



CIO LETTER 2026

Enjoying the View,
Checking the Parachute

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Dear Investor,

It feels good to look at a portfolio in the green.

If you have maintained your exposure to the US and Chinese stock markets, you are likely sitting on substantial gains. You have outperformed the sceptics and the doom-mongers.

We are currently enjoying a historic ride. To put the magnitude of the US bull market into perspective: In the depths of the Global Financial Crisis in March 2009, the S&P 500 bottomed at an intraday low of 666 on 6 March 2009 and surpassed the 10x mark in September 2025. That is a return averaging over 15.5% per year.

However, as a Chief Investment Officer, my job is not just to celebrate the harvest, but to watch the weather for the next season. There is an old saying in our industry: *Markets move in cycles. Some just last longer than others.*

While we marvel at how AI is transforming the world; much like the railway boom of the 1840s, we must remember that human psychology remains unchanged. Greed and fear still drive the markets. And when we look at history, the data suggests we are entering a period that requires not just optimism, but careful preparation for what comes next.

1. The History of The 10x Club (And Why It Matters)

We do not believe we are definitely in a bubble. Usually, a bubble is only identified with certainty after it has already burst.

However, we simply cannot ignore the math. History shows us a fascinating, if slightly worrying, pattern: nearly every major asset class that has appreciated more than 10-fold eventually faces a harsh reality check.

Let's look at the Hall of Fame of past booms:

- Gold (1970–1980): Driven by fear of inflation, gold rose 24x. It then crashed 65% in just two years.
- Japanese Stocks (1980–1989): Japan was once the unstoppable economy. Its stock market rose 6x and banks 10x. When the music stopped, it fell more than 80% over the next few decades and entered what economists call the Lost Decade.
- The Dot-Com Boom (1990–2000): Tech stocks rose 15x. When the bubble burst, the Nasdaq fell 78%.
- Commodities & Oil (1998–2008): Driven by China's growth, oil and materials rose 12x, only to fall 75% in six months.
- The US Stock Market (2009–Present): We are now up more than 10x.

Does this mean a crash is happening tomorrow? No. In fact, the most explosive gains often happen in the final blow-off phase. We are staying on the train, but we are making sure our seatbelts are fastened tighter than usual.



2. What is the Smart Money Doing?

When in doubt, look to the masters. Warren Buffett is arguably the greatest investor of the last century. Since 1964, his company, Berkshire Hathaway, has grown approximately 20% per annum, twice the return of the US market.

So, what is the Oracle of Omaha doing right now? Is he buying into the rally? No. He is selling.

In our January 2025 letter, we noted that Buffett was holding a record US\$325 billion in cash. Today, that figure has swelled to over US\$380 billion.

To the layman, holding cash sounds boring. It feels like doing nothing. Cash is not a mattress to sleep on; it is a weapon. Buffett knows that he doesn't know what the future holds. He possesses a critical self-awareness that prevents him from investing outside his circle of competence.

- In late 1960s and early 1970s, he sat on cash while the market soared as he couldn't find any more cheap stocks. He looked foolish. Then the market crashed and he bought legendary American companies for pennies on the dollar.
- In the late 1990s, he also looked foolish amidst the dot-com bubble. However, he bought old economy stocks like Benjamin Moore Paint, Shaw Industries (carpet), MidAmerican Energy, Justin Industries (brick), and Johns Manville (insulation and roofing). Needless to say, he was prescient following the dot-com bubble peaked in March 2001.

- In 2008, while banks were collapsing, he used his cash to rescue giants like Goldman Sachs and General Electric, securing deals that earned him billions.

As Buffett famously said, *"We believe in having cash-there have been a few times in history and there will be more times in history, where if you don't have it, you don't get to play the next day."*

We believe we are approaching one of those times.

The Japanese Masterclass Buffett isn't just sitting on cash; he is finding value where others aren't looking. In 2020, he invested heavily in Japan's Sogo Shosha (trading houses), which has enabled the island nation with little natural resources of its own, to grow and thrive.

Here is the genius of the investment: He didn't use his own US dollars. He borrowed Japanese Yen at incredibly low interest rates (around 0.6%) to buy Japanese companies paying high dividends (around 2% or more).

The dividends paid off the interest on the loan, leaving him with a free profit stream. This is a classic example of arbitrage. While the world chased high-flying tech stocks, Buffett secured a boring, reliable and very profitable trade in Japan. Singapore, like Japan, is an island nation with no natural resources of its own. It is powered by high-quality companies that provide essential services and reliable dividends of 4 to 5%, as exemplified by the stalwarts in our **Phillip SING Income ETF**. The Singapore 10 Year Bond yield is 2.3%. Go figure.



3. The Elephant in the Room: The Global Debt Trap

Why the caution when the US stock market looks so optimistic? The answer lies in the plumbing of the global financial system: Debt.

Global debt has hit a staggering US\$350 trillion. The US debt-to-GDP ratio has exploded from 35% in 1980 to more than 120% today. To keep this system afloat, governments often resort to the printing press.

Fed Chair Jerome Powell have called this path "unprecedented." But the real question for you, the investor, is: Who pays for this?

In a fiat money system (where money is not backed by gold), the government has a magic trick. As former Fed Chair Ben Bernanke bluntly stated in 2002: "*The U.S. government has a technology, called a printing press... that allows it to produce as many U.S. dollars as it wishes at no cost.*"

Governments cannot afford to let the economy deflate, because that makes debt harder to pay off. They cannot afford to play fair. They will likely choose to inflate away the debt. By printing more money, they dilute the value of the money in your pocket.

This means that politics now matters more than finance. In a free market, prices are set by supply and demand. In a debt-ridden world, prices are set by government policy. This makes investing complicated, but it clarifies our strategy: We need assets that governments cannot print, such as gold, silver and copper (which are critical in the transition to the green economy).

4. Our Strategy: Participating in the Boom, Preparing for the Bust

Given this backdrop, high stock prices, high debt and political uncertainty – how are we positioning your portfolio? We are focusing on three pillars: Hard Assets, Resilient Income and Contrarian Growth.

A. Gold: The Anti-Fiat Insurance

In our January letter, we predicted gold would continue to shine in 2025. Since then, gold has appreciated by more than 60%.

Gold is not just jewellery; it is a currency that no government can debase. It has been a store of value for 5,000 years.

- In 1900, gold was pegged at US\$20.67 per ounce.
- In 1934, it was repegged to US\$35 per ounce, which lasted till 1971.
- Today, it is setting records.

The biggest buyers of gold right now are not individuals, but Central Banks, notably China, India, Poland, Turkey etc. Today, gold comprised roughly 25% of global central bank reserves, overtaking the Euro.

Why Physical Gold? Investors are increasingly asking for their gold to be vaulted in safe jurisdictions like Singapore. History reminds us why. In 1933, under President Roosevelt, the US government seized citizens' gold to fix the banking crisis.



The UK and Australia had similar restrictions in the past. While unlikely to happen again soon, the lesson is clear: in times of crisis, possession matters. We continue to hold gold as your ultimate insurance policy.

B. Income: Getting Paid to Wait

The era of zero interest rates has concluded. This shift, while challenging for borrowers, presents a favourable environment for savers who have allocated us more than S\$5 billion for the following:

- Money Market Funds: Investors have allocated significant capital to our US and Singapore-dollar money market funds. The year-on-year return of our **Phillip US Dollar Money Market Fund** is currently around 4%, as of 29 December 2025, compared with 29 December 2024. For the first time in 15 years, we can earn a solid, low-risk return just by sitting on the sidelines.
- The Demographic Play (Singapore REITs and quality dividend ETFs): The world is ageing rapidly. In Singapore, one in five people is currently over 65. In five years, it will be one in four. What do retirees need? They don't need hot stocks; they need income. This demographic inevitability supports the case for Singapore REITs (Real Estate Investment Trusts) and quality dividend stocks. These assets offer 12-month dividend yields of approximately 5%, as of 29 Dec 2025.

We are buying high-quality real estate that pays us rent, providing stability to your portfolio, as well as potential for capital gains.

C. The Contrarian Play: China's Survivor Economy

Finally, we look where others fear. Many investors have deemed China uninvestable. We disagree. China is undergoing a K-Shaped economic transition.

- The Downward Arm: The Old Economy, encompassing real estate and massive infrastructure projects, is struggling. This is the segment of China generating the alarming headlines.
- The Upward Arm: The New Economy, led by AI (such as chip maker Cambricon which has risen to be among the top holdings in our **Phillip-China Universal MSCI China A 50 Connect ETF**), advanced manufacturing, green energy and electric vehicles (companies like CATL and BYD) is leading the way forward.

Just as in Japan in the 1990s, after the stock market bubble burst, Japanese global export-oriented champions like Toyota and Nintendo did well while the property and banking sectors continued to struggle. We believe China will produce global dominant players despite its internal real estate crisis.



Through the **Phillip-China Universal MSCI China A**

50 Connect ETF, investors will gain exposure to the winners (the AI and industrial leaders) at the expense of the losers (the real estate players and bloated banks). This is a contrarian bet, but the best opportunity is always found where the crowd is most fearful.

Since our Singapore launch of this ETF in 2024 around the bottom of the market, it has appreciated significantly and the best is yet to be. It is important to remember that the stock market's performance is often distinct from the broader economy.

Summary: The Road Ahead

The market is currently rewarding optimism. Your portfolio is growing and the stock markets have performed well.

However, we refuse to be complacent.

1. We are holding quality dividend assets because an ageing world needs income.
2. We are holding gold and hard commodities because governments are addicted to debt and money printing.
3. We are holding cash equivalents (money market funds) because getting paid 4% in US dollars to wait for a better entry point is a luxury we haven't had in decades.

We are enjoying the ride up, but we have packed a parachute. By balancing the growth of the US and Chinese stock market with the safety of gold and cash, we aim to ensure your wealth remains secure and well positioned for what comes next. Thank you for your continued trust in our stewardship. Happy New Year!

Yours sincerely,

Jeffrey Lee
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