

## SGD Credit Outlook 2H2025

25 June 2025

### Staying Neutral Amongst The Highs and Lows

**SGD exceptionalism - momentary momentum or enduring trend?** The SGD credit market has continued to demonstrate relative resilience and stability in 1H2025, standing out as an alternative safe haven amidst global volatility. This exceptionalism was underpinned by zero defaults, solid domestic demand, rising momentum of de-dollarisation and resilient credit fundamentals of SGD credit issuers. Despite elevated geopolitical tensions and tariff-related uncertainties, the SGD credit market has seen limited direct impact and performed consistent with our thoughts in the SGD Credit Outlook 1H2025. We maintain that the SGD credit market will remain supported by its defensive positioning and sustained, albeit selective, investor appetite.

**Staying Neutral and selective.** We are ending June with a new set of uncertainties as conflict escalates in the Middle East and the 90-day trade tariff pause is nearing an end. With this in mind, we continue to like the SGD credit market as it is expected to provide total positive returns. That said, we advocate investors to be increasingly selective. While credit as an asset class should remain in demand, we expect this demand to be somewhat focused towards high grade issuers, with issuance and market performance outside of this space to be more tepid.

**REITs outlook.** The S-REIT primary credit market was active in 1H2025 with SGD2.1bn of new issuances across 14 issues from 11 issuers. Driven by existing perpetuals which were facing first call dates, lower overall benchmark rates and aided by the ability to raise perpetuals at tighter reset spreads, the market saw six S-REIT perpetual issuances. We expect that S-REITs will take more of a wait and see approach when it comes to new acquisitions given tariffs threats and mounting geopolitical uncertainties, although the lower interest rate environment may throw up interesting opportunities as spreads between property yield and cost of debt widens. Since 2022 to date, there has been no new REIT listings in Singapore, with many opting to wait for more favourable listing conditions. However, in the past few months the media has reported that a potential data centre REIT is in the works.

**SG Property.** Prices rose 0.8% q/q in 1Q2025, which tracks our forecast of 2-4% growth in 2025. While sales have slowed in 2Q2025, we think long-term property demand in Singapore remains intact, supported by strong holding power, growing aspirations and resident population growth. With more launches in 2H2025, we will be paying attention to sales rate for indication of demand. Developers have been selective on sites thus far while competition for sites remaining measured, which should support developer profit margins. However, if the government continues to release land at the current rate, supply may eventually exceed demand and in turn impact sales rate.

**Financial Institutions.** External developments in the first half of 2025 were more eventful than anticipated but despite the more volatile operating environment, the fundamental performance of Financial Institutions in our coverage remained in line with our 1H2025 expectations (and in some respects outperformed them). While staying neutral for our overall call on bank capital instruments and selectively overweight Tier 2s and AT1 with higher yields and wide reset spreads, the focus word remains selective. This is because credit dispersion is likely to increase due to possible regulatory fragmentation and reduced global co-operation in a crisis while the multi-layer effects of geopolitics and trade tariffs will have varying economic and financial markets impacts.

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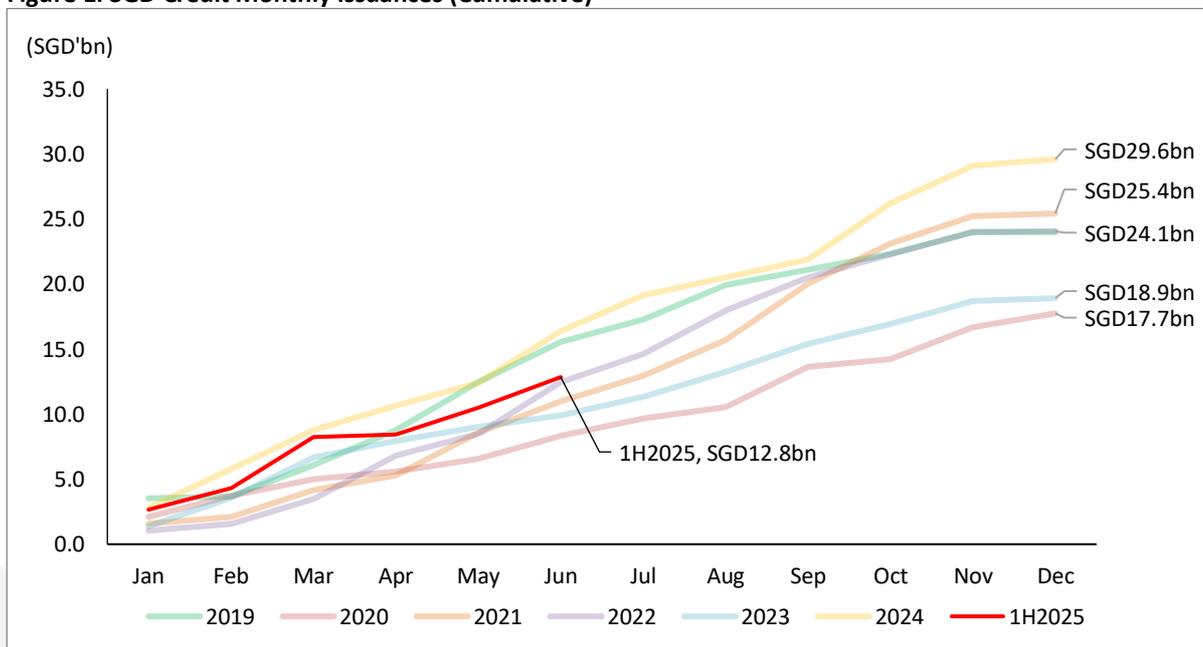
## 1H2025 SGD Credit Market Review

### SGD exceptionalism - momentary momentum or enduring trend?

The SGD credit market has continued to demonstrate relative resilience and stability in 1H2025 (1 January 2025 to 25 June 2025), standing out as an alternative safe haven amidst global volatility. This exceptionalism was underpinned by zero defaults, solid domestic demand, rising momentum of de-dollarisation and resilient credit fundamentals of SGD credit issuers, particularly among Financial Institutions (please see *Financial Institutions – Sailing Through The Storm* for further information). Despite elevated geopolitical tensions and tariff-related uncertainties, the SGD credit market has seen limited direct impact with y/y returns of over 7% as at time of writing, comparable to the returns seen during 2023 (please see *Tracking Returns in SGD Credit* for further information). Conversely, total returns for Asiadollar investment grade and high yield were ~6% and 8% respectively over the same period. This is consistent with our thoughts in the SGD Credit Outlook 1H2025 that “SGD Credit will remain relevant and a competitive alternative to Asiadollar Credit in 2025 amidst potentially higher volatility ahead with policies to be enacted by President-elect Trump’s upcoming administration and geopolitical uncertainties”. We maintain that the SGD credit market will remain supported by its defensive positioning and sustained, albeit selective, investor appetite.

That said, the SGD credit market was not entirely immune to tariff impacts in 1H2025 with SGD12.8bn issued as of 25 June 2025. This was down ~22.0% y/y in comparison to 1H2024 issuance (excluding the Singapore Government's SGD2.5bn SIGB 3.25% '54s from May 2024). While 2024 was a relatively high base with full year issuance second only to the SGD31bn recorded in 2012, 1H2025 issuance trends by month show clearly how Liberation Day related volatility in early April intimidated issuers and investors alike. Following a relatively solid start to 2025 with SGD8.2bn issued across January to March (SGD8.8bn issued during the same period in 2024), April primary market activity in the SGD credit market grounded to a halt with only around SGD213mn priced, the lowest monthly amount since 2019 and likely the lowest on record. In contrast, March saw a surge in activity with SGD3.96bn in issuance volume as issuers rushed to the market before the tariff announcements.

**Figure 1: SGD Credit Monthly Issuances (Cumulative)**

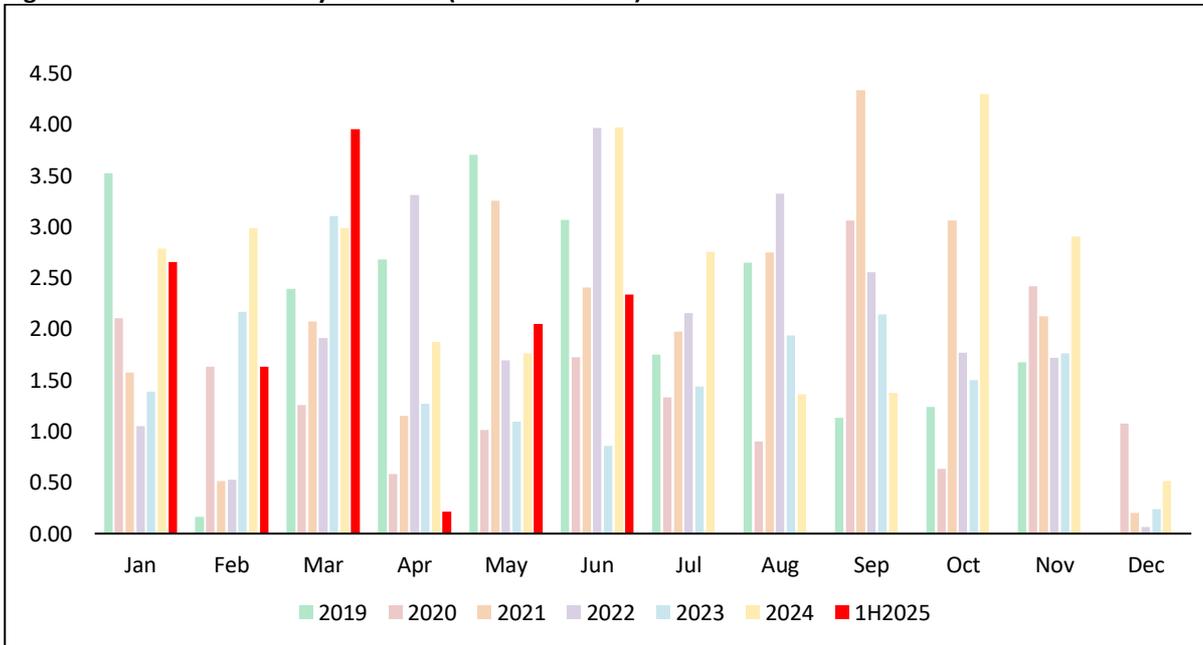


Source: Bloomberg, OCBC Credit Research as of 25 June 2025

As much as the elevated volume in March may have been a result of issuance being brought forward, of additional note was the breadth of issuers highlighted by (1) frequent issuer HSBC Holdings PLC that issued a SGD800mn Additional Tier 1, and (2) Equinix Asia Financing Corp Pte Ltd that priced its inaugural SGD500mn 5Y green senior unsecured bond at 3.5% that is guaranteed by large data center REIT Equinix Inc (“Equinix”). In between these issuers were several repeat issuers in the SGD credit market (including City Developments Ltd, CapitalLand Integrated Commercial Trust, Suntec Real Estate Investment Trust) and several less frequent SGD issuers including Swiss RE Subordinated Finance PLC with its SGD450mn Tier 2 bond guaranteed by Swiss RE AG,

Optus Finance Pty Ltd with its SGD250m 7Y fixed bond (guaranteed by SingTel Optus Pty Ltd and certain of its subsidiaries) and CapitalLand India Trust with its SGD200mn 5Y note.

**Figure 2: SGD Credit Monthly Issuances (Non-cumulative)**



Source: Bloomberg, OCBC Credit Research as of 25 June 2025

Supply returned to the SGD Credit market in May with primary market resuming and increasing significantly to ~SGD2.0bn from eight issuers. While the 90-day tariff pause announcement provided some respite for the market, the higher activity also reflected both the tail end of earnings season as well as the spread widening from the tightness which made SGD Credit somewhat attractive for both issuers (given still relatively tight spreads) and investors (given still decent all-in yields). Issuances in May were dominated by Financial Services (including Financial Institutions, insurance companies and other financial companies) with the largest issuance coming from Prudential Funding Asia PLC that issued a SGD600mn subordinated unsecured Tier 2 instrument, and HSBC Holdings PLC that issued a SGD500mn 8NC7 senior hold co or senior non-preferred bank capital instrument. Property companies also featured noticeably with a decent mix of issuances including (1) the SGD Credit Market’s first perpetual in two months with CapitalLand Ascott Real Estate Investment Trust issuing a SGD260mn PerpNC5.8 subordinated perpetual, (2) European focused IREIT Global’s inaugural SGD issue pricing SGD85mn in green senior unsecured notes, and (3) Perennial Holdings Pte Ltd’s (“Perennial”) SGD50mn retap of its PREHSP 5.75% ‘28s for refinancing, working capital, investment, and/or capital expenditure for its healthcare projects. At the time, Perennial had just announced an agreement with Guangzhou Metro to build a tertiary general hospital and a specialist hospital near the Baiyun high-speed railway station in Guangzhou.

June was even more active than May with ~SGD2.3bn priced and headlined by AIA Group Ltd (SGD800mn Tier 2) and Sembcorp Financial Services Pte Ltd (SGD300mn 20.5Y Fixed, guaranteed by Sembcorp Industries Ltd). Other issuers were existing SGD credit issuers from the property, REIT and hospitality sectors. What March, May and June highlights in our view is that, notwithstanding continued global uncertainty over tariffs taken by President Trump’s administration in the US in April, investors continued to seek out new issuances in SGD, although being somewhat selective and disciplined about the prices at which they are willing to invest.

Finally on the green, social, sustainability and sustainability-linked (“GSSSL”) issuances front, GSSSL bond issuances in the SGD market totalled SGD1.87bn in 1H2025, significantly lower y/y by absolute amount compared to 1H2024’s SGD2.8bn but up noticeably against the SGD841.5mn of GSSSL in 1H2023. This was almost entirely due to the lower green issuance by the Housing & Development Board (“HDB”) that issued one green bond in 1H2025 against two in 1H2024. From a proportionate perspective, ~16% of 1H2025 issuances were GSSSL against 18% in 1H2024 and 9% of the total issuance volume in 1H2023. All of the SGD GSSSL bonds priced in 1H2025 were green bonds. Aside from HDB’s SGD950mn green bond that made up ~50% of total issuances, the remaining five GSSSL bonds came from REITs, starting with Equinix’s SGD500mn Green bond, Mapletree Pan Asia Commercial Trust’s SGD200mn Green bond, IREIT Global’s SGD85mn Green bond, Frasers Centrepoint Trust’s SGD80mn Green bonds and Mapletree Logistic Trust’s SGD50mn Green bond. Notably, Sembcorp Industries Ltd (“SCI”) latest SGD bond priced in June 2025 is

in a conventional format, after having issued five consecutive tranches of SGD GSSSL bonds since 2021. SCI is the largest corporate issuer of GSSSL in the SGD credit market.

### **Financial Services maintained their top spot in 1H2025; a new sector climbs to second:**

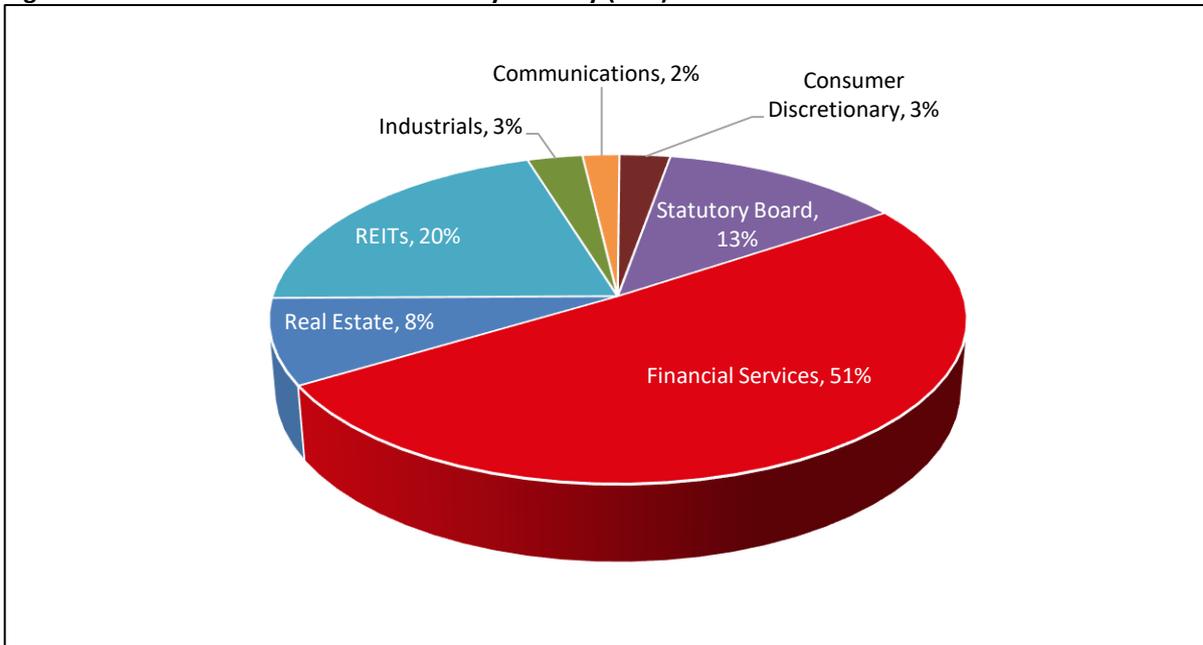
The Financial Services sector continued to be the leading contributor to issuances in 1H2025, representing 51% of the total. This was supported by major issuances across the capital structure from HSBC Holdings PLC (SGD800mn AT1 priced in March and another SGD500mn 8Y senior non-preferred priced in May), Maybank Singapore Ltd (SGD500mn Tier 2 bond priced in March) and Credit Agricole SA (SGD400mn Tier 2 bond priced in March). As mentioned previously, Financial Services is an enduring issuer sector within the SGD credit market, possessing both the capability and willingness to issue larger instruments given their substantial balance sheets relative to other SGD issuers, their ongoing funding requirements to support balance sheet growth and comply with regulatory capital requirements, and established global market presence and strong investor familiarity that enable larger issuances.

Of note however was the higher contribution to issuances within the Financial Services sector from insurance companies with AIA Group Ltd (SGD800mn Subordinated Tier 2 priced in June), Prudential Funding Asia PLC (SGD600mn Subordinated Tier 2 priced in May, guarantor: Prudential PLC) and Swiss RE Subordinated Finance PLC (SGD450mn Subordinated Note priced in March, Guarantor: Swiss Re Ltd) issuing in 1H2025. These issues were amongst the top ten issuances for 1H2025 by issue size and received strong investor interest with order books reported at around 4.2x, 3.7x and 2.2x respectively. 1H2024 saw two issuances from insurance companies, a SGD500mn Subordinated Tier 2 priced in April 2024 from Great Eastern Life Assurance Company Limited and a SGD500mn Subordinated Tier 2 from Manulife Financial Corp. Given that most of these issues are regulatory Tier 2, drivers for insurance issues are likely similar to those for Financial Institutions. In an uncertain environment, these issuers offer high grade, externally rated and decently yielding papers.

REITs saw a major jump in contribution as a sector to issuance, making up 20% of 1H2025 issuances. The largest issues by REITs included Equinix's inaugural issue, CapitaLand Ascott Trust's SGD260mn ARTSP 4.2%-PERP and Suntec Real Estate Investment Trust's SGD250mn SUNSP 4.48%-PERP. For further information on issuances from Singapore-listed REITs, please refer to ***S-REITs: Sector Update***.

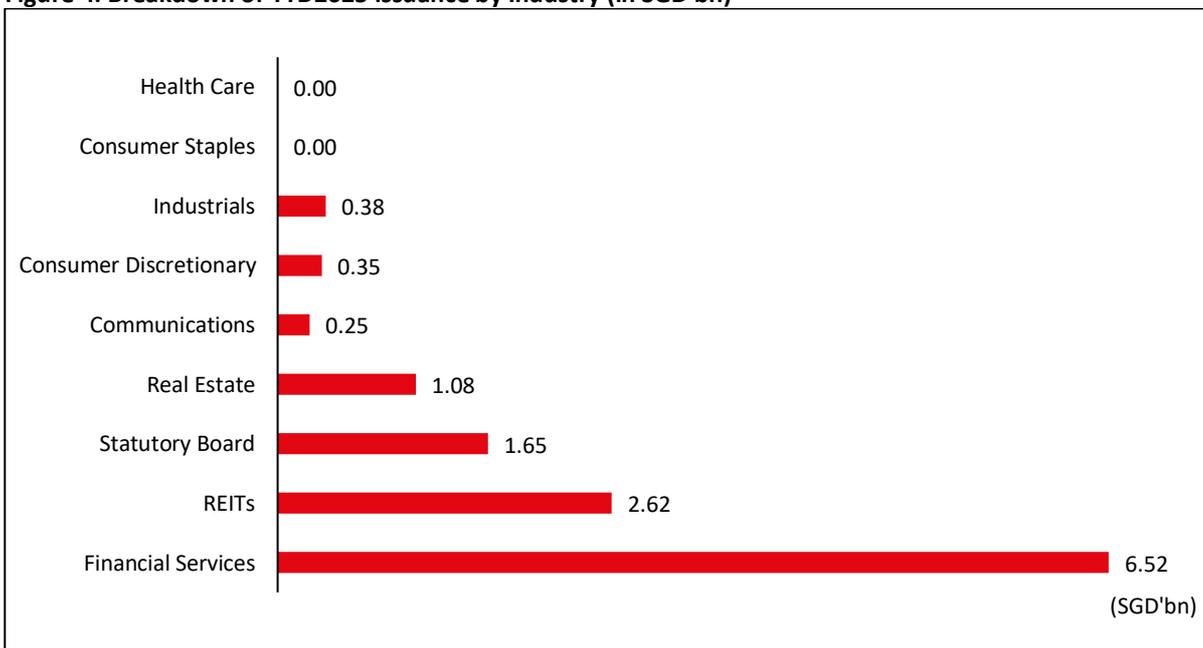
Statutory Boards were the next largest sector although saw a decline y/y to 13%. The fall largely reflects the lower issuance y/y by HDB although it still continues to be a key issuer in the SGD credit market and sometimes the driver for variation in y/y issuance trends. HDB's SGD950mn 5Y green bond was the largest issuance in the SGD credit market for 1H2025. The proceeds were used to finance or refinance eligible green projects for green buildings under HDB's Green Finance Framework, development programs and working capital requirements. HDB released an updated Green Finance Framework dated 6 June 2025 where it further highlighted that the net proceeds from Green Finance Transactions raised under the Green Finance Framework will be used exclusively to finance or re-finance Eligible Green Projects under the Project Category of Green Buildings. This includes the development of new residential and non-residential HDB projects that are planned to achieve the prevailing Building and Construction Authority ("BCA") Green Mark certification at the time of issue and (1) commences either during the 24 months prior to the issue date or, (2) where the project commences after the issue date then HDB will allocate at least 50% of the net proceeds to current and future expenditures. Rounding out the issuance by sector was Real Estate at 8% followed by Consumer Discretionary (Hotel Properties Ltd, Shangri-La Hotel Ltd) and Industrials (SCI, Daewoo Engineering & Construction Co Ltd).

Figure 3: Breakdown of YTD2025 issuance by industry (in %)



Source: Bloomberg, OCBC Credit Research as of 25 June 2025

Figure 4: Breakdown of YTD2025 issuance by industry (in SGD bn)

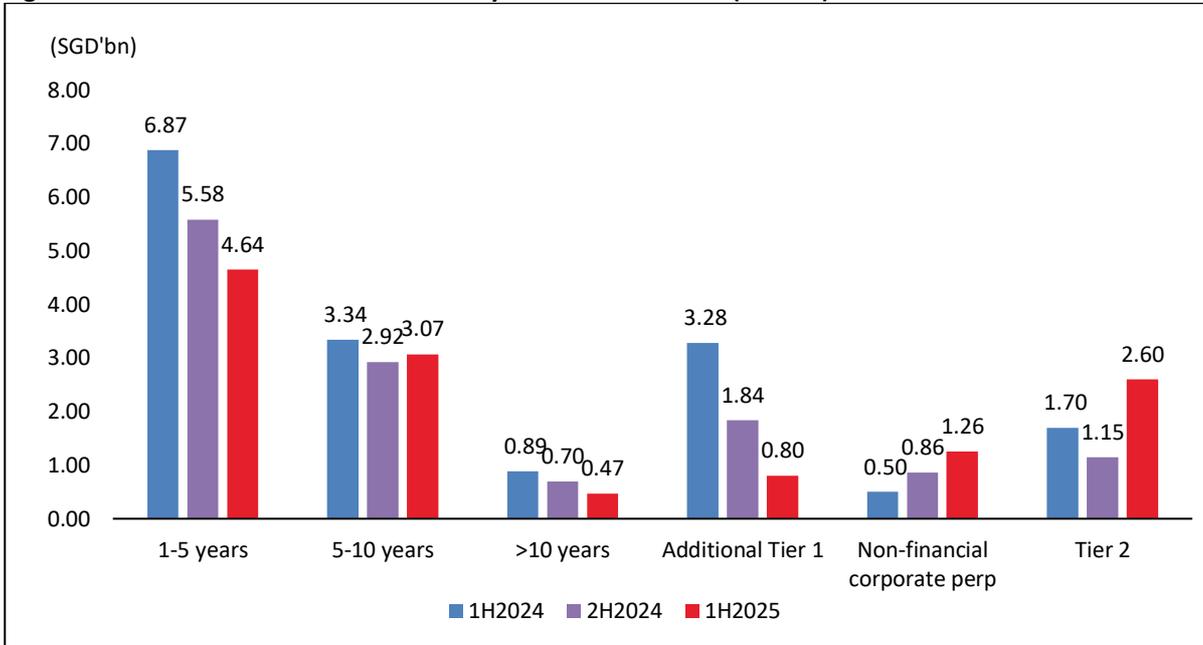


Source: Bloomberg, OCBC Credit Research as of 25 June 2025

**Shorter durations and cheaper debt trump all:** 1H2025 issuance across most tenor buckets and structures dropped y/y given the overall drop in issuance volumes with non-financial corporate perpetuals and Tier 2s being notable exceptions. This can be attributed to both the rates and credit spread environment where the rates trajectory was somewhat uncertain while credit spreads approached historical tightness earlier in the year before widening post Liberation Day. Within 1H2025, 1-5Y tenor bonds continued to see the highest issuance with ~75% of these issuances being priced in the first quarter of the year prior to Liberation Day. However with the credit curve steepened relative to recent times, we saw an increased preference for papers in the 5-10Y bucket as investors and issuers contended with US tariff uncertainties. While issuance volume for the greater than 10Y bucket was low for much of 1H2025, tighter all-in yields for the short to belly bucket (<3% for high grade) is driving investors to longer dated bonds in our view. The rise in perpetual issuance mostly reflects refinancing of calls on existing perpetuals and the need for

REITs to maintain perpetuals as part of their capital structure rather than any increased appetite for the instrument. The rise in Tier 2s reflects the higher issuance of insurers as well as some compression in the spread between Additional Tier 1s and Tier 2s during 1H2025.

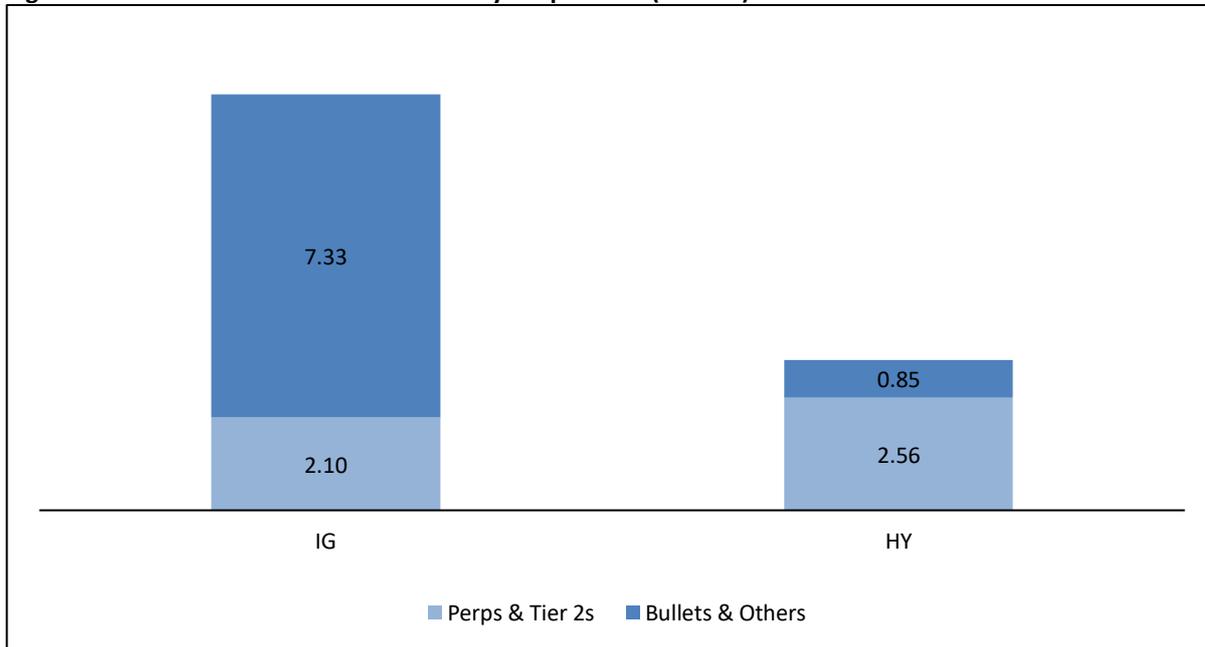
**Figure 5: Breakdown of YTD2025 issuance by tenor and structure (SGD'bn)**



Source: Bloomberg, OCBC Credit Research as of 25 June 2025

We continue to classify high yield (“HY”) issues in the SGD credit market as having a coupon rate (or distribution rate for perpetuals) of 4% or more and investment grade (“IG”) issues as those below 4%, notwithstanding the fall in SORA rates through 1H2025. Comparing IG vs. HY, we see a trend similar to 2H2024 with IG issuances far outweighing HY with SGD9.4bn and SGD3.4bn respectively. Within IG, bullet bonds dominate whereas the share of Tier 2s has grown h/h due to the Tier 2 issuances of AIA Group Ltd, Prudential Funding Asia PLC, Swiss RE Subordinated Finance PLC and Maybank Singapore Ltd. As for HY, true HY (non-subordinated) issuance continues to remain low and idiosyncratic at SGD0.85bn (higher h/h) while structural HY issuance amounted to SGD2.56bn related to REIT perpetuals and bank capital instruments from HSBC Holdings PLC, BPCE SA and Credit Agricole SA.

Figure 6: Breakdown of YTD2025 issuance by coupon rate (SGD'bn)

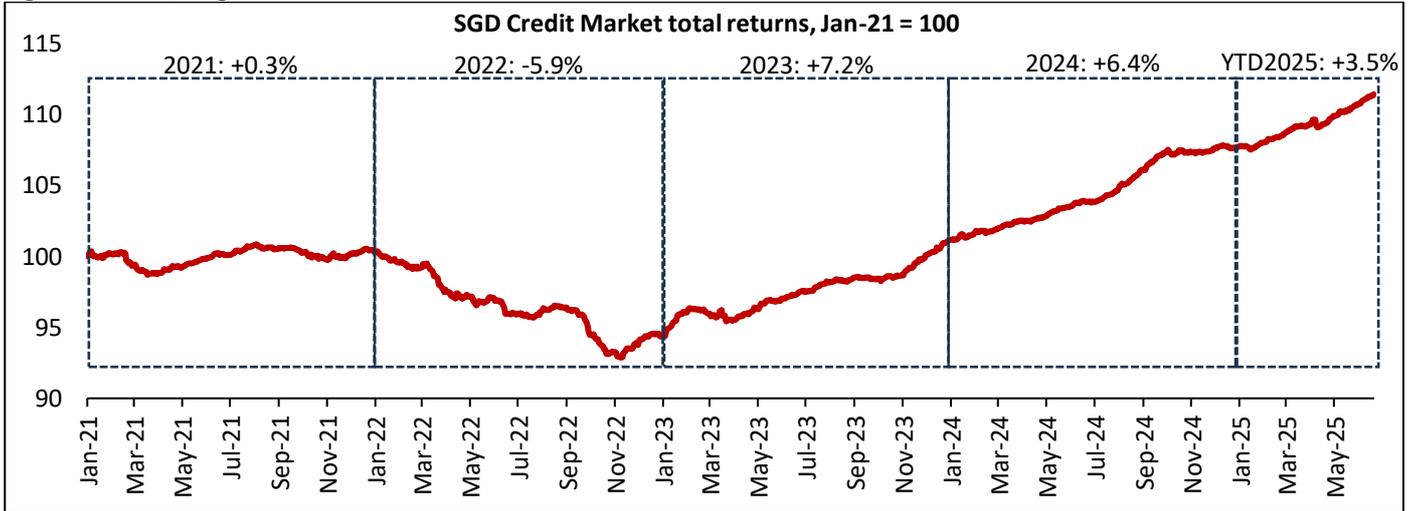


Source: Bloomberg, OCBC Credit Research as of 25 June 2025

**Tracking Returns in SGD Credit**

**Good start to 2025:** SGD credit market returned +3.5% in YTD2025 (annualised: +7.5%), despite the small blip surrounding Liberation Day. This continues the outperformance of the SGD Credit Market since 2023 (+18.1% since Jan-2023).

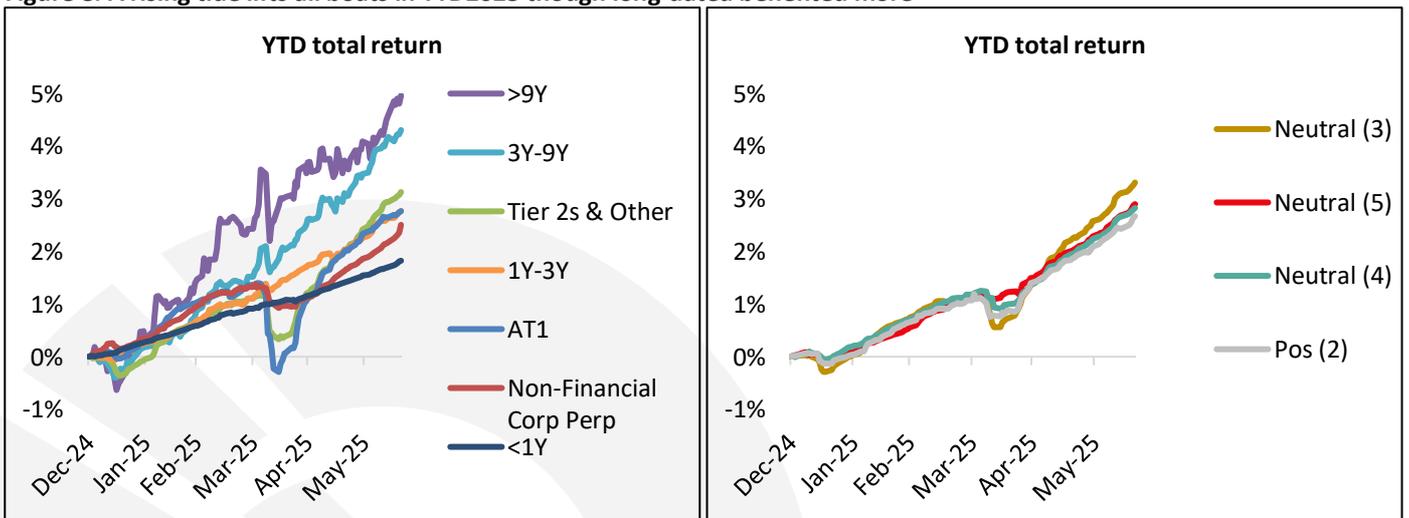
**Figure 7: So far, so good. +3.5% returns YTD2025**



Source: Bloomberg, OCBC, as of 23 June 2025

**Duration pays off:** The top performer by segments in YTD2025 are bullets that are 9Y or above (+5.0%) and bullets that are 3Y-9Y (+4.3%). In other words, investors have been compensated for buying into long-term papers. Conversely, the papers that delivered the lowest return, albeit still positive, are bullets below 1Y in tenor (+1.8%), non-financial corporate perpetuals (+2.5%) and AT1s (+2.8%). Within YTD2025, there appears to be little differentiation in returns between Issuer Profile, as papers issued by entities with Positive (2), Neutral (3), Neutral (4) and Neutral (5) Issuer Profile Ratings reflect similar performance.

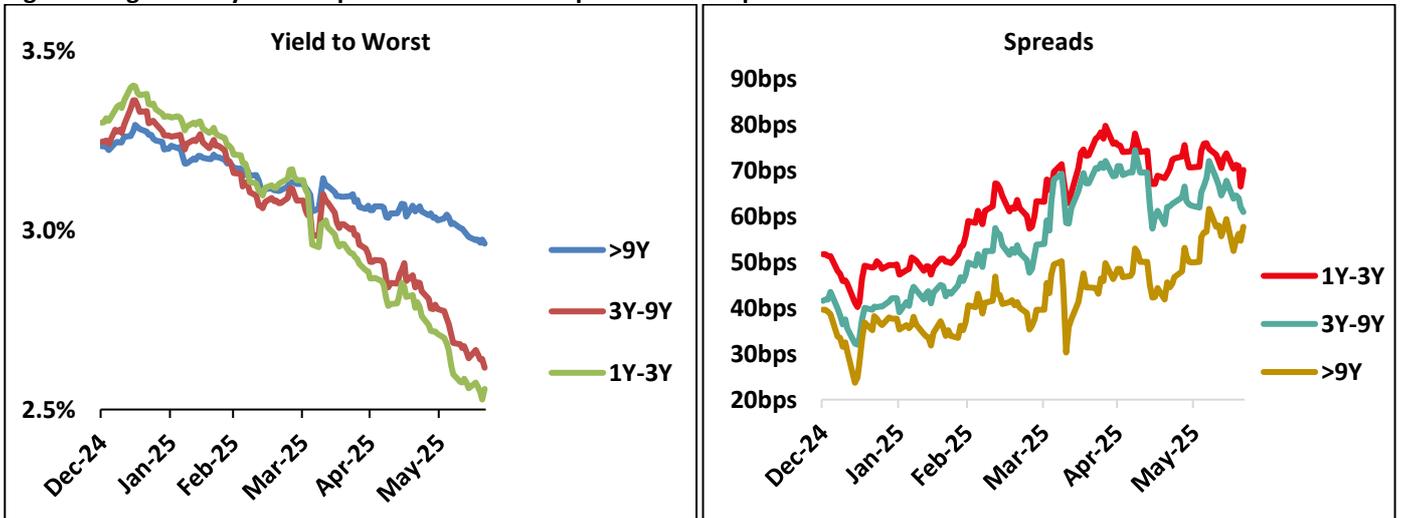
**Figure 8: A rising tide lifts all boats in YTD2025 though long-dated benefited more**



Source: Bloomberg, OCBC, as of 23 June 2025

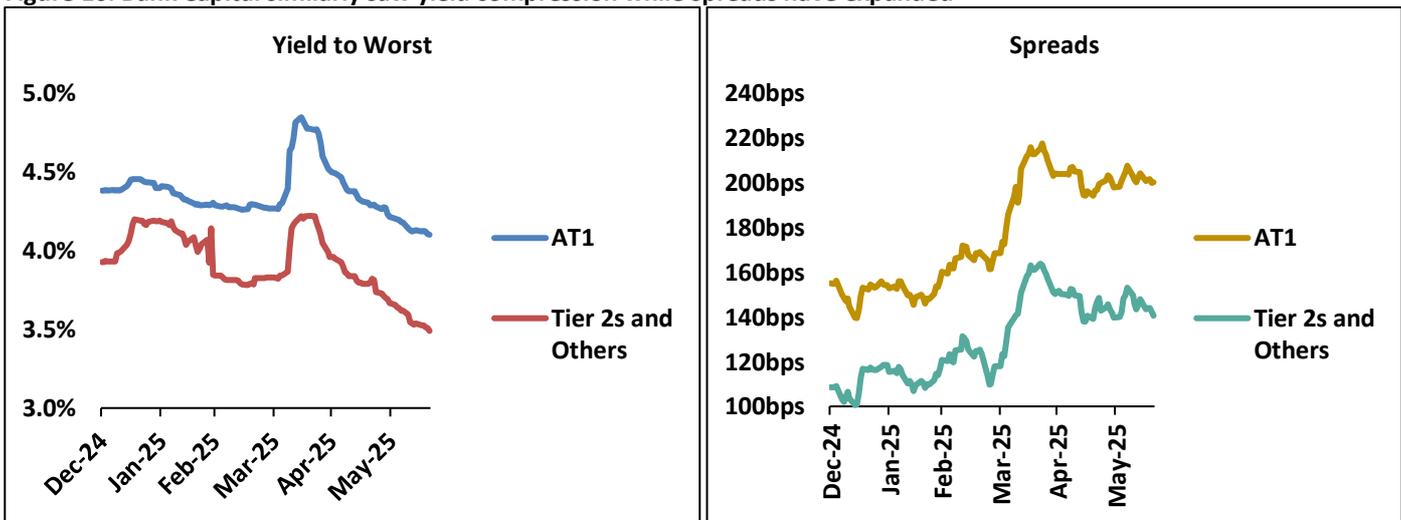
**Returns in 1H2025 were driven by fall in interest rates:** While spread compression had been a key theme between 2023 and 2024 that drove total returns, spreads have generally expanded in 1H2025. This implies that the fall in interest rates have been the key driver of performance, with yield to worst falling in 1H2025 (~74bps for 1Y-3Y papers, 63bps for 3Y-9Y papers and 27bps for very long tenor papers). Meanwhile, spreads have expanded nearly equally across all tenors by 18-19bps in 1H2025. Spreads have expanded more within the bank capital market though, with a higher spread increase in 1H2025 for AT1s (+44bps) versus Tier 2s (+31bps).

Figure 9: Significant yield compression even while spreads have expanded



Source: Bloomberg, OCBC, as of 23 June 2025

Figure 10: Bank Capital similarly saw yield compression while spreads have expanded



Source: Bloomberg, OCBC, as of 23 June 2025

Figure 11: Tracking Returns in SGD Credit: Summary of statistics

	>9Y	3Y-9Y	1Y-3Y
Yield	2.96%	2.62%	2.56%
Spreads	58bps	61bps	70bps
Effective Maturity	23.3Y	5.0Y	1.9Y

	AT1	Tier 2s & Others
Yield	4.10%	3.49%
Spreads	200bps	141bps
Effective Maturity	3.2Y	4.0Y

Source: Bloomberg, OCBC, as of 23 June 2025

### ***SGD Credit – A Competitive Alternative to Asiadollar amidst De-dollarization and the Evolving Climate***

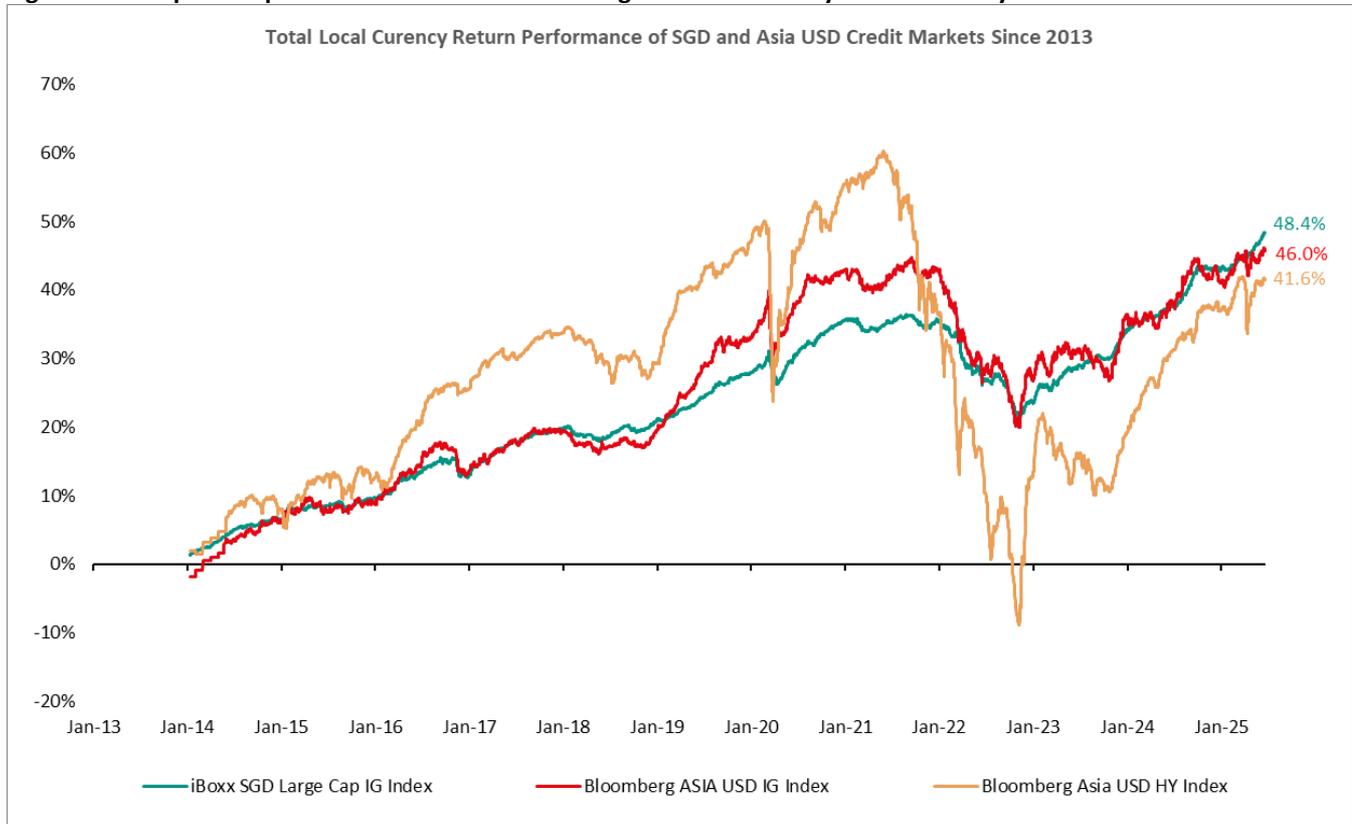
The conclusion from the previous ***SGD Credit Outlook 2H2024 (published on 28 June 2024)*** regarding the propositions of the SGD Credit market remains valid as at the time of writing. “SGD Credit market continues to offer (1) comparable returns to the Asia USD Credit market, (2) more resilient credit fundamentals of issuers, (3) lower volatility and is more defensive in nature, and (4) modest default rates, particularly after 2019.

Moreover, we believe local currency credit (including SGD Credit) could be more relevant and an attractive alternative to Asiadollar in 2025 and onwards amidst the de-dollarisation trend. As of 20 June 2025, the U.S. Dollar Index (“USD<sub>X</sub>”) has fallen 9.0% YTD to 98.66, near to the 3-year low of 97.92 on 12 June 2025. Besides, there appears to be more downside risks for USD<sub>X</sub> in the coming years. Based on Bloomberg consensus forecast median values, USD<sub>X</sub> is expected to fall to 97.8 (-0.9% compared to 20 June 2025) by end-2025, 94.4 (-4.3% compared to 20 June 2025) by end-2026, and 94.0 (-4.7% compared to 20 June 2025) by end-2027.

That said, the Bloomberg consensus forecast median value for USDSGD is substantially more stable in comparison to USD<sub>X</sub> for the coming years, for instance end-2025 (1.29), end-2026 (1.28) and end-2027 (1.28) in comparison to 1.285 as of 20 June 2025. The consensus trend implies that USD may not depreciate much against SGD in comparison to the components of USD<sub>X</sub>, which is calculated against six foreign currencies (eg: EUR, JPY, CAD, GBP, SEK, CHF).

We believe SGD Credit will remain relevant and a competitive alternative to Asiadollar Credit in 2H2025 amidst (1) US trade policy uncertainty and tariff impacts, (2) potentially weaker USD due to US fiscal and debt sustainability concerns and (3) rising geopolitical uncertainties. We believe the generally more resilient credit fundamentals of SGD credit issuers and Singapore could provide better cushions against potentially higher volatility ahead. Besides, Singapore remains top-ranked for political stability (ranked #1 in Asia per Lowy Institute) and its neutral foreign policy is likely to be less affected by rising geopolitical risks.

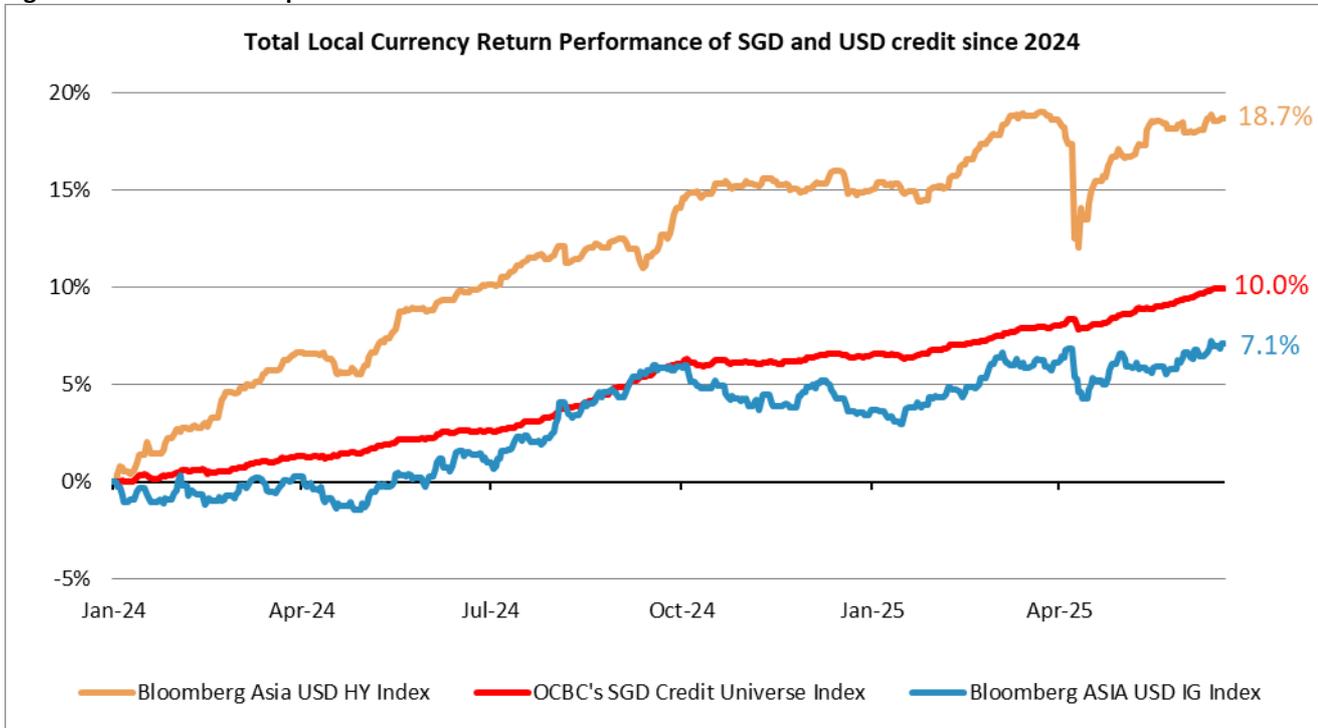
**Figure 12: Comparable performance of SGD Credit along with substantially lower volatility**



Performance is calculated on the basis of total return and local currency.  
 Source: Bloomberg, OCBC Credit Research

As of 19 June 2025, SGD Credit (using OCBC's SGD Credit Universe Index as a reference) delivered decent performance of 10.0% compared to end-2023, outperforming the Asiadollar Investment Grade ("IG") index by 2.9ppts.

**Figure 13: SGD Credit outperformed USD Credit**



Performance is calculated on the basis of total return and local currency.  
Source: Bloomberg, OCBC Credit Research

We believe the outperformance of the SGD Credit Universe as of 19 June 2025 over Asiadollar IG since 2024 was attributable primarily to meaningfully lower SORA OIS Yields in comparison to higher US Treasury yields (except the shorter end). Meanwhile, spread contraction is likely to play a smaller role for the outperformance of the SGD Credit Universe given that there was a similar spread contraction of SGD Credit by 16bps to 38bps (excluding non-financial corporate perpetuals and money market) in comparison to Asiadollar IG Credit (-31bps to 74bps).

**Figure 14: SORA OIS Yields fell steeper in comparison to higher US Treasury Yields (except the shorter end)**

		19-Jun-25	end-2024	end-2023	2025 over 2023 Difference	2025 over 2024 Difference	2024 over 2023 Difference
	Tenure	%	%	%	bps	bps	bps
SGD SORA OIS Yield	2Y	1.62	2.60	2.81	-119	-98	-21
SGD SORA OIS Yield	5Y	1.82	2.67	2.56	-74	-85	11
SGD SORA OIS Yield	10Y	2.13	2.76	2.58	-45	-63	18
US Treasury Yield	2Y	3.94	4.24	4.25	-31	-30	-1
US Treasury Yield	5Y	3.99	4.38	3.85	14	-39	53
US Treasury Yield	10Y	4.39	4.57	3.88	51	-18	69

Source: Bloomberg, OCBC Global Markets Credit Research

Figure 15: Similar credit spread compression of SGD Credit against Asiadollar IG Credit

	Spread (bps)	Spread (bps)	Spread (bps)	Difference (bps)	Difference (bps)	Difference (bps)
	19-Jun-25	end-2024	end-2023	2025 over 2023	2025 over 2024	2024 over 2023
<b>SGD Credit</b>						
AT1s	200	155	216	-16	45	-61
Tier 2s and Other Non-perp Sub	142	109	171	-29	33	-62
Longer Tenors (>9Y)	55	40	78	-24	15	-38
Mid Tenors (>3Y to 9Y)	62	42	83	-22	20	-41
Short Tenors (>1Y to 3Y)	66	52	104	-38	14	-52
Non-Financial Corp Perp	n.m.	n.m.	n.m.	-	-	-
Money Market (Up to 12 months)	n.m.	n.m.	n.m.	-	-	-
<b>Asiadollar Credit</b>						
Bloomberg Asia USD IG Bond Index	74	78	105	-31	-4	-31
Bloomberg Asia USD HY Bond Index	453	417	781	-328	36	-364

Source: Bloomberg, OCBC Credit Research

Figure 16: Performance of the SGD Credit Universe is comparable to Asiadollar IG even including USD forex impacts

	(a) OCBC's SGD Credit Universe Tracker	(b) iBoxx SGD Large Cap IG Index	(c) Bloomberg ASIA USD IG Index	(d) SGD IG vs Asia USD IG on local currency basis (b) - (c)	(e) USDSGD	(f) Bloomberg ASIA USD IG Index including USD performance (c)+(e)	(g) SGD IG vs Asia USD IG including USD performance (b) - (f)
2013	--	0.9 %	-1.9 %	2.8ppts	3.4 %	1.5 %	-0.6ppts
2014	--	5.5 %	8.5 %	-3.0ppts	4.9 %	13.5 %	-7.9ppts
2015	--	2.8 %	2.3 %	0.5ppts	7.0 %	9.3 %	-6.5ppts
2016	--	3.3 %	4.5 %	-1.2ppts	2.0 %	6.5 %	-3.2ppts
2017	--	6.0 %	5.1 %	0.9ppts	-7.7 %	-2.6 %	8.6ppts
2018	--	1.2 %	0.1 %	1.1ppts	2.0 %	2.1 %	-1.0ppts
2019	--	5.6 %	11.1 %	-5.5ppts	-1.2 %	9.9 %	-4.3ppts
2020	--	6.0 %	7.5 %	-1.5ppts	-1.8 %	5.8 %	0.2ppts
2021	0.2 %	-0.3 %	-0.0 %	-0.2ppts	2.0 %	2.0 %	-2.3ppts
2022	-6.8 %	-8.7 %	-11.2 %	2.5ppts	-0.7 %	-11.9 %	3.2ppts
2023	7.6 %	8.6 %	7.4 %	1.2ppts	-1.4 %	6.0 %	2.7ppts
2024	6.6 %	6.8 %	3.7 %	3.1ppts	3.4 %	7.1 %	-0.3ppts
2025 YTD	3.3 %	3.6 %	3.3 %	0.3ppts	-5.8 %	-2.4 %	6.0ppts
Total Return Since 2013	-	48.5 %	46.1 %	2.4ppts	5.3 %	51.4 %	-2.9ppts
Total Return Since 2021	10.6 %	9.4 %	2.1 %	7.3ppts	-2.6 %	-0.5 %	10.0ppts

Performance for category a, b and c is calculated on the basis of total return and local currency.

Source: Bloomberg, OCBC Global Markets Credit Research

## 2H2025 Outlook – Staying Neutral

We started 1H2025 with some uncertainty on the extent of policy shifts under President Trump 2.0. However, no one was prepared for the magnitude and frequency of policy shifts and the intensity of market swings from the associated volatility. This was reflected in the revisions to our views for the SGD credit market throughout 1H2025 that was directionally in line with our overall expectations but differed in its extent. As we wrote in late 2024, “Singapore’s stability contrasts with the fluctuations seen in major global economies. Consequently, we expect SGD credit markets to continue to act as a relative safe harbour in times of heightened geopolitical stress” and this, along with the limited direct impact from Trump tariffs, was the reason we turned Overweight on the SGD credit market on 9 April 2025 from Neutral while remaining vigilant to possible risks of stagflation. Credit spreads did widen from heightened volatility and rates compression through the rest of April but the SGD credit market continued to post positive returns while supply returned to the market in May and June. With expectations that gains may be slower going ahead on (1) possible elevated SGD supply, (2) the de-escalation of President Trump’s tariff push and a relative moderation in uncertainties compared to April and early May, and (3) the SGD credit market already having run-up somewhat, we revised our call on the SGD credit market to Neutral from Overweight at the start of June.

We are ending June however with a new set of uncertainties as conflict escalates in the Middle East. As at time of writing, US President Donald Trump announced that a ceasefire is in place between Iran and Israel although the situation remains highly fluid and volatile. Uncertainty may also rise further as the end of the 90-day trade tariff pause comes to an end. With this in mind, we continue to like the SGD credit market as it is expected to provide total positive returns. That said, we advocate investors to be increasingly selective. While credit as an asset class should remain in demand, we expect this demand to be somewhat focused towards high grade issuers, with issuance and market performance outside of this space to be more tepid.

1. **We are Neutral on very short (<1Y) and short tenor (1-3Y) bullets while preferring higher yielding bonds** in the high grade bonds space **in the belly (>3Y to 9Y) and longer tenors (up to 20Y)**. **Bearing in mind credit selection**, longer duration bonds can lock in yields and mitigate reinvestment risks while rates are at current levels.
2. **No preference for SGD crossover credits over high grade**. While we still expect default rates to remain low with liquidity risks among crossover issuers manageable, we conservatively see heightened risk aversion as likely to drive demand into high grade although retracements in risk appetite could be positive for select crossover credits.
3. **Selectively Overweight perpetuals with higher yields and resets**. Although the operating environment remains fluid, we continue to be Overweight non-financial corporate perpetuals with wide resets, while Neutral/Underweight those with tight reset spreads and unlikely to call. Non-call risks for the majority of perpetuals with first call dates for the remaining of 2025 should remain low. We also expect bulk of the perpetuals with first call dates in 2026 to be called, although with a lower confidence level for the probability of call for certain REIT perpetuals.
4. Similarly, we remain **selectively Overweight bank capital instruments**, in particular those with higher yields and wide reset spreads. This includes both Tier 2s and Additional Tier 1s. Financial Institutions should remain resilient and be a beneficiary of a flight to quality as has been the case in recent episodes of market volatility while most are expected to report solid earnings results in the remainder of 2025. That said, credit dispersion is rising for Financial Institutions, and we remain mindful of the impact to Additional Tier 1s from pullbacks in sentiment during negative episodic events that occur as a result of heightened financial market volatility. The recent spread widening however has created some buffer against volatility.
5. We remain **Underweight true high yield**. However, true high yield issuances are limited in SGD credit, and idiosyncratic factors will be a bigger driver.

We look forward to exploring these opportunities with you and continue to be grateful for our readers’ support and feedback.

## Exploring the Concept of Structural Subordination

**Overview of the concept:** When a business is performing well, going about their day-to-day business and paying their lenders on time and in full, investors usually do not pay much attention to the legal entity that issued the bond they have invested in. However, in a liquidation, the legal entity that issued the bond plays a large role in determining recoveries due to “structural subordination”. In the case of a company that may re-emerge as a healthy company following a change in how it finances itself, “structural subordination” also affects the bargaining power of all parties involved in such out-of-court restructuring. Typically, existing capital providers across the capital structure take losses in an out-of-court restructuring, although such losses are not evenly allocated. Creditors who would otherwise achieve a better outcome in a liquidation have more bargaining power over those who do not and may demand better recoveries for themselves even in out-of-court restructurings where outcomes are negotiated.

**What is structural subordination?** Structural subordination is the concept that a lender to a company will only have access to the assets of the company's subsidiary after all of the subsidiary's creditors have been paid and any remaining assets have been distributed to the company as an equity holder. Let's assume Arthur lends money to a parent company and Beatrice lends money to a subsidiary of this parent company. In a liquidation of the group, it is only after Beatrice and any other creditors of the subsidiary have been paid that any remaining assets will be available to satisfy the claims of creditors at the parent company (including Arthur's), *ceteris paribus*. In other words, Arthur's claims are structurally subordinated to Beatrice's claims. In the case of a parent company raising money through corporate bonds, Arthur is the bond investor that has invested in the bonds issued by the parent company. While the terminology differs, the same concept applies. The concept of structural subordination is typically not codified as law. It mainly arises from a company's corporate structure and where claims sit – these are governed by legal frameworks. That said, insolvency laws in key financing jurisdictions set out a hierarchy of claims, particularly in liquidations. The parent company is an equity holder of the subsidiary and equity holders are ranked at the bottom of the hierarchy of claims while debt holders are ranked at the top. Specific types of debt and different types of equity are stacked differently at these two ends. While the hierarchy of claims sets out the rules of engagement as to who gets paid first in a liquidation, creditors may still challenge the treatment of their claims in court which may alter outcomes.

**Why does structural subordination happen?** A holding company is a legal entity that is set up with the key purpose of holding equity stakes in other companies rather than operating businesses of its own. Parent companies may also be holding companies, although not necessarily. Assume a simple corporate structure where a parent company that is a holding company (“HoldCo”) holds only equity stakes in two separate operating subsidiaries. Each operates a different business, Opco One and Opco Two, and there are no legal guarantees across these three entities. In this case, aside from reputational repercussions, the holding company is legally insulated from the failure of either or both of Opco One and Opco Two. In the case of a liquidation, creditors of Opco One and Opco Two have no right to go after the assets of HoldCo. However, as business operations are carried out by Opco One and Opco Two, these operating subsidiaries tend to own valuable assets and know-how to run the day-to-day business. The operating subsidiaries are also likely to employ staff, a management team, and hold customer contracts.

**Structural subordination Explained:** Structural subordination happens as Opco One, Opco Two and HoldCo may be three separate borrowers. With assets and businesses, operating subsidiaries can typically borrow on their own credit standing. Despite holding companies not operating businesses of their own, they typically own the equity stakes in operating subsidiaries and thus receive equity dividends from the profits that operating subsidiaries earn. In this case, we can assume both Opco One and Opco Two pay dividends to HoldCo. Notwithstanding the issue of structural subordination, the value of HoldCo's shares in Opco One and Opco Two, as well as the equity dividends, may mean that the holding company is attractive to creditors. This is particularly so if the returns from investing in HoldCo's bonds is higher than investing in the standalone operating subsidiaries. On the flipside, the credit risk from two different income sources (albeit in the form of dividends) may also be lower vis-à-vis lending to standalone operating subsidiaries with a single income stream.

**Implications for Shareholders:** From the perspective of the shareholders of the parent company (in this case, the equity holders of HoldCo), the ability to maximise the capacity of the overall group to take on higher levels of debt may mean higher returns to shareholders. Instead of financing the business using more equity, using debt means fewer owners to share the upside with. As such, there is a ready supply of holding companies demanding debt capital as well. In the corporate credit market, corporate bonds are typically issued at the holding company level on an unsecured basis.

**Complications:** While subordination can be embedded in corporate structures without factoring in the existence of security, structural subordination goes hand in hand with the lack of security as valuable assets and know-how sit at the operating subsidiaries instead of the holding companies. As assets are typically pledged to obtain debt at the operating subsidiaries,

creditors of the operating companies have the right to seize the secured assets in the event of a default. Going back to our illustration, if the group defaults, claims at Opco One and Opco Two will be paid first. There may not be any assets left after to pay off HoldCo creditors. Issues of structural subordination may be compounded by a company history that includes expansions into a multitude of businesses, whether organically or through mergers and acquisitions. Cross-border activities with legal entities set up in multiple jurisdictions can complicate the corporate structure, as can the use of multiple types of financing instruments and guarantees. Together, these factors can result in difficulties in assessing the risk to different groups of creditors.

**Being far from assets can be a problem:** While the SGD credit market has not seen a wave of default in recent years, two notable issuers in the Asiadollar market have been trading at prices suggesting financial stress, namely China Vanke Co. Ltd. (“VANKE”) and New World Development Co. Ltd. (“NWDEVL”). As developments at these two issuers unfold, lessons learnt from previous defaults have taught us that in challenging circumstances, being far from the assets can result in diminished bargaining power compared to other creditors who have a direct claim on those assets.

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### ***Credit Considerations in Financing Renewable Energy***

**Renewable Energy Exposure in the Singdollar Market:** Whilst Singapore is constrained in the diversity of renewable energy sources, the country has established a plan to tap the abundant sunlight and has started importing low carbon electricity through regional electricity grids. Singapore has set out a target to deploy at least two gigawatt-peak of solar energy by 2030, enough to power around 350,000 households a year, and aims to import around six gigawatts of low carbon electricity by 2035. There are no pure-play renewable energy players in the Singdollar credit market although three corporate issuers stand out for their involvement in this sector, namely Sembcorp Industries Ltd (“SCI”), Keppel Ltd (“KEP”) and Keppel Infrastructure Trust (“KIT”). KEP and KIT have relatively diversified income streams across different business segments while SCI, which focuses on power generation, still relies on income from brown energy aside from its integrated urban solutions business.

**Standard Credit Risks in Infrastructure Projects – Overview:** Whilst the credit risk assessment for renewable energy comes with some unique characteristics, as renewable energy projects are infrastructure projects, many of the standard credit risk assessment criteria for assessing infrastructure projects similarly apply. The credit risk assessment of an infrastructure project is inherently interdependent, often more so than in corporate credit evaluations, as the various components of the underlying project collectively contribute to the overall creditworthiness. Project sponsors typically seek out long term funding to ensure that the debt burden matches the cash flow of the project, which is long term in nature and capital intensive, requiring lenders to commit for extended periods. Project finance is not the only type of debt available to fund infrastructure projects but often come with no or limited recourse to project sponsors.

**Standard Credit Risks in Infrastructure Projects – Development and Execution Risk:** In a typical greenfield infrastructure project, a project faces development and execution risk. Therefore, the profile and track record of a project sponsor is important, as poor project execution may cause unbuffered delays which in turn may lead to lower returns. In a worst-case scenario, a stranded project may lead to minimal recoveries for the creditor that funded the development phase, especially if a new project sponsor is not found.

**Standard Credit Risks in Infrastructure Projects – Defined Operational and Economic Lifespan:** Infrastructure projects are typically timebound, unlike a corporate issuer which is expected to be an ongoing entity. This means there is a limited time for capital source providers to generate their returns and debt will have to be profiled appropriately in line with such cash flow patterns. In an infrastructure project, an underlying asset has a useful life before it needs to be retired. In the case of solar energy systems, these typically have a useful life of 25-30 years. Infrastructure projects may not be fully dependent on market supply-demand dynamics but governed by underlying contracts instead, where the contractual terms and conditions will determine the economics of the project, including how long the asset is allowed to generate an income to capital providers (including for debt servicing). For example, KIT owns a 51%-stake in Keppel Merlimau Cogen, a conventional power plant located on Jurong Island where a capacity tolling agreement has been entered into with Keppel Electric Pte Ltd (“Keppel Electric”, an electricity retailer owned by KEP) with an original 15-year term that was extended by another 10 years. Under the agreement, Keppel Electric would pay fees in return for KMC availing electricity generation capacity. Separately, despite the Singapore electricity market being generally a merchant market where electricity generating companies are subject to the vagaries of supply and demand, SCI has entered into power purchase agreements with heavy users of electricity such as Equinix, Inc. (“Equinix”) a data centre operator, where SCI would supply renewable energy to Equinix’s Singapore operations.

**Standard Credit Risks in Infrastructure Projects – Cash Flow Stability is a Vital Consideration:** In infrastructure projects that are solely funded by project financing where creditors have no legal right to pursue sponsor’s other assets and income or in other words, non-recourse, the debt capacity of that single project would be determined by the quantum and strength of underlying cash flows whether contractual or otherwise. Infrastructure projects with a stream of cash flows that is more stable and from low-risk sources would allow the project to have a higher debt capacity. The ability to borrow more would thus allow a sponsor to generate higher returns. Even in cases where an infrastructure project operates without a contractual agreement with a predetermined buyer, such as when the project generates income due to its near-monopoly status, the stability of the legal, regulatory, and policy framework will play a crucial role in determining the credit strength of the cash flows generated by the project.

**Unique Credit Risks in Renewable Energy – Resource Risk:** Unlike conventional energy projects, renewables power projects face some unique hurdles. One of the main differentiating factors is resource risk. As long as feedstock such as oil, natural gas or coal is available, a conventional power plant can provide electricity when needed or can be turned off easily when not required. Not all types of renewable energy suffer from the same levels of intermittency. However, electricity generated from solar and wind is

particularly susceptible to the weather. Solar and wind combined account for 47 per cent of renewable energy generation globally in 2024, based on our tabulation using data from the International Energy Agency (“IEA”), and fast growing. Actual cash flow generation may fall short of projections if the initial resource forecasts used to raise funding were overly optimistic and if weather patterns shift unexpectedly, leading to lower electricity production than anticipated. According to the Intergovernmental Panel on Climate Change (“IPCC”), scientists have observed changes in the climate in every region across the whole climate system. With an uncertain trajectory over climate change and its impact to the weather, this adds a layer of uncertainty to the cash flow projections. While projections could be made more conservative by assuming lower resource availability or parametric insurance procured for the project, this may mean lower returns. Another complexity to project execution and therefore credit risk assessment for renewable power projects is that the resource supply may be located in far flung and challenging topographies versus where the demand is required. For example, subsea cables are required for offshore wind.

**Unique Credit Risks in Renewable Energy – Curtailment Risk:** A credit risk in renewable power projects is the risk of curtailment, where the grid does not absorb the electricity generated, even when there are available resources to generate electricity, resulting in a temporary loss of income. This can happen when demand is lower than supply and the power plant is directed to reduce or stop electricity delivery. There are also certain unique circumstances to renewable power that leads to curtailment. According to the US National Renewable Energy Laboratory (“NREL”), a variety of technical challenges must be overcome to ensure reliability and stability of the grid when integrating renewable energy into the grid. For example, not all renewable energy projects use standard synchronous generators, unlike conventional power plants. Conventional power plants generate electricity at a constant frequency that is synchronised with the grid, which helps with keeping the grid stable. In contrast, grid synchronisation issues are more common with solar and wind and this may increase curtailment risk to prioritise grid stability. Separately, due to their intermittent nature, renewable energy plants may face surges in electricity production and contribute to grid congestion where electricity generated is unable to be transmitted to where it is needed. When a congestion happens, renewable energy plants may face curtailment risk. Overall, curtailment risk tends to happen in places where grid investment and technological upgrades have not kept up with the growth of renewable energy capacity in the system.

**Policy and Regulatory Risks – Elevated in Renewable Energy Projects:** In our view, the impact of policy risk on credit assessment is greatest when an infrastructure project is not economically feasible on its own and where the political environment is hostile. For instance, the only port in a stable, open economy that earns revenue from third parties by providing a crucial entry and exit point for goods is likely to be less vulnerable to policy changes, in contrast to an infrastructure project that is solely reliant on government subsidies at a time when budgets are constrained. The energy sector has long been recipients of government subsidies and the renewable energy sector has also been subsidised, especially in early years of development when the cost was not yet competitive against fossil fuels. The form of government subsidies to the renewable power sector includes feed-in-tariffs (“FIT”), tax credits, grants, and loan programs. FIT is a mechanism where a buyer pays an electricity rate that is generally higher than the market rate to the renewable energy power generator to encourage new projects especially when the technology is new. On the surface, FIT is a credit positive as it removes market risk associated with a renewable power project. However, given that FIT can result in market distortion, this mechanism is fraught with policy uncertainty. For example, in May 2025, Reuters reported that a group of investors in Vietnam’s renewable power sector sent a letter to authorities warning of investments at risk due to retroactive changes to subsidised rates and that projects are facing risk of defaults.

**An emerging contender?** Looking ahead, nuclear which still invites skepticism, if not outright anathema is being studied as an option in Singapore. If this could be deployed safely and overcome public mistrust, it could pose a challenge to the demand for renewable energy. While the operation of solar and wind does not release greenhouse gas emissions, their production involves critical minerals, which may shift public perception toward concerns over the full life cycle of renewable energy. In May 2025, the US President signed executive orders to accelerate advance nuclear technologies after a long period where nuclear was de-emphasised in the US, while Singapore has entered into a Comprehensive Strategic Partnership with France that will expand their cooperation in areas including nuclear energy.

**Singdollar issuers for now are still corporate issuers rather than project finance issuers:** In Singapore, despite having a debt capital market that is maturing, we have yet to see an infrastructure project being financed through a project-specific bond. So far, the Significant Infrastructure Government Loan Act (“SINGA”) bonds that are used to fund infrastructure in Singapore, are effectively priced as sovereign bonds. In the case of Singapore issuers active in the renewable energy space, credit issuances are issued at the holding company level. As such, we focus on taking a corporate credit approach in assessing the credit risk of these issuers. The credit strength of such issuers is heavily influenced by their diversification across multiple projects and geography. We note that publicly available details over each project is also currently lacking, and more details are welcome. From a credit perspective, we view it positively that issuers that are transitioning, such as SCI, plan to use the stable and predictable cash flow

from their other segments to fund the growth of their green transition over time. This approach is preferable to a one-time, major transformational corporate action or a plan that relies predominantly on debt financing.

*A version of this special interest commentary authored by Ezien Hoo, Andrew Wong, Wong Hong Wei and Chin Meng Tee was first published in The Edge on 4 June 2025.*

**S-REITs – Sector Update**

**Moderation in new equity raised h/h:** In 2024, the iEdge S-REIT Index, regarded as the benchmark for Singapore REIT (“S-REIT”) equities saw a negative total return of -6.1%. In 1H2025 (1 January 2025 to 25 June 2025), the index has turned positive with total returns of +2.3%. We observe a significant negative correlation between the SORA OIS 10Y yield and the iEdge S-REIT Index, with the index dragged lower as benchmark rates go higher and improving as benchmark rates fall. As of writing on 25 June 2025, SORA OIS 10Y yield was at 2.05%, lower by 71bps compared to the beginning of the year and lower by 83bps compared to the same time last year. There were three S-REITs which raised equity funding in 1H2025 totalling ~SGD935mn, more than double that of 1H2024 although lower than 2H2024 which saw a bumper ~SGD2.4bn raised in new equity.

**Figure 17: YTD S-REIT Equity Raising**

Issuer	Pricing Date	Equity Raising Method	New Equity Raised (SGDmn)	Discount to VWAP <sup>1</sup>
Frasers Centrepont Trust (“FCT”)	March 2025	Private Placement	220	5.6%
FCT	April 2025	Preferential Offering	201.3	7.4%
CapitaLand Ascendas REIT (“AREIT”)	May 2025	Private Placement	500	5.2%
Elite UK REIT (“ELITE”)	June 2025	Private Placement	13.9	13.0%

Source: Company, Bloomberg, OCBC Credit Research

Note: (1) For private placements, volume weighted average price (“VWAP”) of all trades in the units on the Singapore Stock Exchange for the preceding market day, up to the time the placement agreement was signed

**New REIT IPOs may happen:** Since 2022 to date, there has been no new REIT listings in Singapore. According to REITAS, the trade association of REITs in Singapore, weaker broader market conditions and elevated interest rates continued to weigh on issuer sentiment, with many opting to wait for more favourable listing conditions. However, in the past few months, the media has reported that (1) Nippon Telegraph & Telephone Corp (“NTT”) is planning a potential data centre REIT that could take place in 2H2025 and (2) A potential Singapore REIT by IOI Properties Group (“IOIPG”) in 2027, aside from a separate REIT by IOIPG planned in Malaysia. Previously the media also reported that a REIT by Link REIT consisting of assets outside of China and HKSAR is also being explored, however, while the company acknowledged conducting feasibility studies on such transactions, it cautioned that these evaluations may or may not lead to a deal.

**Acquisitions driven by two S-REITs:** According to data compiled by REITAS using information from the SGX, property acquisitions totalled SGD7.1bn in 2024 and we note that many of these acquisitions happened in 2H2024. At the beginning of the year, we had expected S-REITs to continue becoming more acquisitive in a more benign rates environment while REITs contend with less mark to market losses going into 2025. We expect that S-REITs will take more of a wait and see approach, although the lower interest rate environment may throw up interesting opportunities as spreads between property yield and cost of debt widens. We estimate that S-REITs announced SGD2.5bn of acquisitions in 1H2025. The single largest announced acquisition was from FCT, buying the South Wing of Northpoint City for SGD1.17bn from the sponsor and parties related to the sponsor, followed by AREIT which is looking to buy two properties in Singapore (a business space and a data centre) for SGD700mn from CapitaLand Group Pte Ltd.

**S-REIT primary credit market was active:** 1H2025 saw SGD2.1bn of new issuances from S-REITs across 14 issues from 11 issuers. In 2024, there were SGD2.7bn of credit issuances from S-REITs where 53% was priced in 2H2024. The SGD credit market saw a debut issuance from IREIT Global, a higher yielding REIT focused on European offices and retail properties, jointly sponsored by Tikehau Capital and City Development Limited (“CDL”). IREIT Global priced SGD85mn of 3Y green senior unsecured bonds in May 2025. FCT which was absent from the SGD credit market for a short period of time when its last outstanding bond matured in November 2024, returned to the market in February 2025 with a new SGD80mn 7Y senior unsecured green bond and subsequently in June 2025 with a debut SGD200mn perpetual. On 25 June 2025, CapitaLand India Trust also launched a debut SGD perpetual (yet to be priced as of writing).

.....However, we note that the proportion of green, social, sustainability and sustainability-linked issues was lower at SGD415mn or only 19.6% of issuances. In contrast, GSSSL made up 63% of total S-REIT issuances in 2024. In our view, this may be driven by the presence of smaller S-REITs in the issuance market in 1H2025 (median total asset of SGD6.4bn) as compared to 2024 (median total asset of SGD8.8bn) with issue sizes that were also smaller comparatively. Larger scale S-REITs have had a longer

track record in issuing GSSSL credit paper. We continue to see the mainstreaming of GSSSL credit issuances by S-REIT segments as a trend.

**Active perpetual issuances in 1H2025:** Driven by existing perpetuals which were facing first call dates, lower overall benchmark rates and aided by the ability to raise perpetuals at tighter reset spreads, the market saw six S-REIT perpetual issuances in 1H2025 raising a total of SGD1.08bn. Four out of the six perpetual issuances were priced at reset spreads that were tighter than the perpetuals they replaced/intended to replace. The reset spread on the EREIT 5.75%-PERP (SDSOA5 + 3.512%) is wider than the EREIT 6.632%-PERP (SDSW5 + 2.60%; no fallback language) which it replaced. In theory, if fallback language is inserted (eg: through a consent solicitation exercise), at the next reset date in November 2027, the distribution rate on the EREIT 6.632%-PERP may reset lower to ~5.0% based on the market’s current forward rate expectations. However, the next reset date would only occur in November 2027 while the treatment for perpetuals with lack of fallback language is still untested in the SGD credit market. At a 5.75% distribution rate p.a, this would result in upfront cost savings to ESR-REIT (“EREIT”). EREIT and Suntec Real Estate Investment Trust (“SUN”) also took the opportunity to raise some additional new capital through their perpetual issuances to be used for other purposes such as refinancing existing debt and for general working capital and capital expenditures. In contrast for the whole 2024, there were only three new perpetual issuances, all of which were priced in the second half. In a rare instance, the ARTSP 4.2%-PERP priced in May 2025 has a first call date in 5.8Y versus S-REIT perpetuals which very commonly have a first call in 5Y or 3Y in the case of Lendlease Global Commercial Trust (“LREIT”) perpetuals.

**Figure 18: 1H2025 S-REIT Perpetual Raising**

Issue	Pricing Date	Reset Spread	Use of Proceeds
LREIT 4.75%-PERP	February 2025	SDSOA3 + 2.185%	Partial redemption of existing perpetual at first call
AAREIT 4.7%-PERP	March 2025	SDSOA5 + 2.437%	Redemption of existing perpetual at first call
EREIT 5.75%-PERP	March 2025	SDSOA5 + 3.512%	Redemption of an existing perpetual at sixth call (a stub remained outstanding from a previous exchange offer as some investors opted not to participate) and other uses
ARTSP 4.2%-PERP	May 2025	SDSOA5 + 2.133%	Redemption of existing perpetual at the 11 <sup>th</sup> call which coincides with next reset date; existing perpetual lacks fallback language
SUNSP 4.48%-PERP	June 2025	SDSOA5 + 2.656%	Redemption of existing perpetual at first call and other uses
FCTSP 3.98%-PERP	June 2025	SDSOA5 + 2.221%	Debut perpetual

Source: Company, Bloomberg, OCBC Credit Research

Note: (1) On 25 June 2025, CapitaLand India Trust launched a debut SGD perpetual (yet to be priced as of writing). If priced, funding will likely go towards acquisitions/investments

**View on perpetuals call risk in 2025 and 2026:** At the beginning of the year, we held the view that perpetuals with resets in 2025 are likely to be called and we continue to think this is the case. LREIT has called the LREIT 5.25%-PERP which we have assigned a 50:50 probability of a call at the beginning of the year. That said, out of the SGD200mn amount outstanding on this perpetual, only SGD120mn was funded through a replacement perpetual (the LREIT 4.75%-PERP) while the remaining was likely funded by bank debt. AIMS APAC REIT (“AAREIT”) priced SGD125mn of perpetuals (the AAREIT 4.7%-PERP) where the new perpetual was used to pare down revolving debt, pending redemption of the AAREIT 5.65%-PERP in August 2025. We note that spot benchmark rates have fallen since the beginning of the year while 1Y forward 5Y tenure forward rate expectations have also fallen. All things equal, a perpetual with a wider reset spread will have a higher probability to be redeemed, as this economically incentivises issuers to call. S-REIT perpetuals do not come with step-ups as a criterion to qualify for equity treatment.

Figure 19: S-REIT Perpetuals with First Call Date in 2025 and 2026

Issue	First Call Date	Reset Spread <sup>1</sup>	Estimated Distribution Rate <sup>2</sup>	Probability of Call at First Call
AAREIT 5.65%-PERP	Aug 2025	SDSW5 + 5.207%	7.3%	Very High, Call has been announced
KREITS 3.15%-PERP	Sep 2025	SDSW5 + 2.577%	4.7%	High
AREIT 3.0%-PERP	Sep 2025	SDSW5 + 2.48%	4.6%	High
SUNSP 3.8%-PERP	Oct 2025	SDSW5 + 3.295%	5.5%	High, replacement perpetual has been priced
CRCTSP 3.375%-PERP	Oct 2025	SDSW5 + 2.875%	5.0%	High
SGREIT 3.85%-PERP	Dec 2025	SDSW5 + 3.292%	5.5%	High
MINTSP 3.15%-PERP	May 2026	SDSW5 + 2.082%	4.3%	50:50
LREIT 4.2%-PERP	Jun 2026	SDSW5 + 3.24%	5.5%	High
MAGIC 3.5%-PERP	Jun 2026	SDSW5 + 2.527%	4.8%	High
SUNSP 4.25%-PERP	Jun 2026	SDSW5 + 3.29%	5.5%	High
AAREIT 5.37%-PERP	Sep 2026	SDSOA5 + 4.654%	6.6%	High
MLTSP 3.725%-PERP	Nov 2026	SDSOA5 + 2.485%	4.4%	50:50
CERTSP 5.0%-PERP	Nov 2026	SDSOA5 + 3.615%	5.5%	70:30

Source: Company, Bloomberg, OCBC Credit Research

Note: (1) All the S-REIT perpetuals above where reset is linked to SOR has fallback language

(2) Estimated distribution rate if not called at first call; based on forward rate expectations as at 20 June 2025

^ OCBC Credit Research does not currently maintain official coverage of the issuer of this perpetual

**Perpetuals which missed the first call and are still outstanding:** Lippo Malls Indonesia Retail Trust (“LMRT”) have the right to call its two outstanding SGD perpetuals amounting to SGD260mn every six months, although both have yet to be called as of writing. LMRT has halted distributions on the perpetuals since March 2023 and June 2023 respectively due to credit stress. First Real Estate Investment Trust (“FIRT”) missed the first call date on the then FIRTSP 5.68%-PERP in July 2021, with the perpetual distribution rate resetting lower to 4.9817%. FIRT had completed its master lease restructuring only in early 2021, resulting in lower rental income, while 5Y SOR was low at ~92bps then. Following a tender offer, ~SGD33.3mn remains outstanding on the FIRTSP 4.9817%-PERP. FIRT has maintained distributions on this perpetual throughout. The next reset date is in July 2026 and our base case assumes that the perpetual will be called at the next reset date.

**Increased uncertainty over impact of Trump Tariffs:** In our view, among the S-REIT sectors, the industrial REIT sub-segment faces the highest level of uncertainties from the reignition of tariff tensions post Liberation Day. Overall, the direct impact appears limited, although uncertainty remains over possible second and third-order impacts from an economic slowdown which may result in tenants giving up spaces early and rental arrears and/or an overall softer leasing market. We set out below a commentary for each of the industrial focused S-REITs which we track.

Figure 20: Impact of Trump Tariffs

Issuer	Commentary
Mapletree Logistics Trust ("MLT")	<ul style="list-style-type: none"> <li>• APAC-wide focused logistics REIT where MLT's China business was already soft even before Trump Tariffs. Per MLT, its China logistics assets cater mostly to domestic consumption/distribution.</li> <li>• Based on MLT's estimates, ~15% of overall portfolio revenue is derived from tenants with export business. Balance comes from tenants whose business are catering to domestic consumption/distribution.</li> <li>• Exposure to tenants with US bound exports is estimated at less than 5% for overall portfolio.</li> <li>• MLT has not seen discernible adverse change in tenant behavior.</li> </ul>
Mapletree Industrial Trust ("MINT")	<ul style="list-style-type: none"> <li>• ~44% of MINT's portfolio value are in SG industrial properties, bulk of these cater to manufacturing.</li> <li>• Large tenants are typically the APAC headquarters of multinationals; these tenants had been diversifying supply chains even before Trump Tariffs.</li> <li>• Tenants that MINT's management has spoken to are not yet facing disruptions on production supply to the US while their headquarters decide on next steps.</li> <li>• 55.9% of portfolio value are in data centres (located largely in the US). The main impact from Trump Tariffs on data centre tenants is likely higher cost of operations.</li> </ul>
AAREIT	<ul style="list-style-type: none"> <li>• 47.2% of AAREIT's FY2025 (March financial year end) gross rental income is derived from the Logistics &amp; Warehouse sector. AAREIT's logistics portfolio is Singapore-focused.</li> <li>• Based on AAREIT's preliminary estimate of its top 20 tenants that collectively makes up one third of its overall portfolio, management's view is less than 10% of AAREIT's revenue is exposed to exports to the US.</li> <li>• Tariff impact is very new and AAREIT may only see impact over a few quarters.</li> </ul>
EREIT	<ul style="list-style-type: none"> <li>• 43% of tenant base is in the logistics and warehousing trade and most of them serve a myriad of contract logistics end-user customers that carry cargo across various countries globally.</li> <li>• Tenant's customers may not be aware of the downstream customers' end destination. Hence, is unable to pinpoint how much of the cargo gets specifically exported to the US ultimately, given Singapore's transshipment hub status.</li> <li>• As of current nothing has come to EREIT's attention to be alarmed on tenant behaviour; have not seen heightened risks of non-renewals while rental collection following usual trend.</li> </ul>
Fraser's Logistics & Commercial Trust ("FLT")	<ul style="list-style-type: none"> <li>• Logistics &amp; Industrial portfolio make up 72.4% of portfolio value. Logistics portfolio is Australia and Germany focused.</li> <li>• No impact on portfolio for FLT so far. No tenant export to US. However, automakers in Europe could be hit and this is ~6% of total portfolio value.</li> </ul>

Source: Company, OCBC Credit Research

Figure 21: REIT Metrics (as of 31 March 2025 unless otherwise stated)

	Aggregate Leverage (%)	Interest Coverage Ratio <sup>1</sup>	Debt Duration (years)	Debt Cost (%)	Proportion of debt fixed/hedged (%)	Debt Maturing in 2025 (%) <sup>2</sup>	Debt Maturing in 2026 (%) <sup>2</sup>
<b>Commercial</b>							
CapitaLand Integrated Commercial Trust	38.7	3.2	4.2	3.4	78.0	5.3	8.6
Keppel REIT	42.1	2.5	2.6	3.5	65.0	11.8	16.1
Mapletree Pan Asia Commercial Trust	37.7	2.8	3.3	3.5	79.9	7.0	11.3
Suntec REIT	43.4	1.9	3.2	4.0	65.0	6.9	2.3
Lippo Malls Indonesia Retail Trust	44.2	1.3	6.3	8.7	4.3*	2.6	8.1
Starhill Global REIT	36.6	2.9	2.9	3.7	83.0	13.4	13.0
CapitaLand China Trust	42.6	3.0	3.9	3.5	75.0	0.2	12.6
Lendlease Global Commercial REIT	38.0	1.5	1.8	3.5	76.0	33.9	18.2
Frasers Centrepoint Trust <sup>^</sup>	38.6	3.3	3.0	3.9	75.8	5.5	20.2
<b>Average</b>	<b>40.2</b>	<b>2.5</b>	<b>3.5</b>	<b>4.2</b>	<b>66.9</b>	<b>9.6</b>	<b>12.3</b>
<b>Industrial</b>							
CapitaLand Ascendas REIT	38.9	3.6	3.1	3.6	73.6	15.5	13.0
Mapletree Industrial Trust	40.1	4.3	3.2	3.0	78.1	14.0	20.0
Mapletree Logistics Trust	40.7	2.9	3.8	2.7	81.0	5.3	11.5
AIMS APAC Industrial REIT	28.9	2.4	3.0	4.3	85.0	-	26.4
Frasers Logistics and Commercial Trust	36.4	4.5	2.3	3.0	69.7	20.9	17.0
ESR REIT	41.9	2.4	2.8	3.7	81.7	-	26.5
Stoneweg Europe Stapled Trust <sup>^</sup>	42.9	2.9	4.1*	4.2	63.4*	-	21.9
<b>Average</b>	<b>38.5</b>	<b>3.3</b>	<b>3.2</b>	<b>3.5</b>	<b>76.1</b>	<b>13.9</b>	<b>19.5</b>
<b>Hospitality</b>							
CapitaLand Ascott Trust	39.9	3.2	3.5	2.9	76.0	16.1	14.4
<b>Average</b>	<b>39.9</b>	<b>3.2</b>	<b>3.5</b>	<b>2.9</b>	<b>76.0</b>	<b>16.1</b>	<b>14.4</b>
<b>Others</b>							
First REIT	40.7	3.8	2.3	4.7	56.7	-	55.6
OUE REIT	40.6	2.1	2.8	4.2	74.7	5.6	35.2
CapitaLand India Trust <sup>^</sup>	41.5	2.5	2.8	6.0	84.5	16.1	17.1
Keppel DC REIT <sup>^</sup>	30.2	5.8	3.1	3.1	68.0	2.2	22.4
<b>Average</b>	<b>38.3</b>	<b>3.6</b>	<b>2.8</b>	<b>4.5</b>	<b>71.0</b>	<b>8.0</b>	<b>32.6</b>

Source: OCBC Credit Research, company financials and investor presentations

\* OCBC Credit Research estimates

<sup>^</sup> OCBC Credit Research does not currently maintain official coverage of these names

Note: (1) For the trailing 12 months to 31 March 2025 as reported; Lendlease Global Commercial REIT for the trailing 12 months to 31 December 2024 (2) As a percentage of total debt for remaining of 2025 and 2026 by calendar year end; calendarised figures for REITs whose financial year end differ from 31 December

## Singapore Industrial REITS – Supply coming back amidst heightened uncertainty over trade tariffs

In 1Q2025, JTC’s price index increased by 1.5% q/q for all industrial properties while on a y/y basis, this was up by 5.3%, still superseding pre-pandemic levels. The JTC rental index for all industrial properties increased by +0.5% q/q (+2.3% y/y) in 1Q2025. While rental index still rose q/q, this is at a noticeably slower pace compared to 1Q2022 to 2Q2024. On a y/y basis, the rental index for the multiple-user factory and warehouse segments grew the highest at 2.8% y/y and 2.0% y/y respectively.

All-industrial vacancy rate was stable q/q at 11.0% in 1Q2025 and within historical levels. That said, the business park segment has been seeing increasing vacancies, with 1Q2025 vacancy rising to 24.1% from 22.1% in 4Q2024. However, in an indication of flight to quality, new business parks are seeing encouraging take up per C&W.

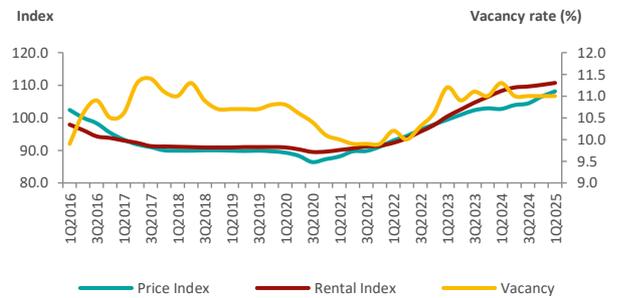
As at 31 March 2025, the estimated new supply for the remaining of 2025 was 0.7mn sqm and 1.5mn sqm in 2026. This is significantly higher than the actual 0.3 mn sqm added into the market in 2024 and likely to cap how much further rental rates can grow in the industrial space. The actual new supply in 2024 was much lower than the estimates provided by JTC at the end of 2023 and we think that some supply may have been pushed forward.

We expect the Singapore industrial market to be more insulated versus industrial properties that are located in geographies with a softer economic outlook and geographies which are facing tariffs that are significantly higher than Singapore’s 10% base rate. Broadly, we think Singapore and Australia industrial properties will likely be more insulated versus China, HKSAR and Vietnam. However, the longer-term impact to the Singapore industrial property market is still uncertain as this will also depend on how trade flows adjust to the new environment. In May 2025, the Singapore Purchasing Manager Index for Manufacturing was at 49.7 (April 2025: 49.6), below the 50 contraction territory. In 1Q2025, investment sales for the industrial property space amounted to only SGD230.3mn (2024: SGD5.6bn).

For 1Q2025 Singapore’s GDP grew by 3.9% y/y, moderating from the 4.4% y/y for 2024. The official growth forecast by the Singapore Ministry of Trade & Industry is at 0-2% with the risk of a technical recession flagged. The growth forecast was cut from 1-3% previously following the tariffs announcement which is expected to have a wide-ranging impact to trade. OCBC’s economist’s 2025 GDP growth forecast is at 1.6% y/y.

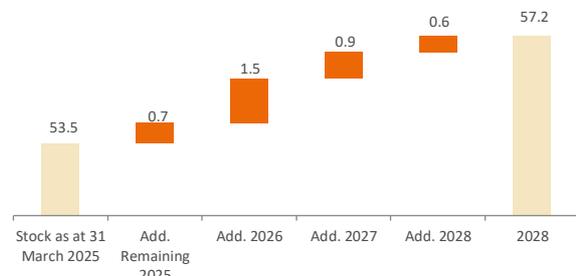
In March 2025, the JTC announced four enhancements to the industrial land lease framework. Among the enhancements, JTC will grant an additional 3Y of lease, with payable land rent/premium such that businesses can have the full 20Y/30Y leasehold period where new building development is needed.

**Figure 22: Industrial Price, Rental and Vacancy**



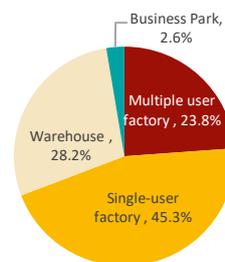
Source: JTC, OCBC Credit Research

**Figure 23: Industrial stock and supply pipeline**



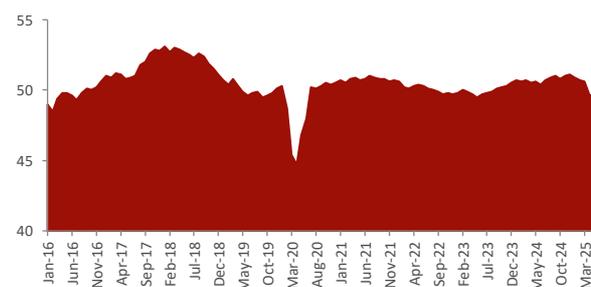
Source: JTC, OCBC Credit Research

**Figure 24: Additional supply by sub-segment cumulative 2Q2025 to 2028**



Source: JTC, OCBC Credit Research

**Figure 25: Singapore PMI – Manufacturing Index**



Source: Singapore Institute of Purchasing and Materials Management

## Singapore Commercial Office REITS – Tight supply amidst macroeconomic uncertainties

Per Colliers, capital values for the Core CBD Premium & Grade A market were flat q/q in 1Q2025. Net yields for the Singapore office market in recent years was ~3.4% to ~3.6% and this was 3.6% in 1Q2025. As of writing on 17 June 2025, 10Y SORA was lower at ~2.13% (82bps lower versus a year before). Sector-wide spreads on office rental yield against cost of debt funding is likely to start turning positive after a few years of at best flat-to-negative spreads, in our view. Despite the unfavourable spreads, there has been no notable distressed sales in the Singapore office market. Positive spreads between office yield and cost of debt funding may encourage higher investment sales in the Singapore office market in our view.

According to C&W data, there was only two significant investment sales that happened in the office space in 1Q2025, being the sale of three floors at 20 Collyer Quay and a mixed-used integrated development in Woodlands. However, in June 2025, City Developments Limited (“CDL”) and IOI Properties Group Berhad (“IOIPG”) announced that they have entered into a share sale agreement for their South Beach mixed-use integrated development (Grade A office, hotel, food & beverage) joint venture, where IOIPG will buy CDL’s 50.1%-interest in the property. IOIPG already holds a 49.9%-interest in the property and post completion targeted in 3Q2025 will own the full interest in the property. The estimated sale consideration is SGD834.2mn. IOIPG, a Malaysian-headquartered property group has been active in the Singapore office space in recent years, with its IOI Central Boulevard Grade A office added to the market in 2024. IOIPG is exploring a REIT for its Singapore office properties.

Despite capital values holding up, the outlook over rents is more tepid. Per Colliers, office rents were -0.1% q/q in 1Q2025 for the Core CBD Premium & Grade A market and Colliers projects 2025 rents to be flat to a +2.0% growth. Using official data, office rents per URA data was flat q/q in 1Q2025 at SGD12.52 per sq ft per month for office space in buildings located in core business areas in Downtown Core and Orchard Planning Area which are relatively modern or recently refurbished, command relatively high rentals and have large floor plate size and gross floor area. Remaining office space that does not fall in this category increased by 0.6% q/q to SGD6.39 per sq ft per month in 1Q2025.

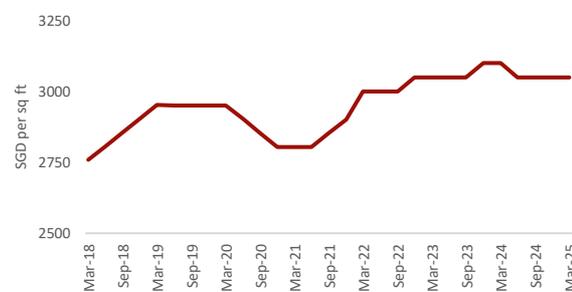
Vacancy rates were higher at 11.7% in 1Q2025 (4Q2024: 9.1%) per URA data, somewhat higher than recent history. This is likely due to the addition of Keppel South Central in Tanjong Pagar that completed in 1Q2025 (reportedly ~50% committed or actively negotiated as of April 2025). There are no new offices that will be added into the central business district in 2025 and new supply in the market is expected to be tight between 2025 to 2027 which may buffer potential pullback in tenant demand amidst macroeconomic uncertainties.

**Figure 26: Singapore Office Rent and Vacancy**



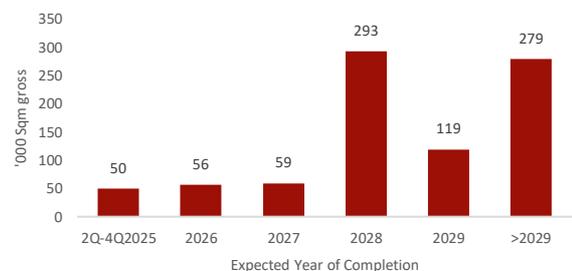
Source: URA, OCBC Credit Research

**Figure 27: Singapore Prime Office Capital Value**



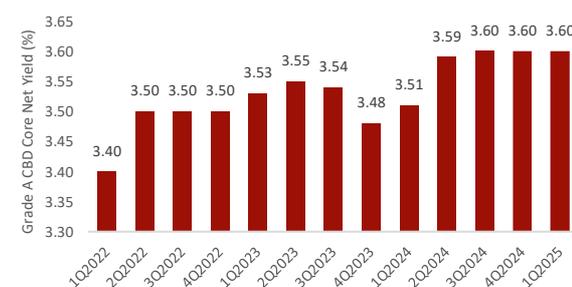
Source: Colliers, OCBC Credit Research

**Figure 28: Pipeline of Office Space**



Source: URA, OCBC Credit Research

**Figure 29: Office Net Yield**



Source: Colliers, OCBC Credit Research

## Singapore Commercial Retail REITs – Weaker tenant sales but expect occupancy to stay high

According to Cushman & Wakefield, overall retail rental growth going forward may moderate as tenant attrition persists with higher operating costs, rising rents and shifts in consumer preferences. Per CapitaLand Integrated Commercial Trust (“CICT”)’s data, occupancy cost was higher at 17.1% in 2024 (2023: 16.3%). Occupancy cost is the ratio of gross rental income to tenant sales and indicative of tenant’s rental burden. CICT is one of the largest shopping mall owners in Singapore. That said, top tier shopping malls have been able to backfill vacant spaces relatively quickly and as such we are not overly concerned over the occupancy rates of the shopping malls owned by the REITs we track (1Q2025 Singapore Retail >98%).

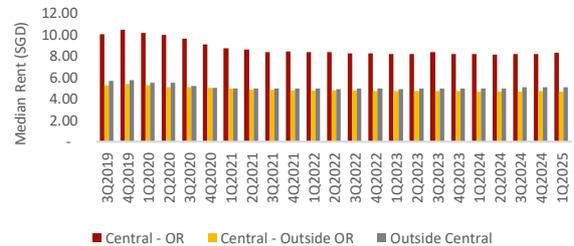
That said, tenant sales have generally declined y/y in 1Q2025. Based on our calculation using Singstat data, retail sales for January to April 2025 (“4M2025”) excluding motor vehicles increased by 1.4% y/y. This was mainly driven by stronger y/y sales in January 2025, with April’s retail sales excluding motor vehicles flat y/y. Online sales as a percentage of total retail sales (including motor vehicles) were 12.6% in April 2025 (on SGD3.9bn of sales value). While higher than the pre-pandemic’s 5.9% in 2019, this has fallen from the COVID-peak of 24.5% in May 2020 (including motor vehicle sales) and has stayed consistently above 10% since the reopening, indicating that physical retail still has a role to play for Singapore shoppers.

Per URA’s price index, prices of retail space in Central Region increased in 1Q2025 by 1.9 percentage points q/q. Median rents in Orchard increased by 1.2% q/q to SGD8.31 per square feet per month (“psf pm”). Median rents for retail properties outside the central area, indicative of retail properties located closer to residential neighbourhoods, were flat q/q in 1Q2025 at SGD5.07. Median rents for centrally located retail properties outside the Orchard area was marginally lower q/q at SGD4.70 psf pm. Prior to the pandemic, rents outside the central area were <60% of Orchard rents, although it has increased to 61% on average in the past four quarters. Per CBRE, limited new supply of retail space, is likely to support retail rents.

Retail vacancies had increased per URA data for all three segments. In the Orchard area, vacancy rate was 6.8% for 1Q2025 (4Q2024: 6.3%). For centrally located retail properties outside of Orchard, vacancy rate was at 7.5% in 1Q2025 (4Q2024: 6.8%) and for retail properties outside the central area, vacancy rates had increased to 6.5% in 1Q2025 (4Q2024: 5.9%).

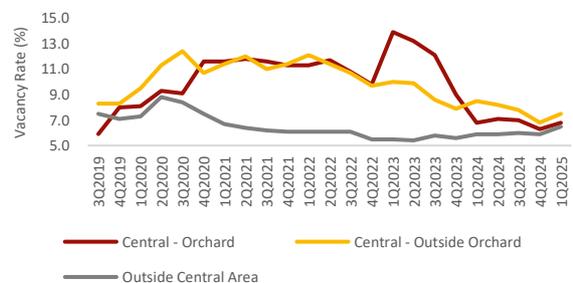
The investment sales market for shopping malls in Singapore continues to be active, with FCT buying the South Wing of Northpoint City for SGD1.17bn from the sponsor and parties related to the sponsor.

**Figure 30: Retail Rents SGD per sq ft per month**



Source: URA, OCBC Credit Research  
Note: OR refers to Orchard Road

**Figure 31: Retail Vacancy Rates (%)**



Source: URA, OCBC Credit Research  
Note: OR refers to Orchard Road

**Figure 32: Monthly Retail Sales (excluding Motor Vehicles) y/y % change**



Source: Singstat, OCBC Credit Research

**Figure 33: Monthly Retail Sales Value (excluding Motor Vehicles) in SGD bn and Online Sales %**

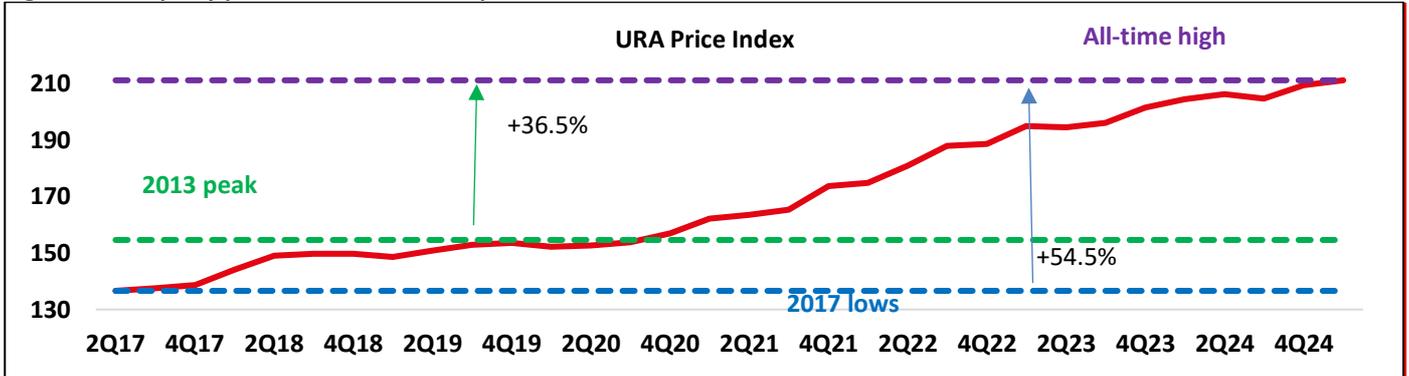


Source: Singstat, Bloomberg, OCBC Credit Research

**Singapore Residential Property – Growth is decelerating but not reversing**

**Prices are still up but growing at a slower pace:** Private residential property prices rose 0.8% in the first three months of 2025, according to URA. This marks a continued slowdown in gains, in comparison to +2.3% growth in 4Q2024.

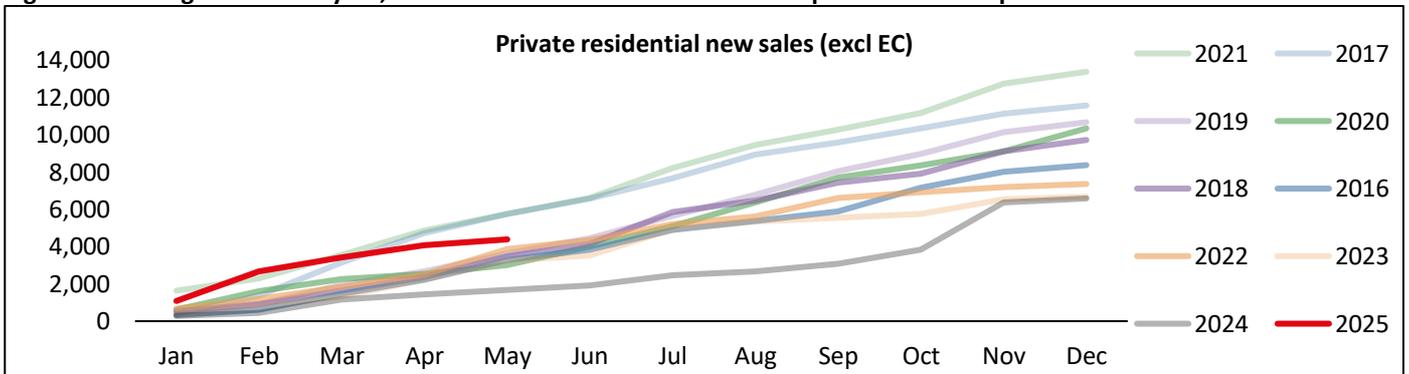
**Figure 34: Property prices rose at a slower pace in the first three months of 2025**



Source: URA, OCBC

**Transaction volumes are largely a reflection of property launches:** 1Q2025 saw one of the strongest sales volumes for a first quarter, buoyed by several large property launches which achieved high sales rates. While 1Q2025 saw over 4,000 units launched, comparatively, fewer projects were launched since April 2025.

**Figure 35: Strong start to the year, however transaction volumes have tapered off since April 2025**



Source: URA, OCBC

**Projects which launched in 1Q2025 mostly did well.** Notable projects include Parktown Residence, which is a rare development with over 1000 units with 87% of units sold at launch, The Orié (sold 86% of 777 units), Elta (sold 65% of 501 units) and Lentor Central Residences (sold 93% of 477 units).

**Figure 36: Sales rate for projects launched earlier in the year were high**

Launch Date	Project	Units	Sales Rate at Launch	Average Price
Jan-25	The Orié	777	86%	SGD2,704 psf
Jan-25	Bagnall Haus	113	63%	SGD2,490 psf
Feb-25	Parktown Residence	1,193	87%	SGD2,360 psf
Feb-25	Elta	501	65%	SGD2,538 psf
Mar-25	Aurette of Tampines EC	760	90%	SGD1,766 psf
Mar-25	Lentor Central Residences	477	93%	SGD2,200 psf
Mar-25	Aurea at Golden Mile	188	12%	SGD3,005 psf

Source: URA, Business Times, Company, EdgeProp, OCBC

**However, we are watching for signs of cooler demand.** Projects that were launched since April 2025 have recorded lower sales rates in general, versus those that were launched in 1Q2025. We think this is partly due to higher pricing, as two out of three

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projects launched since April 2025 were priced around SGD3,000 psf or higher, which likely attracted fewer mass-market buyers. Similarly, Aurea at Golden Mile that was launched in March 2025 which priced around SGD3,000 psf saw a lower sales rate. In addition, uncertainties that followed Liberation Day may have impacted demand, though the impact is likely temporary. We estimate that Bloomsbury Residences have sold ~40% of units, up from 25% at launch, while One Marina Gardens is estimated to have sold ~50% of units, up from 38% at launch as of writing on 20 June 2025.

**Figure 37: However, sales rates for project launched in 2Q2025 were noticeably lower**

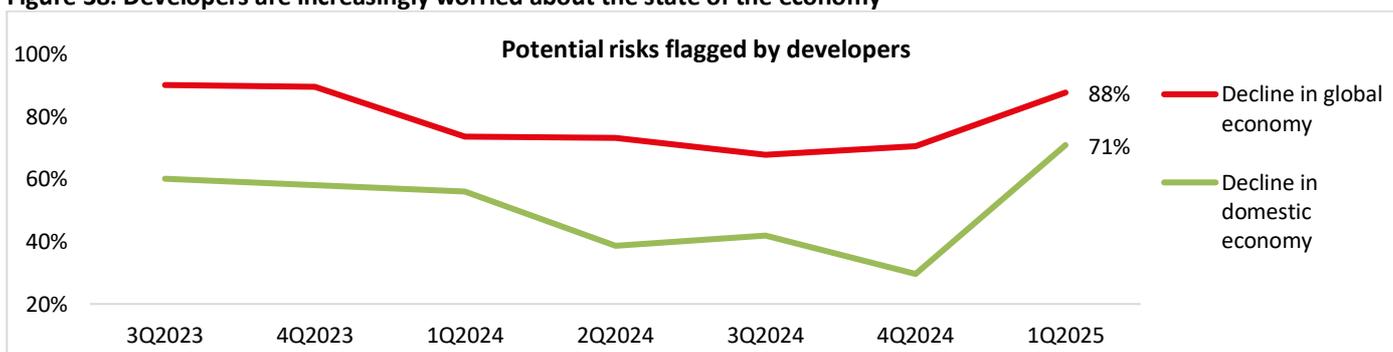
Launch Date	Project	Units	Sales Rate at Launch	Average Price
Apr-25	One Marina Gardens	937	38%	SGD2,953 psf
Apr-25	Bloomsbury Residences	358	25%	SGD2,474 psf
Jun-25	Arina East Residences	107	9%	SGD3,000 psf

Source: URA, Business Times, Company, EdgeProp, OCBC

**More launches are expected in 2H2025, and we will be paying attention to the sales rate at these launches for indication of demand.** According to PropNex Ltd, ~13k units are expected to be launched in the whole of 2025. Upcoming projects till 3Q2025 may include Lyndenwoods at 71 Science Park Drive (300 units), UpperHouse@Orchard Boulevard (301 units), The Robertson Opus at 11 Unity Street (348 units), W Residences Singapore-Marina View (683 units), Springleaf Residence at Upper Thomson Road (940 units), River Green at River Valley Green (524 units), Otto Place (EC) at Plantation Close (560 units), a project at Canberra Crescent (375 units), and The Sen at De Souza Avenue (347 units).

**Developers are most worried about the state of the economy.** Amongst various potential risks surveyed, developers appear to be the most worried about a decline in the global economy and a decline in the domestic economy, with 88% and 71% of the respondents respectively flagging these as potential risks in 1Q2025. Comparatively, other potential risks surrounding financing conditions, new builds and real estate bubble/property cooling measures received less attention. In April 2025, the Ministry of Trade and Industry (“MTI”) cut Singapore’s growth forecast for 2025 to between 0% and 2%, with MTI citing downside risks in the elevated economic uncertainty contributing to a pullback in economic activity. On a similar note, we think that continued uncertainties in the macroeconomic environment may result in homebuyers deferring home purchases, which can dampen the property sales rate.

**Figure 38: Developers are increasingly worried about the state of the economy**

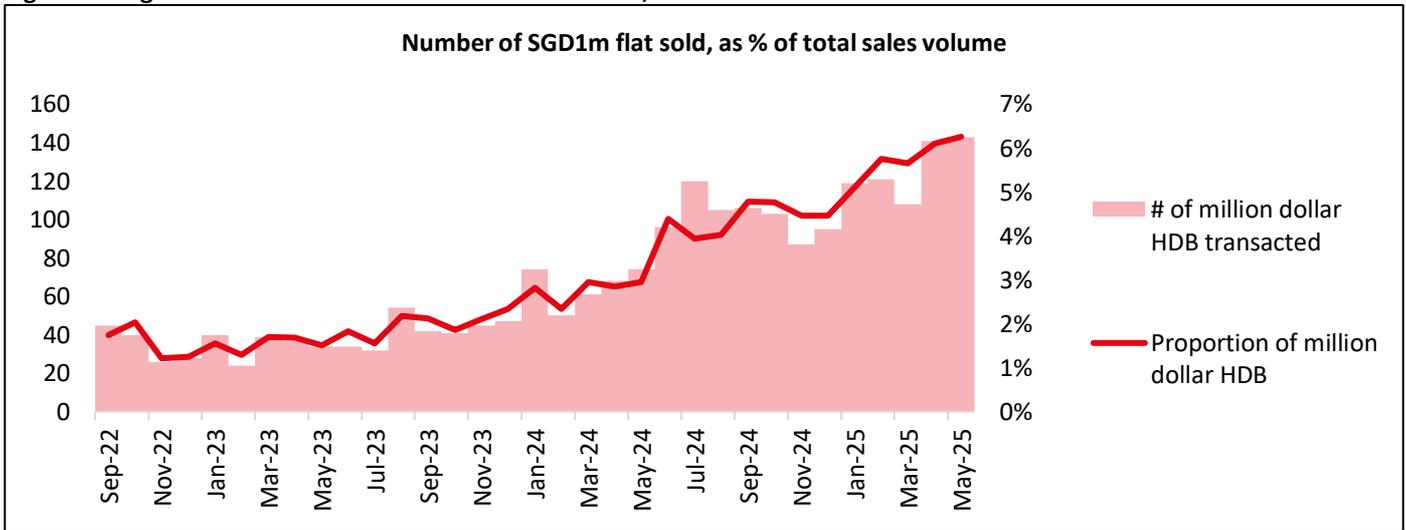


Source: NUS Real Estate, OCBC

**We think that long-term property demand in Singapore remains intact, while results from general elections reaffirm existing policies.** Demand factors highlighted in our Credit Outlook published on 3<sup>rd</sup> January 2024 remains relevant. This includes growth in number of residents, growing aspirations to upgrade to private property and strong holding power. We think these factors will continue. With election results favouring the incumbent party, we believe that policies which welcome and integrate foreigners would remain, which in turn should continue to support population growth through the influx of new citizens and new PRs.

**Increasing number of high-value HDBs transacted:** Out of 2,284 HDB resale units that were transacted in May 2025, 143 (6.3%) were transacted at SGD1mn or higher. While this number represents a minority of total units that are transacted, the pace of increase is fast, noting that only 2.9% of units were transacted at SGD1mn or higher a year ago in May 2024. May 2025’s 143 units transacted at SGD1mn or higher is also the monthly highest on record. We think higher HDB prices are supportive of upgrader demand.

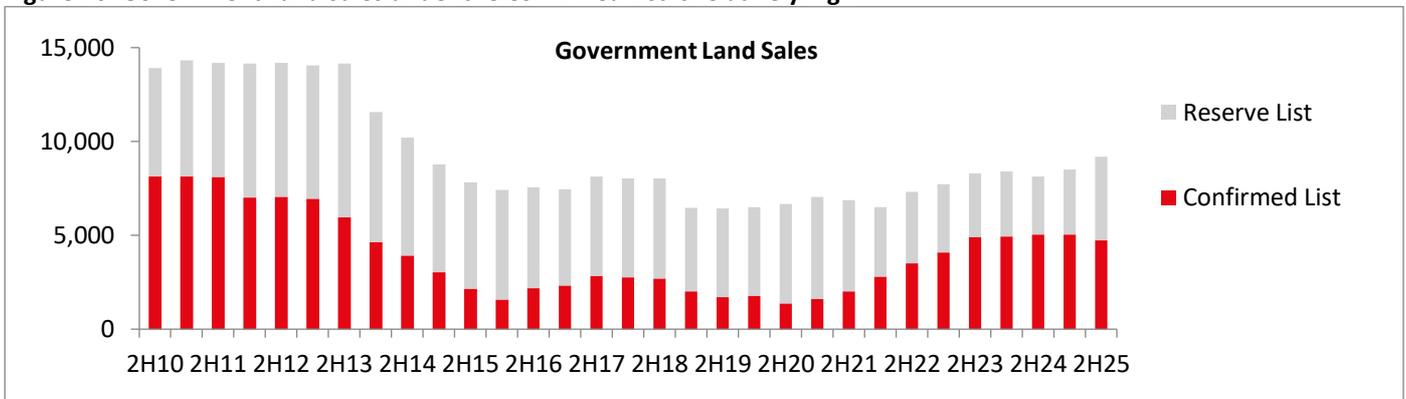
Figure 39: Significant increase in number of SGD1mn flats, albeit from a low base



Source: URA, OCBC

**Government Land Sales remain high, which can dampen the rate of price increase.** Government land sales under the confirmed list have been increasing since 2H2021, reaching ~5k units per half year since 2H2023 (implying ~10k units annualized). Except for 2017, 2020 and 2021, fewer than 10k units p.a. have been transacted since 2016. While higher land sales should help meet home demand, which was pent-up over 2021-23, continued land supply at this level may potentially lead to oversupply and in turn dampen the rate of price increase.

Figure 40: Government Land Sales under the Confirmed List is relatively high



Source: NUS Real Estate, OCBC

**More participants this year so far, but developers are becoming more selective on sites.** From the eight land tenders that concluded this year, seven were successfully tendered, which is estimated to add ~3,790 units to the pipeline. There was only one unsuccessful tender as there was no bidder. Compared to 2024 where unsuccessful tenders curtailed ~25% of the GLS supply, in year to date till 23 June 2025, unsuccessful tenders accounted for just ~12% of the GLS supply. There are more bidders on average in YTD2025, averaging 3.6 bids per site, in comparison to 2.3 bids per site in 2024. However, we note that the variance in number of bidders is larger, with Bayshore Road and Lakeside Drive attracting eight and six bidders respectively while the sites at Media Circle attracted fewer bidders (or no bid). We think that developers are becoming more selective as there is sufficient sites to choose from given that the confirmed list of government land sales remains high.

**Figure 41: Most sites are seeing healthy number of bidders, however interest varies significantly between sites**

Site Name	# of bidders	Number of units	Highest Bid	SGD psf ppr
<b>Successful tenders</b>				
Dairy Farm Walk	2	540	SGD504.5mn	1,020
Tengah Garden Avenue	3	860	SGD675mn	821
River Valley Green (Parcel B)	5	475	SGD627.84mn	1,420
Media Circle (Parcel A)	3	325	SGD315.0mn	1,037
Bayshore Road	8	515	SGD658.9mn	1,388
Lentor Gardens	2	500	SGD429.23mn	920
Lakeside Drive	6	575	SGD608.0mn	1,132
<b>Total units</b>		<b>3,790</b>		
<b>Unsuccessful tenders</b>				
Media Circle (Parcel B)	0	500	N.A.	N.A.
<b>Total units (unsuccessful tenders)</b>		<b>500</b>		

Source: URA, OCBC

**An opportunity for developers to restock, gone are the days of aggressive land bids...:** Developers have greater opportunities to replenish their land banks through the Government Land Sales (“GLS”) programme. In the current environment, competition for land appears measured. If land bids remain at economically viable levels, and if cost of construction remains stable, we believe developer margins can be supported which in turn improves profitability and supports interest coverage. With more choices through the GLS programme, we think this has also alleviated the pressure for developers to participate through the en bloc market.

**Will be cautious if developers begin to acquire land aggressively:** Should developers pursue land acquisitions too aggressively, they may face pressure on credit metrics. Encouragingly, most developers currently have not been overly aggressive in our view in participation at land sales, potentially because of ample opportunities to restock their land banks. Developers also appear to be careful in site selection, avoiding sites which have higher uncertainties in moving units (for example, Media Circle Parcel B drew no bidder in a recent government land sale likely because of low sales rate at a nearby property project). Separately, we are cautious if land continues to be released at the current rate. If supply exceeds demand, this could impact sales rate, and if developers compete harder to attract buyers, this can in turn impact margins.

**Reiterate expectations for prices to increase by 2% to 4% in 2025:** Property prices rose 0.8% q/q in the first quarter of 2025 (3.2% annualized), which is in-line with our 2025 growth forecast. While supply has increased and transactions in the most recent months have slowed, we believe that demand remains intact. Demand should remain somewhat supported with the decline in cost of borrowing as SORA yields have been declining. We think that stability in the market will be supportive of credit profiles of developers.

## HKSAR Retail – Muted outlook amidst weak sales and consumption pattern shift

HKSAR’s retail sales in January to April 2025 fell 5.6% y/y, continuing the sluggish trend of -7.3% in the entire year of 2024. Per OCBC’s HKSAR economist, retail sales are likely to stay fairly weak and record a mid-single-digit decline for the full year unless positive wealth effects stemming from asset market rallies are sustained.

Retail sales continued to be affected by the structural changes in consumption behaviours of visitors and local residents amidst global uncertainties, negative wealth effect and slower economic growths. Besides, the trend is also worsened by retail leakage to nearby cities in mainland China as reflected by higher net outbound visitors flows (+23% y/y to 21.6mn for the period January – April 2025).

Amidst weak retail sales, HKSAR’s retail property rental and price indices fell by 2.7% (2024 full year: -6.0%) and 1.6% (2024 full year: -15.2%) YTD respectively as of 30 April 2025 per official data from HKSAR Rating and Valuation Department. The latest rental and price indices imply declines of 16.5% and 31.4% respectively in comparison to the average of 2019.

1Q2025 high-street shop rent rose 1.3% q/q and 2.6% y/y as prime streets in core districts still saw sustained leasing activity as tourism recovered per Colliers. Meanwhile, overall vacancy improved by 0.2% q/q and 0.6% y/y to 6.9%. We believe the divergence between official data and Collier is because the retail data reported by Colliers are from shops located in primer locations.

HKSAR retail property outlook is likely to remain muted in 2025 amidst weak retail sales and a still uncertain global macroeconomic outlook. Some mitigating factors are likely to ease the headwinds in 2025 amidst (1) lower HIBOR rates which free up locals’ disposable income from lower mortgage payments, (2) expansion from mainland brands in core districts, (3) government initiatives in large-scale projects that create new demand and (4) resumption of the multiple-entry Individual Visit Scheme.

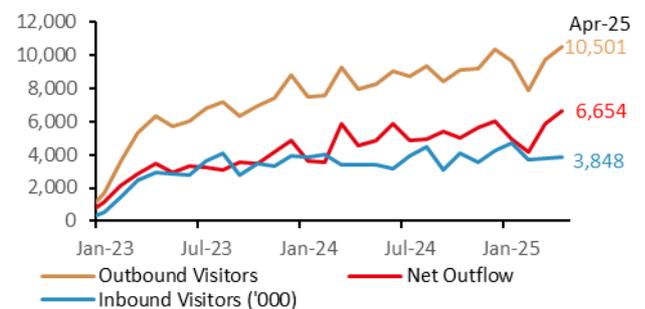
Mixed views from the markets: OCBC’s HKSAR economist expects retail asset prices to fall further by around 5%-10% in 2025. There are divergent views between major property research providers with (1) Savills expecting prime street shop and shopping mall rental to fall by 5% in 2025, (2) CW expecting high street rents to grow by 3 to 5% in 2025 and (3) CBRE expecting a full year rental growth of 5.7% amidst low vacancy.

Figure 42: Retail Sales Value, HKD bn



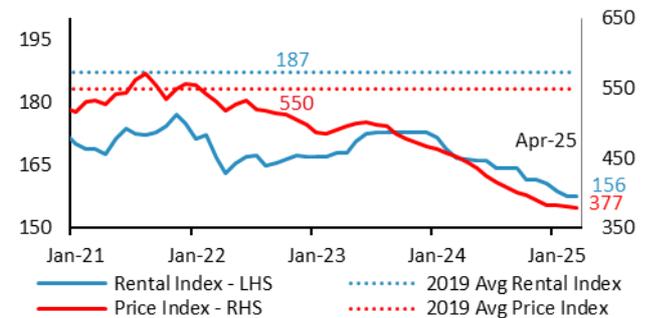
Source: Census and Statistics Department HK, OCBC

Figure 43: HKSAR Inbound & Outbound Visitors ('000)



Source: HK Tourism Board, OCBC

Figure 44: Retail Property Rental and Price Indices



Source: HK Rating and Valuation Department, OCBC

Figure 45: Retail Property Vacancy Rate



Source: Colliers, OCBC

## HKSAR Commercial Office – Challenging outlook amidst high supply and vacancy

HKSAR office remained weak in 1Q2025 with Overall Grade A office and Central Grade A vacancy rates rising to 17.5% (+0.7ppts q/q) and 15.6% (+0.5ppts q/q) respectively amidst cautious tenants and substantial new supply. Weaknesses in office continued despite recording positive net absorption for the sixth consecutive quarter, which was driven primarily by expansion activities of the financial sector. Despite the improving leasing momentum, the vacancy rate weakened in 1Q2025 due to a new completion in Kowloon East. The latest vacancy rates are substantially weaker than the average of 5.0% (Overall) and 2.8% (Central) evidenced in 2019.

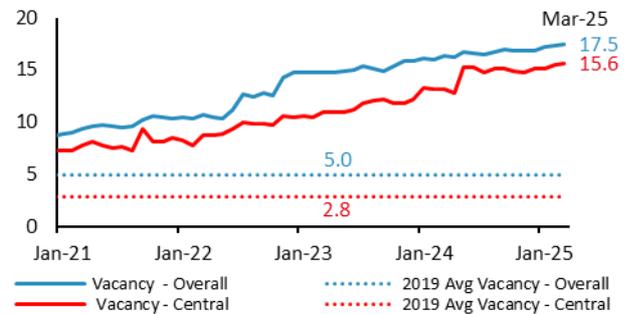
**Overall Grade A office rent and price indices fell 5.3% y/y and 20.3% y/y respectively as of 31 March 2025.** The latest office rents and price indices represent steep declines of 22.8% and 45.4% respectively in comparison to the peak in 2019. The weak price performance was affected by the weakened vacancy and rental rates. In addition, the price was also dragged by the wide negative yield spread (~200bps) of HKSAR office properties over the US 10Y Treasury yield (~4.4%), which suppressed investment in these assets and pushed potential buyers to other Asian markets with higher rental-growth potential and better fundamentals.

**HK’s labour market showed signs of broad weakening**, as the unemployment rate went up by 0.4ppts to 3.5% in May 2025 from 3.0% in December 2024. Anecdotal evidence also suggested that hiring sentiment continued to worsen.

**Outlook remains challenging amidst limited expansion appetite, global uncertainties and high supply.** OCBC’s HKSAR economist expects the property prices of office to fall further by around 5%-10% in 2025. Colliers expects rents in 2025 to fall by 8-10% y/y while vacancies weaken further in 2025 as major projects reach completion with ~3mn sqf (~4% HKSAR’s Grade A office stock) of office space entering the market for the remainder of 2025. Similarly, CW expects rental to fall by 7-9% in 2025.

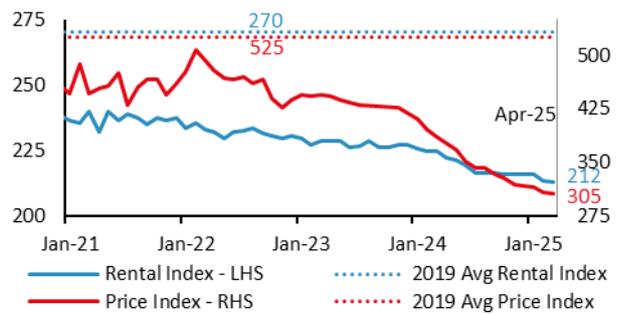
**Perhaps a turnaround in the office sector is more likely in the mid- to long-term**, underpinned by (1) recovery of the initial public offering (“IPO”) pipeline, (2) government measures to attract global enterprises, (3) HKSAR government has halted commercial land sales for the next five years and (4) supply and high vacancies will take years to absorb despite the positive leasing momentum.

Figure 46: Grade A Office Vacancy Rate (%)



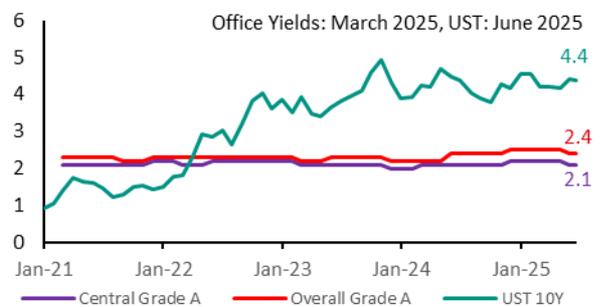
Source: Colliers, OCBC

Figure 47: Grade A Office Rental and Price Indices



Source: HK Rating and Valuation Department, OCBC

Figure 48: Office Rental Yields vs US Treasury 10Y



Source: Colliers, OCBC

Figure 49: Unemployment Rate (%)



Source: Census and Statistics Department Hong Kong, OCBC

## HKSAR Residential Property – Price expected to flat in 2025 amidst lower rates and stamp duty

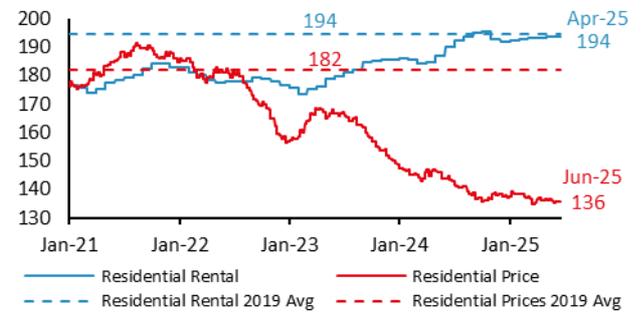
Despite the global uncertainties, HKSAR home prices remained largely stable YTD as of 8 June 2025, falling by 1.5% YTD based on data from Centaline Property. The home prices are partly mitigated by (1) removal of all cooling measures and (2) substantially lower HIBOR. HKSAR reduced stamp duty to HKD100 for residential units with valuation below HKD4mn starting from 26 February 2025, substantially reducing the stamp duty from the previous HKD60,000 for a HKD4mn residential unit. The lower stamp duty is expected to benefit 15% of the total housing transactions. That said, the latest home prices are still implying a massive discount of 29.1% compared to the peak in August 2021.

Mortgage rates have plunged to ~1.8% as of 20 June 2025 from 3.5% (1M HIBOR + 1.3% but capped at 3.5%) as 1M HIBOR plummeted to 0.54% from ~4% levels prior to May 2025. Lower mortgage rates could stimulate demand as mortgage payments could be 16% cheaper than monthly rent based on a 2% mortgage rate, 3.7% rental yield and 70% loan-to-value ratio per Bloomberg Intelligence. Besides, investment demand is likely to rise as the rental yield of 3.7% as of 30 April 2025 is meaningfully above the latest mortgage rates. Residential property is likely to recover gradually amidst lower mortgage repayments if the above trend sustains.

That said, there is still a high supply of 105k units in the next 3 – 4 years per data from the Housing Bureau as of 31 March 2025. The upcoming completions will also remain high at 19.3k (if completed in 4 years) to 25.7k (if completed in 3 years) units per year, meaningfully higher than the 10Y average of 17.2k. Developers are capitalising on the opportunity to move their mounting inventories in order to recoup liquidity. The new projects are now launched at attractive prices in order to attract buyers. Moreover, flexible payment schemes are being provided such as mortgage loans without proof of income and stress test.

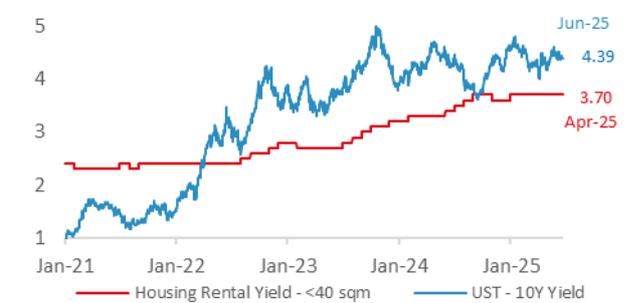
OCBC's HKSAR economist expects HKSAR home prices to be flat in 2025 amidst the supportive catalysts above and increased scrutiny over public housing tenants that created extra end-user demand. Besides, the positive wealth effect from better performances of the Hang Seng Index, which has grown 55% as of 20 June 2025 in comparison to the low in January 2024 or 16.8% YTD. That said, there are still uncertainties from (1) the rising geopolitical tensions between the US and China, (2) weak confidence over home prices, (3) potentially slower economic growth, and (4) weaker labour market.

Figure 50: Residential Rental and Price Index



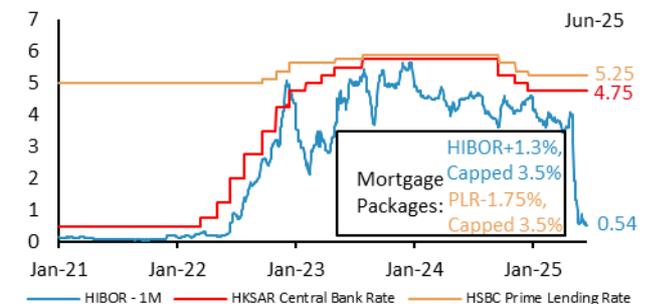
Source: Centaline Property Agency, HK Rating and Valuation, OCBC

Figure 51: Rental Yield vs US Treasury 10Y



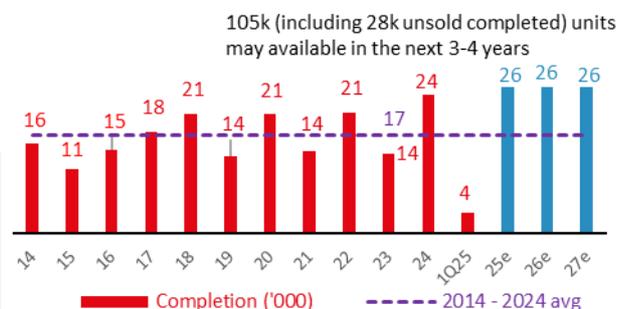
Source: HK Rating and Valuation, OCBC

Figure 52: HKSAR Rates (%)



Source: Bloomberg, OCBC

Figure 53: Private Housing Completion ('000)



Source: Housing Bureau HKSAR, OCBC

## Financial Institutions – Sailing through the storm

External developments in the first half of 2025 were more eventful than anticipated with Liberation Day causing us to underweight Additional Tier 1 (“AT1”) bank capital instruments on a valuation basis in early April 2025 amidst rising recession risks and higher non call risk after their strong valuation performance through 2024. Among the SGD credit segments, AT1s are most likely to be impacted by pullbacks from negative episodic events that lead to heightened financial market volatility given Financial Institutions’ heightened exposure to economic conditions and AT1’s subordinated and loss absorbing features including equity-like characteristics. Following the repricing of AT1s through April and May, we subsequently revised our overall call on bank capital instruments to neutral whilst being selectively overweight Tier 2s and AT1 with higher yields and wide reset spreads.

Repricing is not the only driver for our improved view on bank capital instruments. Despite the more volatile operating environment, the fundamental performance of Financial Institutions in our coverage remained in line with our 1H2025 expectations (and in some respects outperformed them) with resilient credit profiles evidenced through the recent confirmation of earnings and loan quality targets for 2025 and 2026 in recent earnings announcements. Credit impairments have risen, largely for stage 1 and 2 exposures as expected to accommodate a higher probability for the downside case related to higher geopolitical tensions. That said, the higher probability is marginal, and the higher credit impairments are not impactful in our view. Expectations are for loan quality to weaken, however from a low base while provisioning levels appear adequate against loan quality indicators and pre-pandemic levels.

Key takeaways from earnings season and other developments in 1H2025 for Financial Institutions include:

1. **Tariff clouds a silver lining for now:** Additional earnings announcements in May for Financial Institutions within our coverage continued the trend we mentioned in our Monthly Credit View dated 7 May with stronger results reported in general. Any weakness in net interest income from declining net interest margins was offset by the positive impact of market volatility on Investment Banking (namely trading) and wealth management (namely higher client trading and hedging activity) performance.
  - DBS Group Holdings Ltd (“DBS”) 1Q2025 total income rose 6% y/y to a record SGD5.91bn supported by growth in commercial book total income which rose 4% y/y to SGD5.54bn and markets trading which rose 48% y/y to SGD363mn.
  - BNP Paribas SA (“BNPP”)’s 1Q2025 operating performance remained sound with gross operating income up 3.5% y/y as net banking income rose 3.8% y/y to EUR12.96bn on broad based growth with record Equity & Prime Services performance in Corporate & Institutional Banking while Investment & Protection Services improved on insurance, asset management and wealth management performance. Per management, the 1Q2025 performance for the operating divisions remains in line with the expected growth trajectory in 2024-2026.
  - Barclays PLC 1Q2025 profit before tax was up 19% y/y, with growth across all business segments, especially Barclays Investment Bank.
  - Société Générale SA 1Q2025 net income doubled y/y, ahead of its 2025 annual targets with higher revenues from French Retail Banking, Private Banking and Insurance (+14.1% y/y) as well as Global Banking and Investor Solutions, coupled with a fall in operating expenses due to lower transformation charges.
  - Deutsche Bank AG (“DB”) 1Q2025 profit before tax was up 39% y/y, driven by 10% rise in total net revenues from Investment Bank, 17% growth in Fixed Income & Currencies revenues, higher Private Bank net revenues (+3%) and higher asset management net revenues (+18% y/y).

Other European issuers were also constructive on the economic outlook with Commerzbank AG (“CMZB”) confirming its 2025 outlook and raising its 2025 target CET1 ratio while announcing 1Q2025 results that was the highest quarterly result since 1Q2011 on solid business momentum. In subsequent annual general meetings following the earnings announcements, CMZB and DB highlighted possible opportunities for Europe and Germany amidst the US trade tariff push with the European Commission and German government focused on strengthening the EU and Germany economies through higher investment. As an example, DB created a team focused on clients within the defense sector while CMZB Chairman Jens Weidmann highlighted CMZB’s important role in supporting the German economy and its transformation as (1) a significant provider of finance to the security and defence industry and (2) its existing focus on the German Mittelstand sector.

2. **Highlighting the benefits of strategic repositioning:** Part of the reason for Financial Institutions’ stable performance is the improved diversity of the revenue streams as they seek a balance between cyclical and market facing revenues from Investment Banking and Global Markets, fee and commission income from services such as Wealth Management, and somewhat stable or recurring net interest income from lending activities.

- Both CMZB and DB have benefited in the past few years from their strategic refocus on lending activities with historically high earnings performance in 2024 and 2025.
  - Similarly, HSBC Holdings PLC (“HSBC”)’s underlying performance benefitted from higher client activity in wealth businesses and higher revenue from Foreign Wealth and Premier Banking with constant currency 1Q2025 profit before tax excluding notable items up 11.4% y/y.
  - ABN Amro Bank NV (“ABN”)’s 1Q2025 operating income fell 2% y/y as net interest income remains a large contributor (~73% of 1Q2025 operating income) and was down 2% y/y. However, net fee and commission income rose by 8% y/y due to higher Personal & Business Banking fees from repricing and mortgage production and higher Corporate Banking fees due to market volatility that led to higher transaction and trading volumes and results for Clearing. Fee income at Wealth Management also rose on higher volumes in Discretionary Portfolio Management and advisory with higher assets under management. To support future fee and commission income performance and reduce net interest income contribution, ABN recently acquired German private bank Hauck Aufhäuser Lampe.
  - Further to BNPP’s 1Q2025 operating performance and improvement in its insurance, asset management and wealth management businesses, management recently concluded two growth related acquisitions, the acquisition of HSBC’s private banking operations in Germany (financial details were not disclosed although deal is expected to double assets under management in BNPP’s German wealth management business to more than EUR40bn) and 100% acquisition of Axa Investment Managers from Axa SA for EUR5.1bn that would combine with BNPP’s existing assets under management (“AuM”) to create an asset manager with EUR1.5 trillion in AuM. Management views the Axa Investment Managers acquisition as a major strategic turning point for BNPP’s Insurance, Wealth and Asset Management businesses within the Investment & Protection Services division.
3. **Geographic Dispersion:** Within the overall resilient earnings announcements however were some clear geographic trends.
- European banks appear the most constructive for 2025 and 2026 performance with Barclays PLC raising net interest income targets on solid 1Q2025 performance and higher than expected deposit balances while CMZB raised 2025 targets for CET1 levels. Otherwise, all other banks have confirmed their earnings and loan quality targets for 2025 and 2026.
  - Australian banks that reported 1HFY2025 results for the six months ended 31 March 2025 (National Australia Bank Ltd (“NAB”), ANZ Group Holdings Ltd (“ANZG”) / Australia & New Zealand Banking Group Ltd (“ANZ”), Westpac Banking Corporation (“Westpac”)) as well as Commonwealth Bank of Australia (“CBA”) in its 3QFY2025 trading update for the three months ended 31 March 2025 are cautiously optimistic for FY2025 earnings with domestic economic resilience (improving household consumption growth due to declining interest rates and inflation as well as continued public investment) offsetting heightened risk to the global economy from geopolitical and macroeconomic uncertainty. Loan quality ratios are weakening, albeit from historically low levels while provisioning levels remain at elevated levels.
  - Asian banks (China Construction Bank Corporation (“CCB”), United Overseas Bank Ltd (“UOB”), DBS) are perhaps more cautiously conservative reflecting relative domestic economic developments or pressures. In China, the desire of the Chinese government for Chinese banks’ support for the economic recovery is likely to lead to suppressed net interest margins and income performance despite potential loan growth. For DBS and UOB, the tone has shifted from one of growth in early 2025 following record results to one of caution. Guidance for 2025 has either been shaded down or suspended until the outlook stabilises. In the meantime, pre-emptive provisions have been raised against possible weaker asset quality in trade dependent economies.

Other key influences remain a focus on cost control and regulatory supervision. Both are credit positive in our view and enduring characteristics for Financial Institutions’ operating performance. In her first results announcement as ABN’s Chief Executive Officer, Ms Marguerite Bérard confirmed her priority to lead a strategic review, the outcome of which will be presented at a Capital Markets Day in November 2025. Until then, “cost discipline remains a priority” as the bank likely seeks to protect its strong capital position to enable investment in future strategic priorities while accommodating possible restructuring charges. Julius Baer Group Ltd (“JBG”)’s new Chief Executive Officer Stefan Bollinger recently revised up the bank’s adjusted cost/income ratio target to less than 67% by 2028 with targeted efficiency savings of CHF130mn by 2028 through process and IT optimisation and reducing non-personnel expenses. This reflects the 2024 results performance which showed higher reported and adjusted (excludes M&A related expenses) operating expenses and a cost to income ratio of 70.9% in 2024, still above the 64% target originally set for 2025. This led to Mr Bollinger extending the cost reduction program.

Regulatory influences are somewhat divergent – on the one hand is a push in Switzerland to tighten bank capital and associated regulations following the collapse of Credit Suisse Group AG and its aftermath, specifically the increased systemic importance of UBS Group AG (“UBS”). Switzerland’s Federal Council recently announced amendments to Switzerland’s too big to fail regulatory regime that will be submitted for consultation in stages from later this year. The amendments aim to strengthen prevention and liquidity and expand the crisis toolkit with a major amendment being stricter capital requirements for systemically important banks with foreign subsidiaries. The reported impact on UBS will be additional going-concern capital requirements of USD26bn including up to USD23bn for boosting capital reserves in UBS AG to fully cover foreign subsidiaries although the final additional capital requirement will depend on management actions and strategic decisions to mitigate the impact. While UBS responded that it will not change its strategy or globally diversified business model, UBS Chief Executive Officer Sergio Ermotti and Chairman Colm Kelleher reportedly called the demands “extreme” and said they were “reviewing the substantial amount of information published” and would share their assessment in due course. On the other hand is a potential trend towards banking deregulation in the US affecting the final implementation of Basel III capital requirements, stress testing and liquidity amongst others. This may indirectly affect the regulatory environment in the EU and UK with potential moves in the US possibly impacting the competitiveness of European and UK banks. EU and UK regulators may also be willing to consider other regulatory moves should they support the economic performance of the EU and UK against the US amidst the current trade tariff environment. In Asia, we do not expect any similar push towards weakening the regulatory environment with regulators within this region remaining proactive and pragmatic.

#### **Emphasis On ‘Selectively’ For The Way Forward**

While staying neutral for our overall call on bank capital instruments and selectively overweight Tier 2s and AT1 with higher yields and wide reset spreads, the focus word remains selective. This is because credit dispersion is likely to increase. This is due to possible regulatory fragmentation and reduced global co-operation in a crisis in the current political climate while the multi-layer effects of geopolitics and trade tariffs will have varying economic and financial markets impacts. We advocate a continued focus on national champions and larger domestic Financial Institutions that have the benefits of scale and diversification. These have shown more earnings stability in the past.

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**Explanation of Issuer Profile Rating / Issuer Profile Score**

**Positive (“Pos”)** – The issuer’s credit profile is either strong on an absolute basis or expected to improve to a strong position over the next six months.

**Neutral (“N”)** – The issuer’s credit profile is fair on an absolute basis or expected to improve / deteriorate to a fair level over the next six months.

**Negative (“Neg”)** – The issuer’s credit profile is either weaker or highly geared on an absolute basis or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7-point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

**Explanation of Bond Recommendation**

**Overweight (“OW”)** – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Neutral (“N”)** – The bond represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Underweight (“UW”)** – The bond represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Please note that Bond Recommendations are dependent on a bond’s price, underlying risk-free rates and an implied credit spread that reflects the strength of the issuer’s credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.**

**Other**

**Suspension** – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed. We may also suspend our issuer rating and bond level recommendation in the ordinary course of business if (1) we believe the current issuer profile is incorrect and we have incomplete information to complete a review; or (2) where evolving circumstances and increasingly divergent outcomes for different investors results in less conviction on providing a bond level recommendation.

**Withdrawal (“WD”)** – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

OCBC Credit Research team would like to acknowledge and give due credit to the contributions of **Eshita Suvarna**.

#### Analyst Declaration

The analyst(s) who wrote this report and/or his or her respective connected persons hold financial interests in the following above-mentioned issuers or companies as at the time of the publication of this report: Singapore Airlines Ltd, Guocoland Ltd, Oxley Holdings Ltd, Suntec Real Estate Investment Trust, Mapletree Pan Asia Commercial Trust, Lendlease Global Commercial REIT, CapitaLand Ascott Trust, Frasers Property Ltd.

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