

SCA REPORT 3Q 2025

Markets

<i>Asian Markets (local currency)</i>	<i>3Q 2025 % Chg</i>	<i>YTD 2025 % Chg</i>	<i>Other Markets</i>	<i>3Q 2025 % Chg</i>	<i>YTD 2025 % Chg</i>
Korea	11.5%	42.7%	Gold	16.8%	47.0%
MSCI China	19.0%	38.9%	Bitcoin	6.5%	22.3%
Hong Kong	11.6%	33.9%	Brazil	5.3%	21.6%
Vietnam	20.8%	31.2%	DAX	-0.1%	19.9%
MSCI Asia ex Jap	9.1%	22.8%	Nasdaq	11.2%	17.3%
MSCI Asia Pacific	8.5%	21.5%	MSCI World Index	7.3%	17.1%
CSI 300 (A-shrs)	17.9%	17.9%	FTSE	6.7%	14.4%
Indonesia	16.4%	13.9%	S&P 500	7.8%	13.7%
Singapore	8.5%	13.5%	Russell 3000	7.8%	13.3%
Japan Topix	10.0%	12.7%	EuroStoxx 50	4.3%	12.9%
Taiwan	16.0%	12.1%	MSCI Europe	3.2%	9.8%
Australia	3.6%	8.5%	Dow Jones	5.2%	9.1%
India (Nifty)	-3.6%	4.1%			
Malaysia	5.1%	-1.9%			
Philippines	-6.5%	-8.8%			
Thailand	16.9%	-9.0%			

Commentary

3Q25 saw most markets significantly up, with AI driving the bull market. Whether it relates to consumers, software, hardware, infrastructure, or energy, any news on AI seems to be good news, sending share prices up.

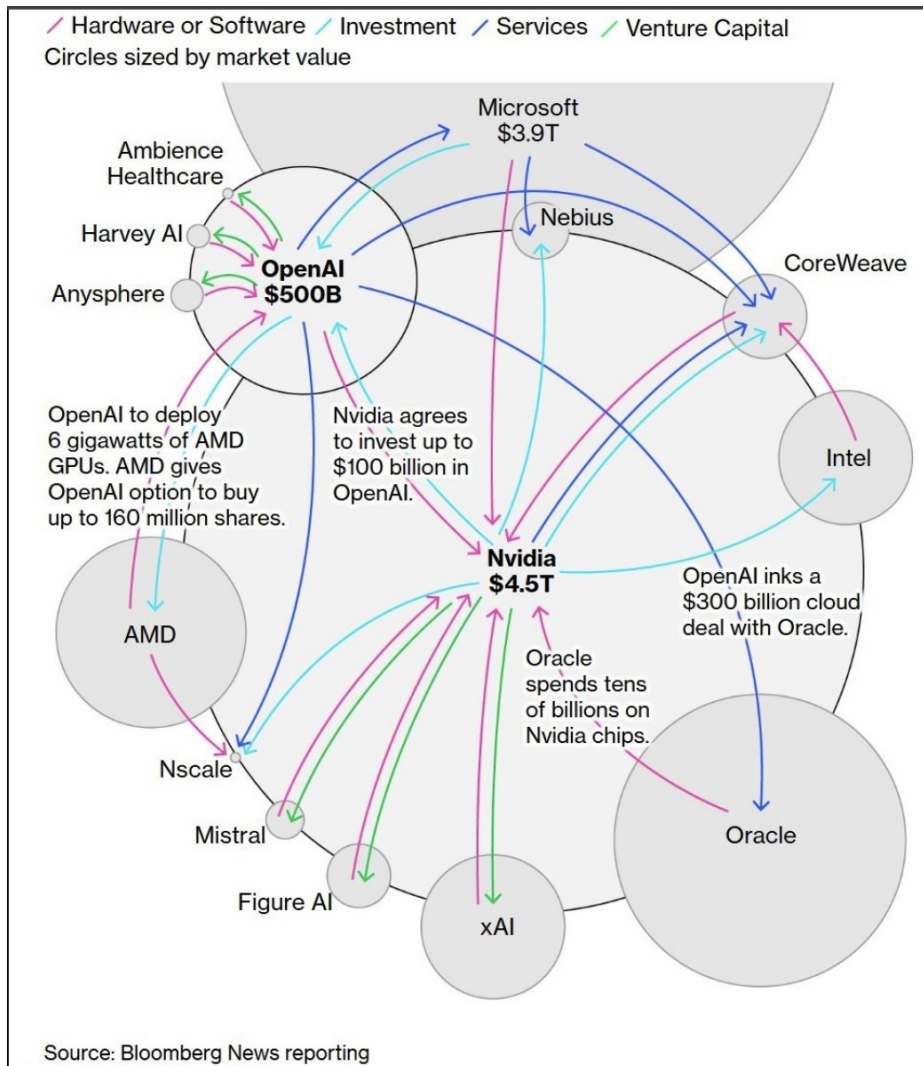
In Asia, tech heavy indices like Korea and Taiwan jumped 11% and 16% in 3Q. HK/China also jumped on hopes of trade resolutions. Daily trading volume in China has increased 50% to \$350B per day. As mentioned in previous commentaries, our view remains US-China will seek a “grand deal” incorporating trade, TikTok, rare earths, etc. Trump was hinting at such outcome, with ultimately a meeting between himself and Xi at APEC in Korea. The Chinese press has been quieter, not forecasting as much optimism before if and when it really happens. As we write this quarterly, Trump just tweeted 100% tariffs in response to China re-curbng rare earths materials.

The AI story in China is generating increasing interest. DeepSeek first made its splash earlier this year, while other Chinese techs have followed with strong results and/or large capital commitments. Alibaba demonstrated success with Qwen and recently announced \$53B capex commitment over next three years. Baidu has already spent \$23B and will commit 15% of its future revenues to AI capex.

It is important to note the AI dichotomy between US vs China. Given geopolitics, the sector is developing on two separate planes since neither side trusts the other. The Chinese are focused on applying AI to everything, especially day to day stuff (arguably simpler and more practical applications) like consumer apps, robots, etc. On robotics, there are now more robots working in China than the rest of the world combined. Last year, Chinese factories installed 300,000 plus robots, again more than the rest of the world (US factories only installed 30,000+ or one-tenth of China). Given its shrinking population, Beijing is keen to develop robotic labour.

The US model seems more focused on pursuing AGI, general or human-like intelligence. Most of American AI is propriety, while China is all open source. This could mean majority of the world is more likely to use Chinese models. OpenAI has responded by launching a stripped-back open source model of its own, while Gemma (Google) is open sourced and Llama (Meta) is quasi-open sourced.

We continue to be blown away by the sheer sizes of deal and capital commitments to AI. Is it out of control and bubble-esque? A key measurement is return on investment (ROI). Most presentations we have seen predict ROI or profitability of new models from 6 months to over 18 months – simpler LLMs have faster/lower ROI, complex LLMs have longer/higher ROI. The bigger and more complex the model, the higher the potential, hence this cycle of reinvestment gets bigger and bigger. In China, spending by players Alibaba, Tencent, Baidu and JD will exceed \$32B this year. The numbers are even greater in the US (in pursuit of AGI) and increasingly circular in nature. See diagram below:



Moving away from tech, the economic view becomes a bit more sober. US employment and GDP growth are not nearly as robust as six months ago, hence the Fed has started lowering rates. Closer to home, Chinese youth unemployment hit an all-time high in Aug. China CPI dropped by 0.4% YoY in Aug, marking the fifth instance of consumer deflation this year and the sharpest drop since February. This decline in prices is primarily driven by decreases in food prices and ongoing weak consumer demand.

India's economy is experiencing a slowdown in annual GDP growth rate compared to recent years, even though it remains robust by global standards. GDP growth 2025 is estimated at 6.5%, down sharply from 9.2% in the previous year. Trump's tariffs doesn't help and AI takes away business from India's software coding and BPO sectors.

Japan will see its first female prime minister, Sanae Takaichi. Describing herself as Japan's Margaret Thatcher, she is a follower of the late Prime Minister Abe. She is economically hawkish and holds conservative social views. We would assume she tilts towards US over China.

ASEAN markets have done poorly year-to-date as countries in the region continue to face political instability and in-fighting. Vietnam is the lone bright spot as its communist/authoritarian government and business community move in sync, which reminds us of China 25 years ago. Vietnam continues to take market share in exports and lower-end manufacturing. We are optimistic it can make the jump from frontier to emerging market status, and develop a true middle class in the next decade.

Portfolio

Sep saw continued extension of the bull market. Our global book was up 7% in Sep and 27% YTD. Asia ex Japan/India was up 11% (29% YTD). Pan-Asia book was up 8% in Sep (35% YTD). China book was up 6% (YTD 32%) but was our only underperformer (vs MSCI China of 38%) as we found difficulty to keep up with big rallies in the big Chinese tech, especially when benchmark heavyweights like Alibaba jump 50% in a month.

Of course, there are always cracks the market. The Gold rally shows very large bets hedging against the market and dollar. One can easily question whether S&P500 and Nasdaq deserve to be at all-time highs. Our Aug visit to China saw continued weakness in consumption and you could still feel the deflation. On the credit side, there are more defaults, but not so much to shake the market. BDC share prices are trading down, and the private credit funds NAVs are also being marked slightly down. Real estate seems to be generating better interest as rates continue to fall. Crypto is a big winner, very much supported by Trump and disillusionment of how so many governments mis-manage their economies and currencies. As rates fall, cash will accelerate its need to find a new home, supporting what seems to a very deep well of liquidity.

Miscellaneous

Summer passed too quickly. I feel I've been nonstop travelling this quarter, having already renewed my airline "diamond status" two months earlier than the annual expiry. All the time on airplanes and inside airport lounges afforded lots of time to read.

Everywhere I go, two questions I am always asked are: What do you think of China? And what do you think of AI?

On the former, the books I liked and gave readers different "flavors" of China were:

- House of Huawei by Eva Dou
- Breakneck: China's Quest to Engineer the Future by Dan Wang
- The New China Playbook, Beyond Socialism and Capitalism by Keyu Jin

On the latter, I fully admit I am an amateur when it comes to AI, but I enjoyed reading:

- Thinking Machine: Jensen Huang, Nvidia and the World's Most Coveted Microchip by Stephen Witt
- The Coming Wave by Mustafa Suleyman
- Genius Makers by Cade Metz

Lastly, I just picked up The Man who be King: MBS and the Transformation of Saudi Arabia. I know very little about the Gulf and am curious to learn more. My goal is more books, less streaming, less social media, and to improve that ever-slowng-LLM above my shoulders by decreasing the A and adding a little more I.