.10%	5.28%	-1.24%
YTD	1.90%	32.25%	-6.86%
FY 2024	12.47%	26.49%	9.03%

Source: GOJI, MSCI, Bloomberg; data as of 31/8/2025

From a performance perspective, global equities (in USD terms) rose by 2.6% in August. U.S. stocks gained 2%, while developed markets outside the U.S. outperformed, advancing by 4.4%. Emerging markets posted a more modest gain of 1.4%, led by China, which rose 4.9%.

Fixed income markets also delivered positive returns. U.S. Treasuries appreciated by 1.1%, and global bonds rose by 1.4% in USD terms, supported by the weaker dollar. The dollar's decline was largely driven by Federal Reserve Chair Jay Powell's more dovish tone at the Jackson Hole symposium.

Commodities experienced modest gains, with oil prices rebounding due to supply-side constraints and heightened geopolitical tensions.

Gold hit a record high (and at the time of writing, it further broke the August-end high). Market expectation of a loose Fiscal and Monetary policies force investors to hide in Gold.

Gold hit a record high (and again at the time of writing).

GOLD: Moving Averages



Source: Topdown Charts, LSEG

GOLD: 200d MA sets the trend; 50d MA shows turning points.

In summary, August delivered constructive returns across several asset classes. However, the broader investment environment remains fluid, shaped by evolving policy decisions, trade dynamics, and macroeconomic indicators. Investors should maintain a disciplined approach, with strategic asset allocation and robust risk management frameworks essential to navigating the current landscape.

Market Outlook of H2 2025

GOJI's outlook for the second half of 2025 remains modestly constructive, albeit more restrained than the prevailing consensus. While select tailwinds support a cautiously optimistic stance, the investment landscape is increasingly shaped by macroeconomic fragility, policy uncertainty, and valuation pressures.

Our investment framework continues to be grounded in a multi-dimensional analysis of macroeconomic indicators, corporate earnings trajectories, asset valuations, investor sentiment, capital flows, and technical chart dynamics. This holistic approach informs our strategic positioning and risk-adjusted expectations across asset classes.

Outside the United States, the macroeconomic backdrop is expected to remain broadly supportive, assuming no further escalation in U.S. trade policy—particularly in the form of additional tariff measures.

Both Europe and China have introduced expansionary fiscal and monetary policies aimed at stabilising growth and mitigating the adverse effects of U.S. tariffs. These efforts may help preserve economic momentum, though structural headwinds remain, particularly in export-dependent sectors.

Within the U.S., investor concerns are intensifying around a potential stagflationary scenario—marked by slowing growth and persistent inflation. Several factors underpin this outlook: the lingering impact of tariff conflicts, labour market disruptions linked to the DOGE initiative, tighter immigration enforcement, and emerging signs of weakness in private sector employment. Although sentiment has improved following the finalisation of President Trump's tariff framework and the passage of the "One Big Beautiful Bill"—a marginally growth-supportive fiscal package—inflationary pressures are becoming more entrenched.

The delicate question remains whether the Fed would be perceived as misstepping should it cut rates in both September and December, given the backdrop of rising inflation. The central bank's policy path will be closely scrutinised, with implications for both fixed income and equity markets.

Global GDP growth is projected to remain below its long-term trend, weighed down by persistent trade tensions and uneven recovery trajectories across key economies. Europe's monetary easing cycle appears to be nearing its conclusion, while China's policy stance remains accommodative. In the U.S., further monetary easing in Q4 remains plausible, particularly if economic data deteriorates. Such measures could help sustain liquidity conditions and bolster investor confidence.

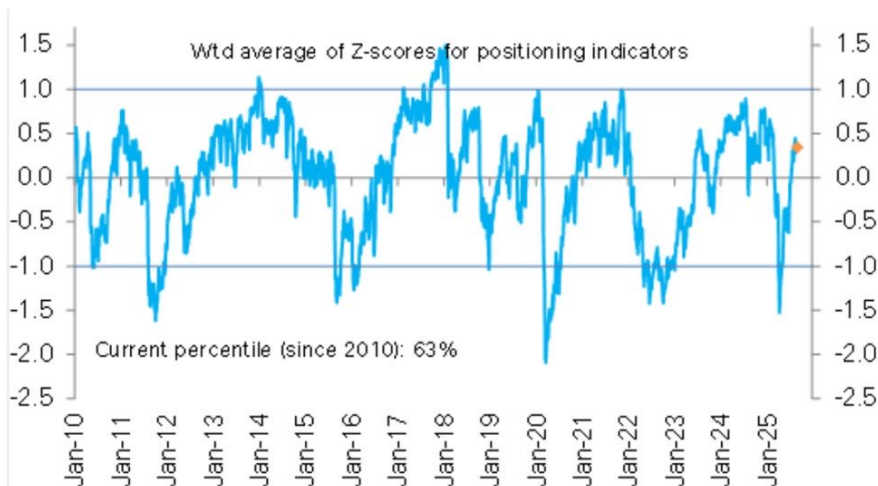
Corporate earnings are expected to remain broadly resilient, though risks are building amid trade disruptions and potential U.S. economic deceleration. Valuation pressures may intensify if macro uncertainty persists, particularly in sectors exposed to global supply chains. U.S. equities continue to trade at elevated levels, with the S&P 500's forward P/E ratio between 22x and 23x—well above historical norms.

Will Fed cut rates in both September and December?

Sustaining these valuations will require ongoing strength from high-growth technology leaders and a stable 10-year Treasury yield below 4.50%.

The U.S. bond market remains unsettled, shaped by technical and structural factors. GOJI recommends a selective approach to U.S. fixed income, favouring entry points near 5.00% yields where risk-adjusted returns are more compelling. Conversely, non-U.S. bond markets have seen significant yield compression, limiting upside unless recessionary risks escalate. Duration exposure should be managed prudently, given the current valuation backdrop and evolving rate environment.

Consolidated Equity Positioning



*Weights based on explanatory power in regression of equity performance on indicators

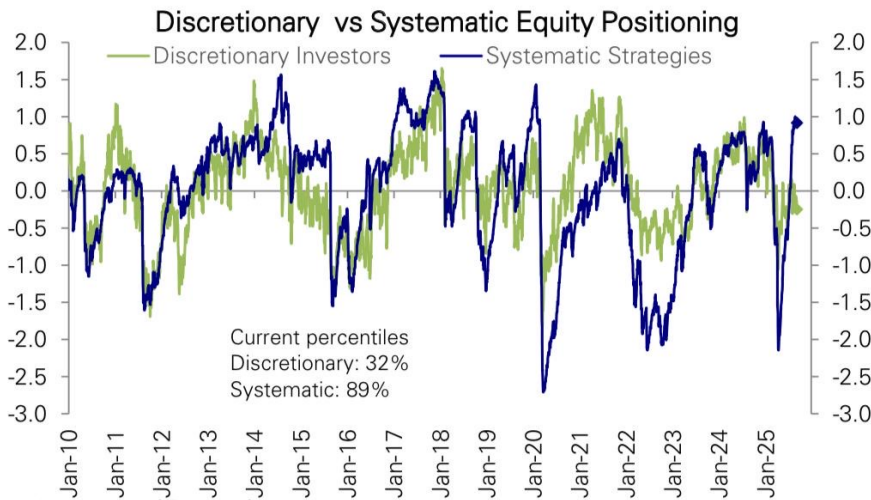
Source: Deutsche Bank Asset Allocation

Recent positioning data as of early September reveals a divergence in investor behaviour. Systematic strategies have continued to accumulate equities, with positioning nearing maximum overweight levels. These strategies—driven by momentum and volatility signals—remain aggressive despite valuation concerns.

Discretionary managers have adopted a cautious stance amid elevated equity valuations, Federal Reserve indecision, and uncertainty over tariff impacts on margins. With rising ambiguity around cost burdens, active positioning has shifted to neutral, reflecting defensive sentiment in response to growing macroeconomic and policy risks.

Discretionary managers has shifted active position to neutral.

Discretionary vs Systematic Equity Positioning



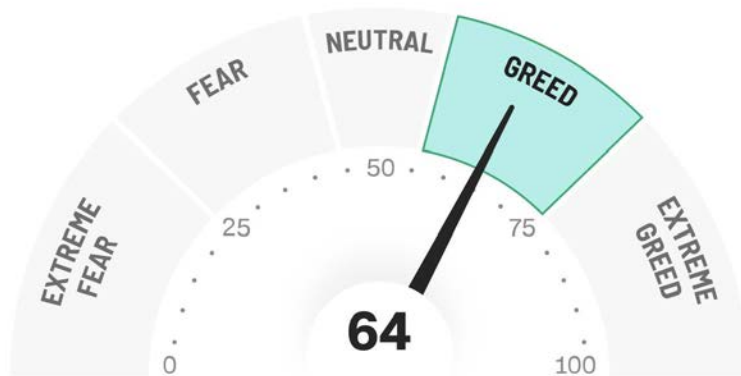
Source: Deutsche Bank Asset Allocation

Investor sentiment remained complacently bullish throughout August, buoyed by strong earnings from NVDA and other Magnificent Seven constituents, as well as a prevailing belief that Chair Powell will successfully persuade the Fed Board to cut rates in September.

Investor sentiment continued to be complacently bullish.

Fear & Greed Index

- What emotion is driving the market now?



Source: CNN Business
Last update September 1 at 8:00:00 PM ET

The CNN Fear & Greed Index currently resides in the "Greedy" zone. July's rally pushed sentiment into "Extreme Greed" territory, but the subsequent moderation reflects a bullish yet more balanced investor outlook.

Short-term Technical Analysis

U.S. equity indices—including the Dow Jones, Nasdaq, and S&P 500—continue to exhibit strong long-term momentum, trading well above their 50- and 200-day moving averages. This bullish trend, initiated by Golden Cross formations in late 2023, has propelled the S&P 500 and Nasdaq to multiple record highs, supported by robust corporate buybacks and steady inflows from retail and systematic strategies.

Systematic investors, guided by momentum and volatility signals, have maintained aggressive buying into August, nearing peak overweight levels and driving recent market strength. In contrast, discretionary managers have turned more defensive, citing high valuations, macroeconomic uncertainty, and unclear effects of U.S. tariffs on earnings. Their neutral to slight overweight positioning reflects a more cautious approach amid growing concerns about the sustainability of elevated equity valuations.

S&P 500 Stock Price Index



Source: MarketWatch.com

The Federal Reserve's reluctance to pivot policy amidst stagflationary risks further complicates the investment landscape. As discretionary investors weigh valuation risks against policy inertia, the divergence in positioning underscores the importance of disciplined risk management and tactical flexibility in navigating short-term market dynamics.

While technical conditions remain favourable and corporate earnings broadly resilient, the path forward is likely to be uneven. Navigating this environment will require agility, discipline, and a willingness to adapt to shifting market dynamics.

The Way We See It

- Global Markets and Investment Thematics

At GOJI, our investment framework is built on a dual approach—balancing short-term tactical agility with long-term strategic discipline. We distinguish between tactical positioning (3–6 months) and strategic allocation (1–2 years), allowing us to navigate evolving market dynamics with precision.

Long-Term Risk-Neutral Strategy Rationale

Despite ongoing uncertainty surrounding U.S. trade policy under Trump's second term, we believe that both fundamental and quantitative investors have largely priced in tariff-related risks. Markets appear to be operating under a best-case scenario assumption, favouring pro-growth, pro-equity, and pro-digital asset policies. In this context, our long-term stance remains risk-neutral. We recommend a modest underweight in high-beta growth assets, given elevated valuations and volatility. Instead, we favour an overweight allocation to cash and high-quality, stable assets to preserve capital and maintain flexibility amid policy unpredictability.

Tactical positioning turns cautiously balanced for Q4

GOJI's tactical asset allocation (TAA) view for Q4 remains cautiously balanced. While macroeconomic indicators appear broadly constructive and policy settings are expected to remain accommodative, underlying risks warrant a more measured approach. U.S. growth continues, albeit unevenly, with strength in technology and government-supported sectors offsetting weakness in tariff-exposed and interest-sensitive industries. Corporate earnings outlooks are mixed, with AI and Tech likely to outperform, while

GOJI's TAA: we have turned “cautiously balanced” for Q4.

other sectors may deliver downside surprises. Financial markets have priced in substantial optimism, leaving little room for error; any disappointment could trigger repricing across equities and bonds. Valuations in corporate credit, equities, and crypto are elevated, and investor positioning is already skewed towards expensive asset classes, particularly via algorithmic strategies. Technical indicators suggest overbought conditions, and sentiment remains bullish, supported by Q4's traditionally favourable seasonality. However, GOJI's stance is more nuanced than consensus. We believe that while upside remains possible, downside risks—such as a surprise recession or credit event—are underappreciated. As such, we advocate selective exposure, active risk management, and readiness to pivot should market conditions deteriorate.

Postscript

- Alternatives to USD as a Global Reserve Currency

For decades, the U.S. dollar has reigned supreme as the world's dominant reserve currency. Its liquidity, stability, and deep capital markets have made it the preferred medium for international trade and central bank reserves. However, growing geopolitical tensions, fiscal imbalances, and the rise of alternative financial systems have sparked global interest in diversifying away from the greenback. Could the world be on the cusp of a monetary transformation?

Euro and Renminbi: Viable Contenders?

The euro, backed by the European Union's robust economy and institutional framework, is often cited as the most credible alternative. It enjoys widespread usage in trade and finance, but political fragmentation and uneven fiscal discipline across member states limit its appeal as a universal reserve.

The Chinese renminbi (RMB), meanwhile, is gaining traction, especially among emerging markets and within China's growing sphere of influence. Its inclusion in the IMF's Special Drawing Rights basket signals rising legitimacy. Yet, concerns over capital controls, transparency, and limited convertibility hinder its full adoption.

**FX Reserves:
Alternative to a 100%
USD basket.**

Gold: A Timeless Store of Value

Gold has historically served as a monetary anchor, and its appeal as a hedge against inflation and currency debasement remains strong. However, logistical challenges—such as storage, transport, and lack of yield—make it impractical as a sole reserve currency. A return to the gold standard is unlikely, given the complexity of modern financial systems and the need for flexible monetary policy.

Bitcoin and Crypto: The Digital Frontier

Cryptocurrencies like Bitcoin offer decentralization, transparency, and resistance to censorship—qualities that appeal to those wary of fiat systems. Yet, extreme volatility, regulatory uncertainty, and scalability issues prevent crypto from serving as a stable reserve currency. While adoption is growing, especially in countries facing currency crises, crypto remains a speculative asset rather than a foundational monetary tool.

A Diversified Basket: The Pragmatic Path?

One intriguing proposal is a diversified reserve basket comprising:

- 50% USD Bills & Treasury bonds
- 30% Gold
- 12.5% Euro
- 5% Reminbi
- 2.5% Crypto (Ethereum, Bitcoin)

Such a basket could balance risk, reflect a multipolar economic reality, and reduce dependence on any single currency. While implementation would require global consensus and infrastructure overhaul, it represents a forward-looking compromise between tradition and innovation. The acceptance of such combination remains to be seen though, especially when crypto is involved.

Conclusion

The dollar's dominance is being challenged, but no single alternative yet matches its liquidity, trust, and institutional depth. A hybrid model—combining traditional assets with emerging ones—may be the most realistic path toward a more balanced and resilient global reserve system. Whether the world embraces such a shift remains to be seen, but the conversation is no longer hypothetical—it's already underway.

GOJI CONSULTING LIMITED



Level 34, Tower One, Times Square
1 Matheson Street, Causeway Bay, Hong Kong



www.goji-consulting.com



enquiry@goji-consulting.com



+852 3951 0359

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