

1ST QUARTER NEWSLETTER 2025



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 **OCTAVE**
ASSET MANAGEMENT

MESSAGE FROM THE CEO



AHIL MANSOOR

Chief Executive & Chief Investment Officer
Octave Asset Management

Dear Valued Clients,

In our last quarterly update, I shared my cautious stance on the global economic landscape, particularly regarding the looming impact of tariffs. At the time, the prevailing market sentiment was overwhelmingly bullish on U.S. equities, with many esteemed analysts championing the idea of "U.S. Exceptionalism." They argued that tariffs would not be implemented, inflation would subside, and a U.S. recession was nowhere in sight.

Fast forward three months, and the reality has unfolded quite differently, reaffirming our more measured outlook. Market dynamics have shifted significantly, and the optimism that dominated the discourse has been met with undeniable headwinds.

Given the current economic and geopolitical climate, we continue to advocate for a defensive approach. In particular, we recommend our clients steer clear of the auto sector, AI-related stocks, and logistics, as these industries face mounting challenges. Additionally, discretionary spending is likely to come under pressure, making defensive sectors a more prudent choice in the near term.

As a result of these evolving conditions, I am adjusting our year-end S&P 500 target to 5600 from 6000. However, this projection is highly contingent on the duration of ongoing tariff negotiations. The longer these discussions persist, the more adverse the impact will be on the market outlook.

On a more opportunistic note, I advise investors to consider local companies with minimal exposure to international revenues. Businesses that primarily operate within their domestic markets are better positioned to weather global trade uncertainties. A prime example of such a company is Luckin Coffee in China, which remains largely insulated from external economic disruptions. Also, local financials are a good place to be. They are currently being priced for a recession but I do see domestic financials like JP Morgan out of US, HDFC Bank out of India doing extremely well.

As always, our commitment remains to navigate these complexities with a disciplined, forward-thinking strategy. We appreciate your trust and will continue to provide insights that prioritize long-term stability and growth.

CONTENTS

US Tariff Imposition: Economic Risks and Strategic Retaliation	01
Global Market Valuations and Return on Equity Trends	10
China's Technological Advancements & Decline of American Exceptionalism	12
Gold as a Strategic Investment: 2025 Outlook, Demand Trends, and Reserve Positioning	15
Dubai Real Estate Unveiled: Navigating the Boom, History, and Strategy	17

US TARIFF IMPOSITION: ECONOMIC RISKS AND STRATEGIC RETALIATION

President Donald Trump has reignited trade tensions by imposing sweeping new tariffs, including a 10% baseline duty on all imports and reciprocal tariffs on 60 countries. President Donald Trump's aggressive tariff strategy, a cornerstone of his second-term economic policy, is built around three primary goals: reducing the substantial U.S. trade deficit, revitalizing domestic manufacturing sectors, and leveraging trade policy as a tool for advancing border security objectives. In 2024, the United States recorded a historic trade-in-goods deficit of USD1.2 trillion, experiencing significant imbalances particularly with China (USD295 bn), Mexico (USD172 bn), Vietnam (USD123 bn), Ireland (USD87 bn), and Germany (USD85 bn). Trump has highlighted these deficits as symptomatic of broader "unfair trade practices," such as China's alleged intellectual property (IP) violations, currency manipulation by Vietnam, inadequate border controls with Mexico and Canada, and restrictive market access from trading partners like India and the European Union.

\$1.2 T

The U.S. posted a record \$1.2 trillion goods trade deficit in 2024.

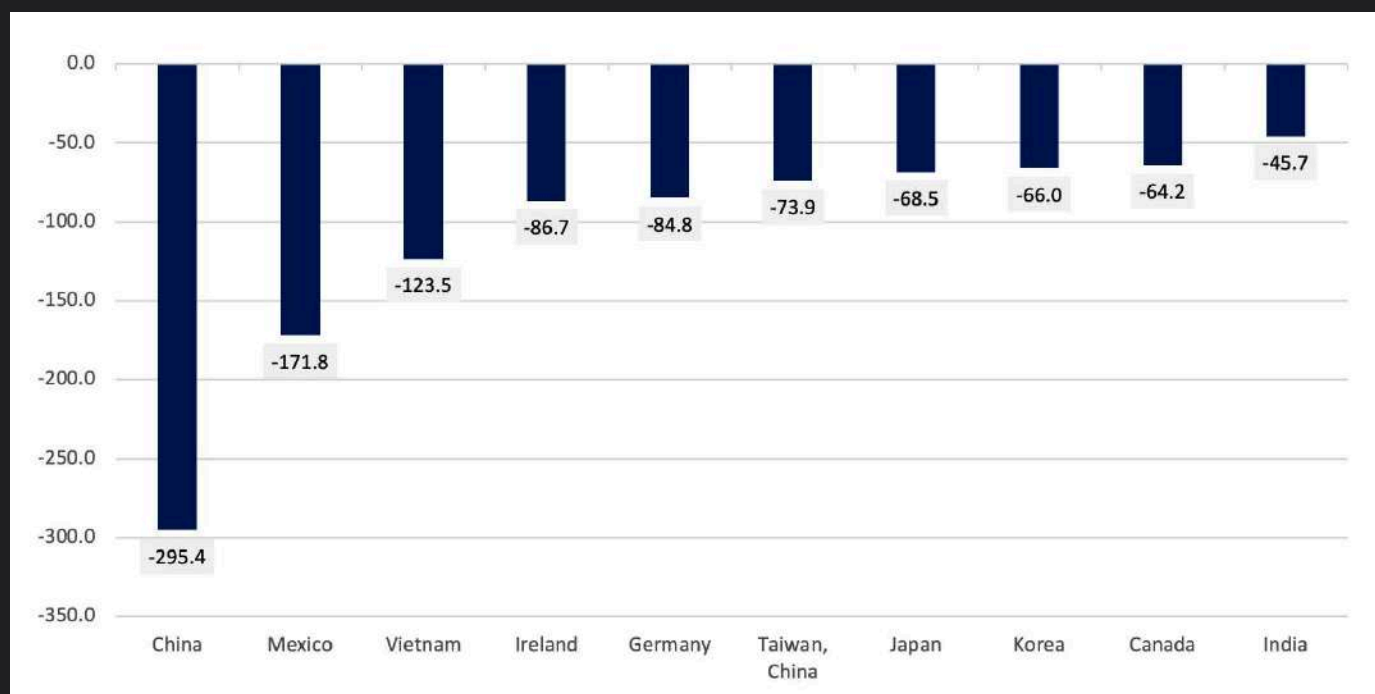
\$295 B

The trade deficit with China alone reached \$295 billion.

\$123 B

Vietnam accounted for a \$123 billion trade imbalance.

Chart 1: Countries with the Largest US Trade Deficits



Source: FactSet, OAM calculations

On April 2, 2025, President Donald Trump announced a comprehensive tariff strategy aimed at addressing trade imbalances and promoting domestic manufacturing. This policy introduced a universal 10% tariff on all imports, effective April 5, with higher "reciprocal" tariffs for specific countries based on their trade practices and deficits with the U.S., starting April 9. China faced a 34% tariff due to its significant trade surplus with the U.S. The European Union was subjected to a 20% tariff, while Vietnam encountered a 46% tariff. Other nations, including Japan, South Korea, and India, were also assigned elevated tariffs reflecting perceived trade disparities.

Canada and Mexico were largely exempt from these new tariffs, provided their exports complied with the United States-Mexico-Canada Agreement (USMCA), providing relief to sectors such as automotive manufacturing. This exemption aimed to maintain the integrity of existing North American trade relations.

The administration's rationale centered on rectifying longstanding trade deficits and encouraging the repatriation of manufacturing jobs. However, these measures sparked concerns among economists and international leaders about potential inflationary pressures, disruptions to global supply chains, and the onset of retaliatory actions from affected countries.

Tables of reciprocal tariff rates

Reciprocal Tariffs		
Country	Tariffs Charged to the U.S.A. Including Country Importation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

Reciprocal Tariffs		
Country	Tariffs Charged to the U.S.A. Including Country Importation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%
Nicaragua	36%	18%
Norway	30%	15%
Costa Rica	17%	10%
Jordan	40%	20%
Dominican Republic	10%	10%
United Arab Emirates	10%	10%
New Zealand	20%	10%
Argentina	10%	10%
Ecuador	12%	10%
Guatemala	10%	10%
Honduras	10%	10%
Madagascar	93%	47%
Myanmar (Burma)	88%	44%
Tunisia	55%	28%
Kazakhstan	54%	27%
Serbia	74%	37%
Egypt	10%	10%
Saudi Arabia	10%	10%
El Salvador	10%	10%
Côte d'Ivoire	41%	21%
Laos	95%	48%
Botswana	74%	37%
Trinidad and Tobago	12%	10%
Morocco	10%	10%

Source: The White House

- **UNIVERSAL 10% TARIFF IMPOSED:** Starting April 5, 2025, the U.S. imposed a 10% baseline tariff on all imports as part of a broader protectionist economic strategy.
- **RECIPROCAL TARIFFS TARGET KEY NATIONS:** Higher tariffs applied to countries with large trade surpluses: China (34%), EU (20%), Vietnam (46%), Japan, India, and South Korea also faced elevated rates.
- **MASSIVE \$1.2T TRADE DEFICIT:** In 2024, the U.S. recorded a \$1.2 trillion goods trade deficit, led by China (\$295.4B), Mexico (\$171.8B), and Vietnam (\$123.5B).



CHINA

China remains central to Trump's tariff strategy due to the U.S.'s \$296B trade deficit with China in 2024, up from \$10B in 1990. This imbalance stemmed from the U.S. outsourcing to China, which emerged as a global manufacturing hub after joining the WTO in 2001. The U.S. imposed escalating tariffs on Chinese goods, starting with 10% in February, rising to 20% in March, and adding another 34% in April, bringing the total tariff rate to a cumulative 54%. The aim was to reduce reliance on Chinese imports, revive domestic manufacturing, and address long-standing trade imbalances. China responded with a 34% blanket tariff effective April 10, along with earlier levies on coal, LNG, crude oil, and machinery. Beijing also restricted rare earth exports and blacklisted 27 U.S. firms, citing national security. The U.S. targeted steel, electronics, and consumer goods, while China hit agriculture, energy, and autos. Critical items like semiconductors and pharmaceuticals were excluded. The result: inflation risks, disrupted supply chains, and falling equities impacting Apple, Nvidia, Boeing, Nike, Caterpillar, Qualcomm, Alibaba, JD.com, and Foxconn. Both economies now face slower growth and elevated uncertainty.

Chart 2: The US Trade balance with China

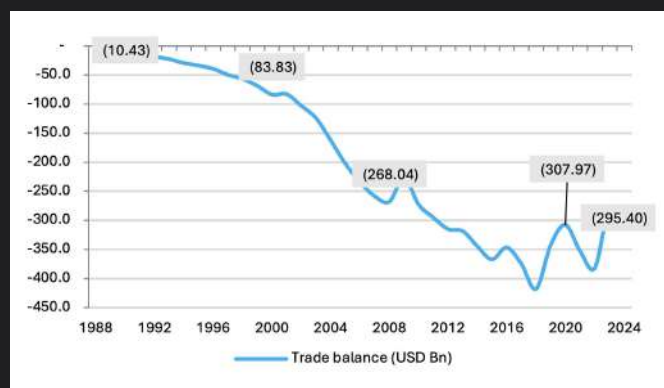
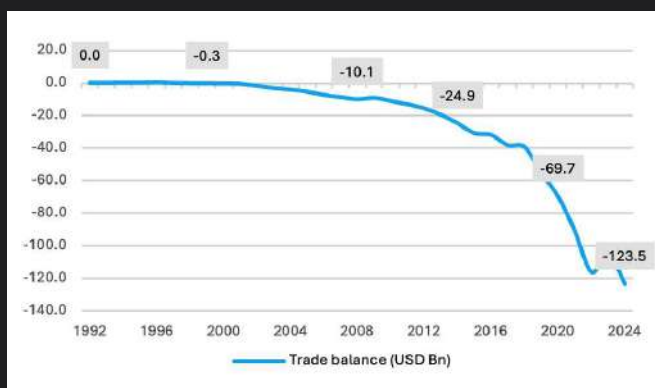


Chart 3: The US Trade balance with Vietnam



Source: FactSet, OAM calculations



VIETNAM

U.S. imposed a steep 46% tariff on Vietnamese imports to address trade imbalances and concerns over Vietnam's trade practices. Vietnam is primarily an export-driven economy, relying heavily on U.S. demand. Around 30% of Vietnam's exports go to the US. In the last 10 years, the deficit grew from USD24.9 bn to USD123.5 bn, fueled by Vietnam's export-led growth, low labor costs, and the relocation of manufacturing from China amid US - China tensions. U.S. President Trump has labeled Vietnam a "trade abuser," citing currency manipulation, illegal transshipment of Chinese goods, and lack of reciprocity. Major companies like Nike and Adidas both heavily reliant on Vietnam for manufacturing warned of profit pressures, while Nintendo faced delays and price hikes due to its Vietnam-based supply chain. Samsung and LG, with significant manufacturing in Vietnam, faced supply chain disruptions. Analysts projected a potential GDP hit of 0.5% to 1% annually, with risks of reduced foreign investment. In response, Vietnam initiated diplomatic talks, offered to cut tariffs on U.S. goods, and proposed increased imports of American agriculture and aircraft. A special task force was formed, and efforts to diversify trade through CPTPP and EVFTA were accelerated.

- **TRADE DEFICITS SURGE:** U.S.–China deficit jumped from \$10 B in 1990 to \$296 B in 2024. U.S.–Vietnam deficit climbed from \$24.9 B to \$123.5 B over ten years.
- **TARIFFS INTENSIFY RAPIDLY:** U.S. imposed cumulative 54% tariffs on Chinese goods (10% → 20% → 34%). A steep 46% tariff was slapped on Vietnamese imports to curb imbalances.
- **COUNTERMEASURES ENACTED:** China responded with 34% blanket tariffs, rare-earth export limits, and blacklisting 27 U.S. firms. Vietnam offered to cut U.S. tariffs, pursued CPTPP and EVFTA, and formed a special task force.
- **MARKET AND SUPPLY IMPACTS:** Inflation risks and supply-chain disruptions drove equity declines for Apple, Nvidia, Boeing, Nike, Caterpillar, Qualcomm, Alibaba, JD.com, and Foxconn. Vietnamese exporters like Nike, Adidas, Nintendo, Samsung, and LG warned of profit pressures, delays, and price hikes.



JAPAN

In April 2025, the U.S. imposed a 24% tariff on Japanese imports, specifically targeting the automotive sector, citing a USD68.5 bn trade deficit and labeling Japan's trade practices as "nonreciprocal". Japan, heavily reliant on auto and electronics exports to the U.S., strongly opposed the move, labeling it unfair. The U.S. is Japan's largest car export market, accounting for 33% of annual vehicle shipments, and cars represent 19% of Japan's total exports. Major automakers like Toyota and Honda warned of higher costs and reduced competitiveness, losing significant market value after the announcement. Economists estimate a potential GDP impact of up to 1.8% by 2029. U.S. automakers like Ford and GM could benefit from reduced competition (price); however, rising costs for imported components could hurt some U.S. industries reliant on Japanese technology. Japan responded with financial aid for affected small businesses and set up support centers to manage the fallout. Automakers like Nissan are reviewing production shifts to the U.S. to avoid tariffs. While Japan was spared in the April 2 broader tariff round, the 24% levy has added pressure to trade relations. Talks are ongoing as Japan seeks exemptions and reassurances while both countries navigate the broader consequences of tariff escalation.

Chart 4: The U.S. trade balance with Japan

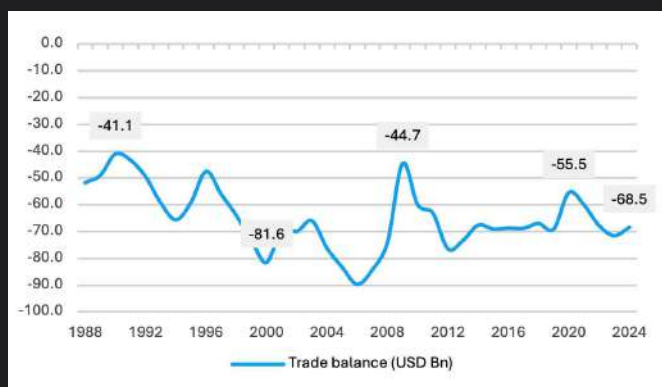
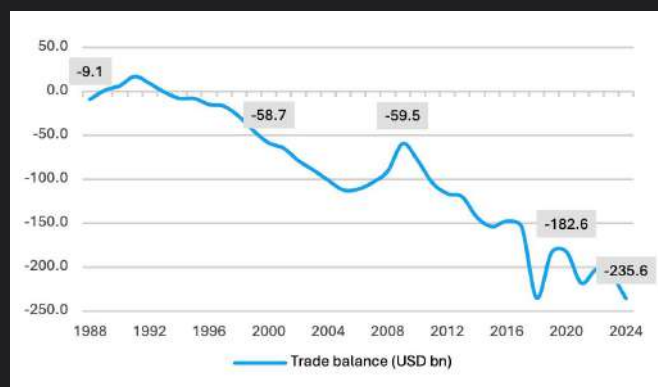


Chart 5: The U.S. trade balance with European Union



Source: FactSet, OAM calculations



EUROPEAN UNION

The U.S. trade deficit with the EU reached USD235 bn in 2024. The president Trump imposed a 20% tariff on European Union (EU) imports, aiming to address trade imbalances and support domestic industries. This action significantly impacted Germany's automotive sector, which is heavily reliant on the U.S. market. German automakers, BMW and Mercedes-Benz faced steep losses from U.S. auto tariffs, with BMW eyeing a €1B hit and possible production shift, while Mercedes warned of margin pressure. In response, the EU prepared countermeasures to protect its economic interests. European Commission President Ursula von der Leyen announced plans for retaliatory tariffs targeting U.S. goods like Harley-Davidson, which could face 56% tariffs, pushing Road Glide prices to USD124,000 emphasizing the need to defend European businesses and workers. These measures aimed to address the economic disruptions caused by the U.S. tariffs and to discourage further escalation of trade tensions. The imposition of these tariffs strained U.S.-EU trade relations, leading to increased economic uncertainty. Industries on both sides faced potential disruptions, with concerns about rising costs for consumers and potential job losses in affected sectors. The situation underscored the complexities of international trade policies and their far-reaching implications on global economies.



TARIFFS AND DEFICITS: U.S. imposed a 24% tariff on Japanese auto imports and a 20% levy on EU goods, citing trade deficits of \$68.5 B with Japan and \$235 B with the EU. Japan's auto sector (33% of vehicle exports) and Germany's carmakers (BMW, Mercedes) were primary targets.



AUTOMAKER STRAIN: Toyota, Honda, BMW, and Mercedes warned of higher costs, margin pressure, and up to a 1.8% GDP impact for Japan by 2029. U.S. automakers like Ford and GM could benefit, but industries reliant on Japanese components face rising input costs.



RETALIATION AND RESPONSE: Japan offered financial aid, set up support centers, and Nissan is reviewing U.S. production shifts while seeking exemptions. The EU prepared 56% tariffs on U.S. goods (e.g., Harley-Davidson) to defend its industries amid ongoing trade talks.



SOUTH KOREA

South Korea, despite being shielded by the KORUS FTA, faces rising pressure from Trump's administration over trade imbalances and perceived tariff disparities. In 2024, South Korea exported over USD27B in autos to the U.S., its second-largest car market, representing 33% of vehicle exports and 14% of total exports. Trump's 25% tariff targets a growing US trade deficit, which doubled from USD21B in 2020 to USD43B in 2024, and to address the concerns over market access barriers that hinder American exports and push Hyundai and Kia to expand U.S. production. This tariff, effective April 3, 2025, supersedes prior trade agreements, including the KORUS FTA, which had previously eliminated tariffs on South Korean automobiles. Seoul has announced emergency support and plans deeper U.S. engagement, while Hyundai committed to a USD20B US investment. The move signals deepening economic tensions rooted in trade, not security concerns.

Chart 6: The U.S. trade balance with India

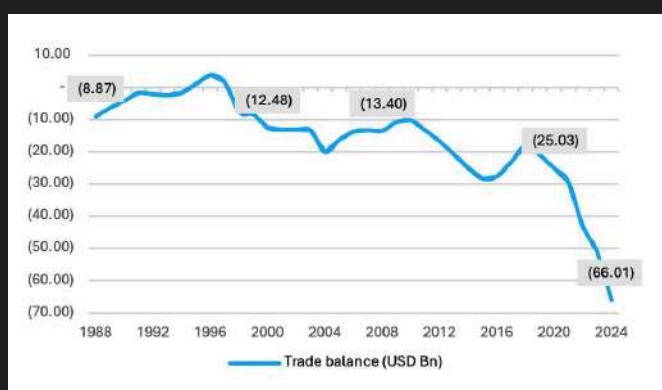
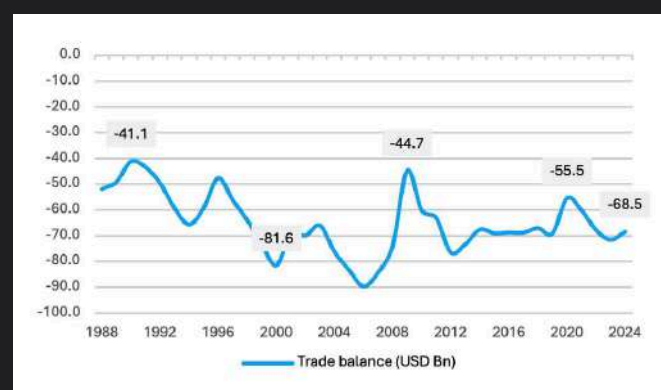


Chart 7: The U.S. trade balance with South Korea



Source: FactSet, OAM calculations



INDIA

The U.S. imposed a 26% tariff on Indian exports, citing India's significant trade surplus and high tariff barriers on American goods, which were deemed non-reciprocal and unfair. The tariffs primarily targeted sectors such as electronics, textiles, gems, and jewelry, while key industries like pharmaceuticals, semiconductors, and energy products were exempted due to their strategic importance. The trade deficit grew from USD25B in 2020 to USD66B in 2024, fueled by India's rising exports in pharma, electronics, and auto components under the "China Plus One" strategy. India's Commerce Ministry acknowledged the tariffs and emphasized ongoing communication with the U.S. to mitigate potential impacts. Analysts projected that these tariffs could reduce India's GDP growth by approximately 0.3 to 0.4 percentage points. Key sectors such as information technology and diamond exports faced significant challenges due to increased costs and potential job losses. Despite these challenges, India viewed the situation as an opportunity to enhance its global trade position, especially as competitors like China and Vietnam faced even higher U.S. tariffs.

- TARIFFS TARGET EXPORTS:** The U.S. imposed a 25% tariff on South Korean autos and a 26% levy on Indian exports, citing non-reciprocal trade practices. These measures supersede the KORUS FTA for Korea and hit electronics, textiles, gems, and jewelry in India.
- RISING TRADE DEFICITS:** U.S.–Korea deficit doubled from \$21 B in 2020 to \$43 B in 2024, driven by \$27 B auto exports (33% of Korea's vehicles). U.S.–India deficit grew from \$25 B to \$66 B in 2024, fueled by India's "China Plus One" export surge.
- SECTOR SPECIFIC MEASURES:** The Korean tariff targets autos, prompting Hyundai and Kia to expand U.S. production under the overridden FTA. India's tariff exempts pharmaceuticals, semiconductors, and energy but strikes key manufacturing and IT sectors.
Responses and Outlook
- RESPONSES AND OUTLOOK:** Seoul announced emergency support and deeper U.S. engagement to manage the economic fallout. India's Commerce Ministry opened talks, forecasting a 0.3–0.4% GDP hit while seeking to boost its global trade position.

CONCLUSION

The recent imposition of extensive tariffs by the Trump administration is poised to have significant economic repercussions. Economists project that these tariffs will elevate consumer prices, potentially increasing inflation by approximately 2.3%, leading to an average annual cost of \$3,800 per household. Federal Reserve Chair Jerome Powell has indicated that such inflationary pressures could limit the Fed's capacity to reduce interest rates, complicating monetary policy responses. Additionally, major financial institutions, including JPMorgan, have raised the probability of a U.S. recession to 60%, citing the disruptive nature of current trade policies. The stock market has already reacted negatively, with the S&P 500 experiencing an 11% decline in 2 days following the announcement of tariff and retaliatory measures from key trading partners. In summary, the tariff strategy is likely to spur inflation, constrain the Federal Reserve's policy options, and heighten the risk of a recession, necessitating careful navigation of the evolving economic landscape.

President Trump's recent imposition of broad tariffs aligns with his longstanding strategy of using such measures as leverage to renegotiate trade agreements in favor of the United States. However, this tactic carries significant risks, including potential retaliatory measures from trading partners, increased consumer prices, and heightened economic uncertainty.

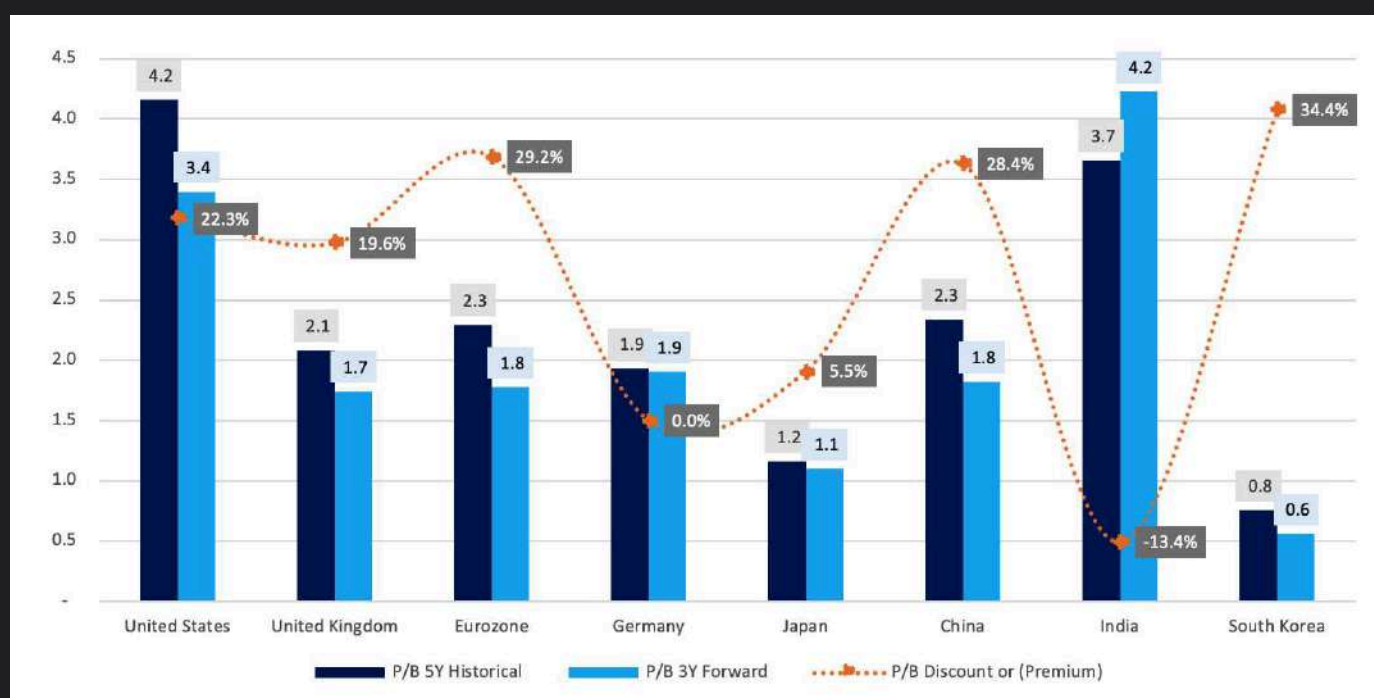
The path forward hinges on whether these tariffs are negotiating tools or enduring policy. If resolved diplomatically, the damage may be contained; if escalated, the global economy risks entering a fragmented trade environment, potentially reversing decades of integration and compounding geopolitical and inflationary pressures.

Source: Reuters, Bloomberg, FactSet, Economic Times, Investopedia, FX Street, Yahoo.com, WSJ

GLOBAL EQUITY VALUATIONS AND PROFITABILITY TRENDS

Global markets have turned highly volatile in an unprecedented manner following a wave of aggressive tariff impositions, with the most severe impact felt in U.S. tech and export-driven sectors, moderate pressure seen in European equities, and relative advantages accruing to defensive plays and commodity-linked markets. The Trump administration's trade stance intensified with 20% tariffs on EU steel and aluminum, proposed levies on European autos, and, most recently on April 2, sweeping USD 50 bn tariffs on Chinese EVs, semiconductors, and solar products, stoking fears of a full-blown trade war. These moves triggered a broad market correction, with the S&P 500 down 14% from its peak and the Nasdaq entering bear territory, over 23% lower YTD, as high-growth AI names like NVIDIA, Meta, and Tesla continued their steep decline from 2024 highs. The Federal Reserve, despite cutting rates thrice last year, maintained rates near 4% in early 2025, citing sticky inflation exerting further pressure on small caps and rate-sensitive segments. Meanwhile, reduced U.S. support for Ukraine and NATO has added to geopolitical risk, driving a flight to safety. The valuation below is based on a comparison of the 3-year forward (3YF) estimates versus the 5-year historical averages (5YH) of Price-to-Book (to assess the level of forward discount relative to historical) and Return on Equity (to evaluate any premium relative to the historical).

Chart 8: Valuation of major economies: Price-to-Book Ratio (5Y Historical vs 3Y Forward Estimate)

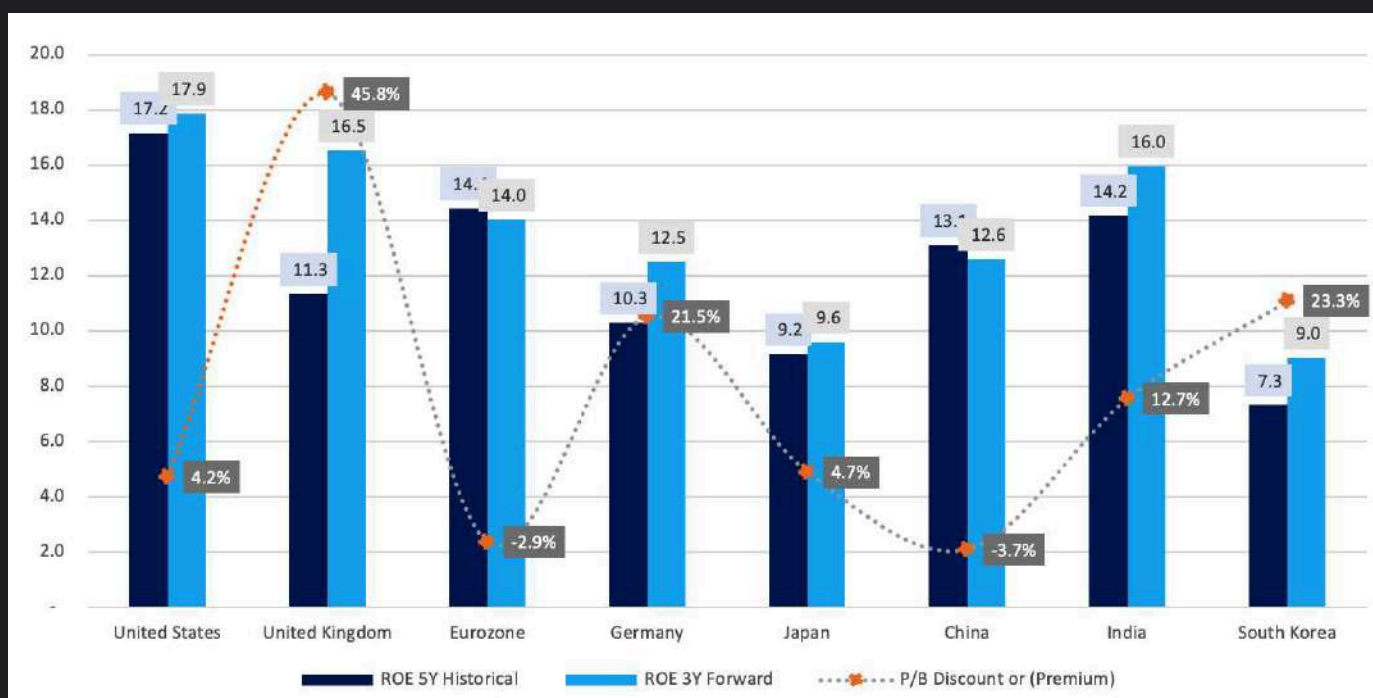


Source: FactSet, OAM calculations

Based on the price-to-book (P/B) valuation of 3YF v/s 5YH, the Euro Stoxx (Eurozone ex UK) appears most attractive among developed markets, trading at a 29.2% discount. The S&P 500 (U.S.) and the FTSE 100 (UK) follow with 22.3% and 19.6% discounts, respectively. Despite U.S. equities trading at a premium on an absolute basis, their strong earnings potential continues to attract investors. However, the recent tariff measures have introduced greater volatility and uncertainty, casting doubt on the index's near-term trajectory. The UK, after prolonged underperformance, saw a strong rebound in Q1 2025, driven by solid earnings in healthcare and mining, attractive valuations, and optimism over potential Bank of England rate cuts. DAX Index (Germany) also rallied significantly through 2024 and early 2025, supported by improved macro data and a major fiscal push allocating 3% of GDP toward defense spending.

In emerging markets, KOSPI 200 (Korea) is the most undervalued, trading at a 34.4% P/B discount and P/B ratio less than 1. It was the only major market with negative returns in 2024 due to geopolitical tensions, but it rebounded in Q1 2025. Government support through the “Corporate Value-Up” program, resumption of short selling from March 31, and liquidity injections have helped restore investor sentiment. CSI 300 (China), trading at a 28.4% discount, saw 2024 strength fade in early 2025 due to tariff concerns. However, AI developments and government support USD 41.75 bn for buybacks, USD 13.75 bn from state insurers into equities, and eased IPO rules could support the equity. The Nikkei 225 (Japan) followed with just a 5.5% discount because of the strong returns delivered in recent years; however, it remains relatively cheaper compared to global peers, with a forward P/B of 1.1x. On the other hand, the Nifty 50 (India) appears less attractive on a forward P/B basis, with valuations looking stretched. That said, India continues to offer strong structural growth potential and benefits from a favorable geopolitical and trade positioning compared to competitors like China and Vietnam in the current tariff environment.

Chart 9: Valuation of major economies: Return on equity (5Y historical vs 3Y forward estimate)



Source: FactSet, OAM calculations

As per the return on equity (ROE) trends based on 3YF vs 5YH, the UK stands out in developed markets with a 45.8% potential ROE improvement, and Germany follows with a 21.5% ROE improvement. The U.S. shows steady, decent ROE growth, driven by continued strength in tech and consumer spending, while the Eurozone lags with slower ROE momentum amid mixed economic signals.

Among emerging markets, South Korea leads with a 23.3% projected ROE improvement, recovering from 2024 underperformance and backed by renewed capital market reforms. India follows with an 12.7% ROE increase, Japan shows moderate 4.7% ROE growth, while China lags with a (3.7%) decline in ROE.

On a valuation-adjusted basis, the UK appears most attractive in the developed world, offering both a strong value, P/B discount, and the highest ROE growth potential. On combined metrics of value and improving profitability, South Korea emerges as the most compelling EM opportunity.

The Bank of England reduced its Bank Rate by 0.25 percentage points to 4.5% in February 2025, with markets anticipating additional cuts totalling 60 basis points throughout the year. The Bank of Korea cut its key interest rate by 25 basis points to 2.75% in February 2025 to support economic growth, with economists expecting further reductions of up to 50 basis points within the year. These monetary policy adjustments are expected to enhance valuations by reducing the discount rate applied to future earnings.

CHINA'S TECHNOLOGICAL ADVANCEMENTS & DECLINE OF AMERICAN EXCEPTIONALISM



China's rise as a global leader in technological innovation has transformed the world's perception of its capabilities. The country has achieved remarkable progress in fields such as artificial intelligence, robotics, green technology, and space exploration, driving economic growth and fostering international collaboration. These advancements are not confined to domestic achievements; they are reshaping global industries and addressing critical challenges like climate change and sustainable development, particularly in partnership with developing nations.

CHINA'S AI AND ROBOTICS REVOLUTION

In artificial intelligence, China has positioned itself as a pioneer. By creating platforms like DeepSeek, an open-source AI initiative, the nation is making cutting-edge technology accessible to developing countries, enabling them to leverage AI for economic growth and development. This progress is supported by a robust energy infrastructure, generating 3,000 gigawatts of electricity annually, which powers the energy-intensive systems essential for AI research and deployment. Robotics, another area of rapid development, has shifted from entertainment to industrial applications. Automation has become integral to manufacturing processes, particularly in the electric vehicle industry, enhancing productivity and reducing waste. Companies such as UBTECH are also exploring the potential of robotics in healthcare and education, signaling a future where these innovations enhance the quality of life globally.

GREEN TECH REVOLUTION

China's commitment to green technology is equally transformative. As the world's largest producer of renewable energy, the nation generates 31% of global wind and solar power. This renewable energy infrastructure supports China's thriving electric vehicle market, which caters to consumers across economic tiers, unlike the premium-focused Western markets. Companies such as BYD and NIO are driving affordability and accessibility, while futuristic developments like modular flying cars reflect a bold vision for urban mobility. Beyond its borders, China has extended its green energy initiatives to developing nations, particularly in Africa, where renewable projects generate 10 gigawatts of electricity, providing power to 140 million households. These efforts align with the Belt and Road Initiative, which emphasizes sharing technology and infrastructure expertise for mutual progress.

ADVANCING FRONTIERS IN SPACE AND HEALTH

Space exploration represents another frontier of China's technological prowess. The launch of the Einstein Probe satellite and the successful completion of the Tiangong space station demonstrate the country's growing capabilities in space science. Achievements such as landing on the Moon's far side underscore its scientific and exploratory ambitions. In healthcare, China is making significant progress with groundbreaking research, including potential cures for diabetes, showcasing its commitment to solving global health challenges. These achievements are supported by a robust STEM education system that produces millions of graduates annually, ensuring a steady pipeline of talent to sustain innovation.

DRIVING GLOBAL GROWTH THROUGH INNOVATION

China's technological rise is deeply interconnected with global collaboration. Initiatives like the China-Pakistan Economic Corridor and the Luban Workshops offer vocational training and digital innovation to developing nations, focusing on sustainable practices such as smart agriculture and environmentally friendly manufacturing. These programs aim to bridge development gaps and promote mutual economic growth, underscoring China's role as a partner in global progress.

TECH-DRIVEN GROWTH RESHAPING GLOBAL ECONOMY

This progress is strategically aligned with China's economic vision. The country's technology-driven growth strategy is a key driver of global economic transformation. With a projected GDP growth rate of 5% in 2025, China is focusing on high-value manufacturing and supply chain dominance. Chinese companies are developing AI tools that enable small and medium-sized enterprises worldwide to revolutionize industries such as logistics, advertising, and financial technology, creating new opportunities for economic expansion.

THE EROSION OF U.S. MARKET DOMINANCE

In contrast to China's ascendancy, the notion of American exceptionalism has faced significant erosion in recent decades. This decline is not a sudden phenomenon but the result of long-standing economic imbalances and overvaluations in global markets. The myth of American invincibility in financial markets took root long before the Trump presidency, but the optimism surrounding his election temporarily bolstered capital inflows and market valuations. This surge, however, exhibited the characteristics of a speculative bubble, which has since begun to deflate. Despite recent corrections, U.S. equities remain significantly overvalued, trading at a 50% premium compared to international markets, while the dollar's dominance remains precarious.

CRACKS IN THE U.S. GROWTH STORY

Much of the U.S. economic growth in recent years has been artificially sustained through record government spending and an investment boom in artificial intelligence. However, the fiscal reality is unsustainable, with budget deficits hovering near 6% of GDP. Meanwhile, global competitors like Germany and China are narrowing the gap through fiscal reforms and advancements in affordable AI models. Investor behavior further underscores this shift. While institutional investors have started retreating from U.S. equities, retail investors continue to buy the dips, often using high-risk instruments like leveraged ETFs. Foreign investors, who hold an estimated US\$20 trillion in U.S. stocks, are increasingly exposed to vulnerabilities due to unhedged positions in the dollar, which could face turbulence as global capital seeks alternatives.

GLOBAL MARKETS BEGIN TO DECOUPLE

The once-strong correlation between U.S. and global market performance is weakening. Regions such as Europe and Japan are attracting renewed foreign investment, and emerging markets are becoming less tied to U.S. economic downturns. This decoupling reflects a broader rebalancing of global markets, reducing reliance on the American economy and reshaping the international financial landscape.

The decline of American exceptionalism is larger than any single administration or policy. It represents a transition to a multipolar global economy, where competition, fiscal discipline, and pragmatism are reshaping the international order. As skepticism toward U.S. dominance grows, nations and investors are increasingly diversifying their focus, signaling a new era of global collaboration and competition.

China's rise and the decline of American exceptionalism represent two sides of the same coin: a transformative shift in the global order. While China's advancements in technology and sustainability offer a blueprint for addressing humanity's greatest challenges, the U.S. faces the need to recalibrate its strategies in an increasingly competitive and multipolar world. As nations navigate the Fourth Industrial Revolution, the focus must remain on leveraging technology to bridge divides, empower economies, and safeguard the planet.

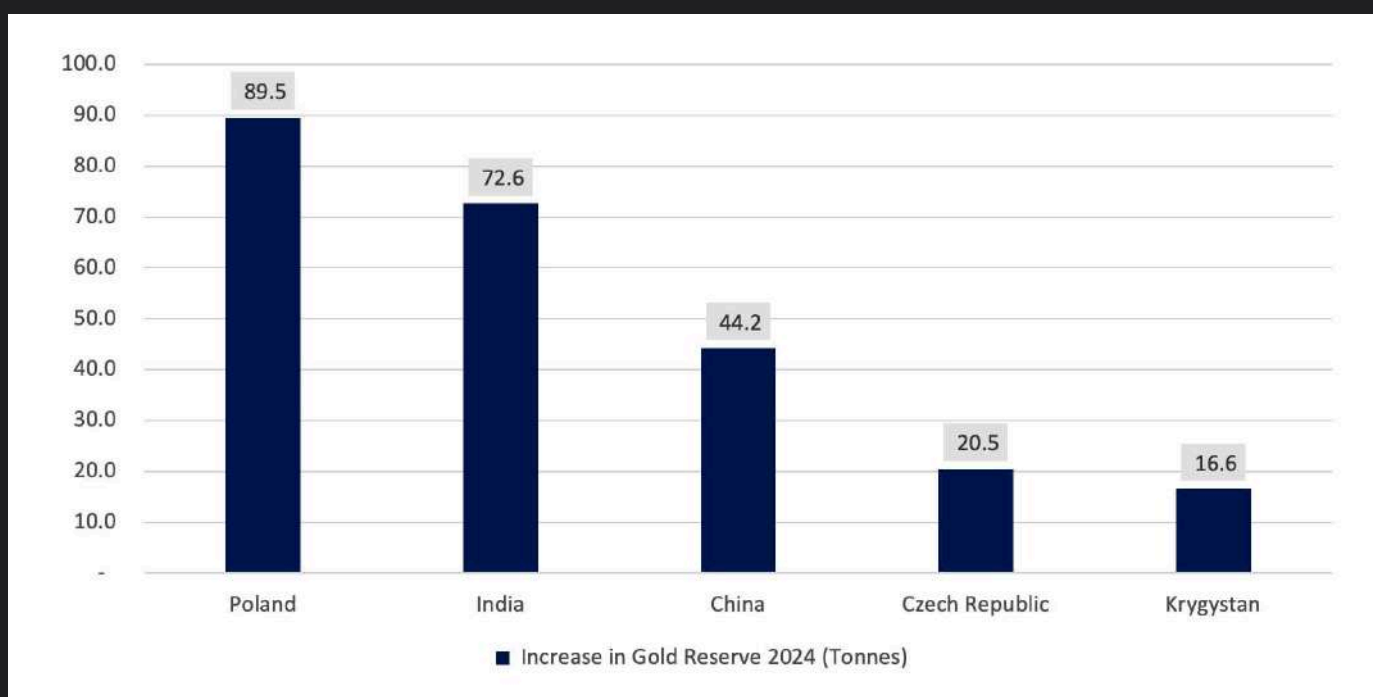
Sources: International Energy Agency (IEA) Reports, World Economic Forum on Artificial Intelligence and Robotics, China Daily and Xinhua News Agency for National Tech Initiatives, Financial Times and The Economist for U.S. Economic Analysis, NASA and China National Space Administration (CNSA) Updates on Space Exploration, Belt and Road Initiative Official Reports

GOLD AS A STRATEGIC INVESTMENT: 2025 OUTLOOK, DEMAND TRENDS, AND RESERVE POSITIONING

Gold entered 2025 on a strong footing, with prices surging to historic highs amid a volatile global environment. As of March 29, spot gold had reached US\$3,086.70 per ounce, marking its 18th record high of the year and reflecting growing investor demand for safe-haven assets. This dramatic surge has been underpinned by intensifying geopolitical tensions and trade-related uncertainty. The Trump administration's imposition of 25% tariffs on imported vehicles reignited fears of a global trade war, amplifying market volatility. Analysts estimate such tariffs could add up to 1% to core U.S. inflation, reinforcing gold's role as a hedge. Additionally, a rising share of U.S. corporate CFOs up from just 7% to over 30% now forecast a recession by year-end, further fueling investor demand for gold as a defensive asset.

In 2024, global gold demand reached an all-time high of 4,974 tonnes, a remarkable feat supported by a diverse mix of demand drivers. Central banks were the largest contributors, purchasing 1,045 tonnes, the third straight year that official sector demand exceeded 1,000 tonnes. The most notable accumulators were Poland, which added 89.5 tonnes, India (72.6 tonnes), and China (44.2 tonnes), followed by Czech Republic (20.5t) and Kyrgyzstan (16.6t). This reflects a broader trend of emerging market central banks diversifying their reserves amid growing geopolitical and currency-related risks. The investment sector also saw strong growth, with bar and coin demand rising in Asia, and ETF inflows resuming in the second half of the year. The average gold price in 2024 was US\$2,386/oz, up 23% year-on-year, supporting these gains.

Chart 10: Central banks with the most significant Gold purchases in 2024

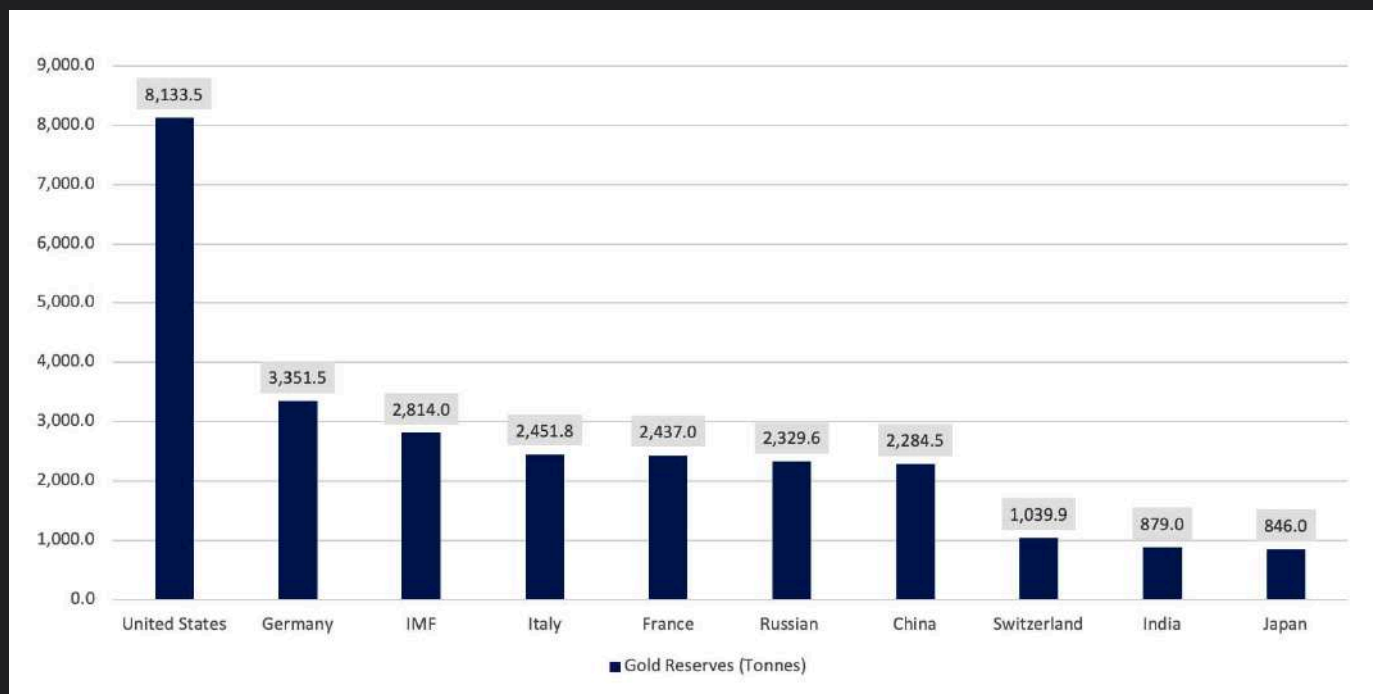


Source: World Gold Council, Investing.com

From a sectoral perspective, technology-related demand grew 7%, buoyed by increased consumption in AI infrastructure, electronics, and semiconductor manufacturing. However, jewellery demand declined 11% globally as high prices dampened consumption, especially in price-sensitive markets. China's jewellery demand contracted 24%, although India proved relatively resilient, supported by cultural affinity and seasonal buying. Despite this weakness, physical demand in the form of investment bars and coins remained robust, particularly in China, India, and Turkey.

Central banks remain key long-term drivers of gold. As of the end of 2024, the largest official gold holders include the United States (8,133.5t), Germany (3,351.5t), IMF (2,814.0t), Italy (2,451.8t), and France (2,437.0t). Other notable holders are Russia (2,329.6t), China (2,284.5t), Switzerland (1,039.9t), India (879.0t), and Japan (846.0t). These stockpiles underscore gold's central role in foreign exchange and reserve asset strategy, particularly amid concerns about U.S. fiscal sustainability and rising global fragmentation.

Chart 11: Top Central Bank Gold reserves by Country (in Tonnes)



Source: World Gold Council, Investing.com

Looking ahead to the remainder of 2025, gold is expected to benefit from a confluence of structural and cyclical factors. With central banks expected to pivot toward monetary easing, continued fiscal deficits in advanced economies, and sustained geopolitical risks, gold retains its status as a critical strategic asset. In addition, AI-driven industrial demand, ETF resurgence, and further central bank buying provide upside potential. While elevated prices could weigh on jewellery consumption, overall fundamentals remain supportive. For long-term investors, gold continues to serve as a reliable portfolio diversifier and inflation hedge in an increasingly uncertain macroeconomic landscape.



RECORD GOLD RALLY: Spot gold surged to USD 3,086.70/oz by March 29, marking its 18th record high of 2025 amid geopolitical tensions and 25% auto tariffs adding up to 1% core U.S. inflation. Investor demand spiked as over 30% of CFOs now forecast a year-end recession.



ALL-TIME DEMAND HIGH: Global gold demand hit 4,974 t in 2024, led by 1,045 t of central bank purchases (Poland 89.5 t; India 72.6 t; China 44.2 t) and strong bar/coin and ETF inflows. The average price rose 23% to USD 2,386/oz.



SHIFTING DEMAND TRENDS: Technology demand grew 7% via AI infrastructure, electronics, and semiconductors, while jewellery fell 11% globally (China -24%; India remained resilient). Physical investment in bars and coins stayed robust in China, India, and Turkey.



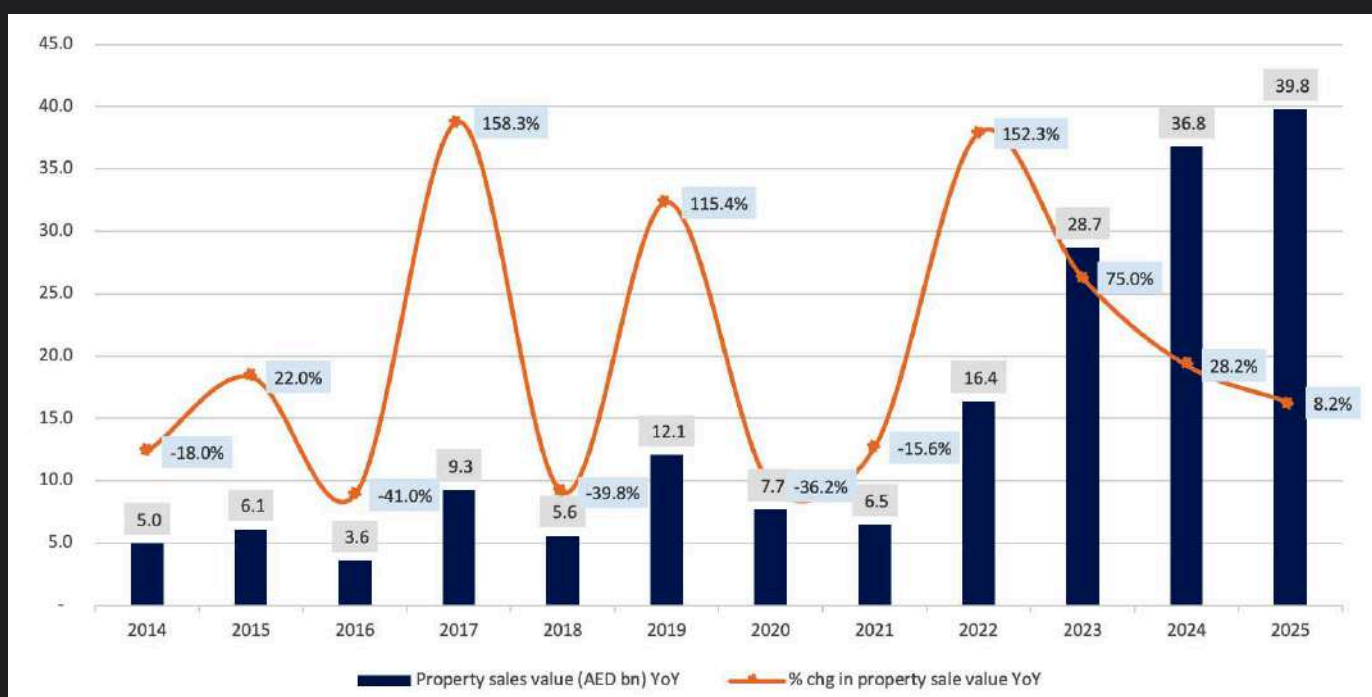
RESERVES & OUTLOOK: Top official holders—U.S. (8,133.5 t), Germany (3,351.5 t), IMF (2,814 t), Italy, and France—underscore gold's role amid fiscal risks. 2025 upside stems from expected monetary easing, fiscal deficits, geopolitical risks, ETF resurgence, and further central bank buying.

DUBAI REAL ESTATE: NAVIGATING THE BOOM, HISTORY, AND STRATEGY



Dubai's real estate market presents a captivating narrative of opportunities and challenges, with its glittering skyline reflecting both promise and complexity. This dynamic property arena offers robust returns, but it is also marked by cyclical volatility that requires a careful and informed approach. By examining current trends, historical cycles, and strategic frameworks, investors can navigate this lucrative yet intricate market, maximizing gains while mitigating risks.

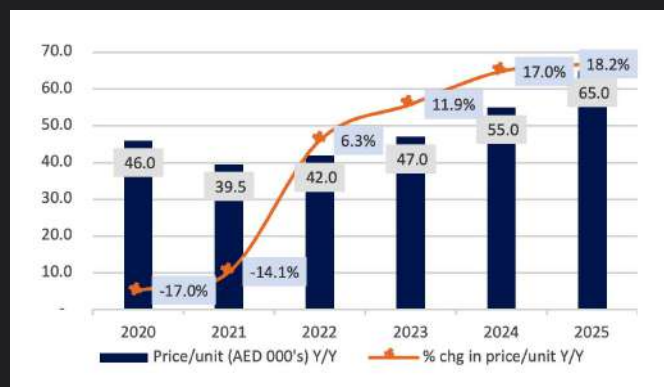
Chart 12: Dubai's primary apartment total sales value YoY (AED bn March)



Source: DxB Interact, Dubai Land Department

The current boom in Dubai's real estate market is fueled by impressive data-driven dynamics. The city's tax-free regime, characterized by zero income, capital gains, and rental taxes, sets it apart from global counterparts such as London and New York, where taxes range from 20% to 30%. Properties in mid-range areas like Jumeirah Village Circle (JVC) and Dubai Hills deliver rental yields of 7–10%, significantly outperforming cities like Mumbai (2–3%) and London (3–4%). Even in the luxury segment, where yields are slightly lower at 5–8.5%, Dubai surpasses many international markets. Capital appreciation adds further appeal, with property prices rising 5–8% annually since 2021, driven by strong post-pandemic demand and geopolitical shifts.

**Chart 13: Rental change for 1-bhk apartments
Jumeirah Village Circle (AED 000's)**



**Chart 14: Rental change for 1-bhk apartments
Dubai Hills (AED 000's)**



Source: DxB Interact, Dubai Land Department

Demand dynamics underscore the market's current strength. With an absorption rate of 89%, soaring to 95% for luxury properties, Dubai's real estate is experiencing remarkable demand compared to pre-2020 levels of 75–80%. The resident-to-unit ratio is what is normally used to assess the demand for homes in a city. This is a metric used to evaluate the relationship between the number of residents (occupants) and the number of available housing units in a residential setting. It provides insight into living conditions, resource allocation, and regulatory compliance. A resident-to-unit ratio of 2.72 highlights an undersupply in prime segments, while foreign buyers dominate 60% of transactions. Investors from Russia, Europe, and India are drawn to Dubai by its stability and favorable tax policies. Within this framework, mid-range properties emerge as a sweet spot, combining steady appreciation of 6–8% with yields of 7–9%. Affordable housing, representing just 3% of inventory, signals a significant untapped opportunity as demand in this segment grows.

A historical perspective reveals that Dubai's real estate market has experienced cycles of boom and bust, offering valuable lessons. The 2008–2014 crash, precipitated by global financial turmoil and speculative excess, led to a more than 50% decline in property prices. Recovery was slow, with a prolonged stagnation phase between 2014 and 2020 caused by falling oil prices and oversupply. The post-COVID surge from 2021 to 2023 marked a turning point, delivering over 30% cumulative growth driven by geopolitical realignments and pent-up demand. During this evolution, rental yields have matured, stabilizing at 6–10% by 2023, compared to the speculative highs of 10–12% before 2008. This stabilization reflects a more mature and balanced market.

Despite its promise, Dubai's real estate market is not without risks. Oversupply remains a looming challenge, with a pipeline of over 50,000 units expected by 2025, potentially outstripping annual demand of 35,000 units. Historical data from the 2008–2014 crash illustrates the consequences of oversupply, with vacancy rates nearing 40% in saturated zones. Additionally, Dubai's dollar peg exposes the market to U.S. interest rate hikes (even though this is not expected with a US recession in the horizon), leading to increased mortgage rates, which have risen from 3% in 2021 to 4–5%. Geopolitical shocks present further vulnerabilities, as the market's reliance on foreign investors who account for 60% of buyers could result in sudden capital flight during periods of instability.

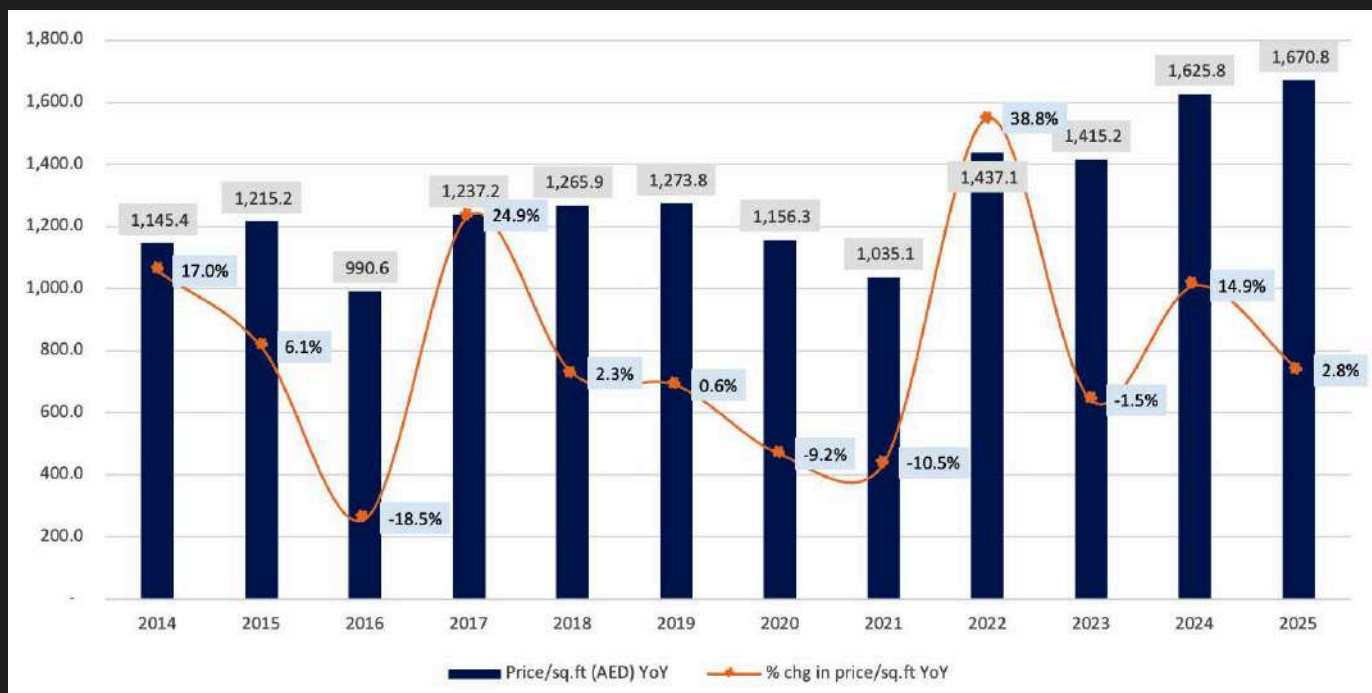


ROBUST DEMAND DRIVES INVESTMENT: Dubai's tax-free policy, high absorption rates (up to 95% for luxury), and attractive rental yields (7–10% in mid-range areas) fuel strong market demand and investor interest.



HISTORICAL CYCLES AND OVERSUPPLY RISKS: The market has oscillated between boom and bust, with oversupply risks looming as over 50,000 new units may outstrip the annual demand, echoing past crashes.

Chart 15: Dubai's primary apartment sales YoY price changes (AED/Sq. ft. March)



Source: DxB Interact, Dubai Land Department

Regulatory hurdles also complicate the landscape for expat investors. Cross-border tax complexities add to the challenges. For instance, Indian investors face tax liabilities of 5–30% on Dubai rental income, while European investors contend with value-added tax (VAT) obligations in their home countries.

Hedging and diversification are equally important. Mitigating risks associated with the dollar peg through AED-linked assets, and strategically allocating portfolios with a focus on mid-range (60%), affordable (30%), and luxury (10%) properties, can provide resilience. Compliance with regulatory frameworks, including leveraging double-taxation treaties like the India-UAE agreement, is crucial for minimizing liabilities. Engaging local legal counsel, securing title deeds, and thoroughly vetting tenants are essential practices for safeguarding investments.

Ultimately, Dubai's real estate market offers a rare combination of high returns and cyclical risks. Success in this vibrant arena requires a balance of data-driven insights and lessons learned from past market cycles. Investors who approach this market with a calculated strategy, grounded in research and foresight, can thrive in what is not merely a bet on the city's glitter but a testament to its enduring promise and resilience.

Sources: Dubai Land Department (absorption and supply data), Global Property Guide (historical trends), Asteco and CBRE UAE (market analytics)

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