

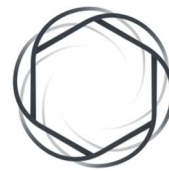


S.P. HINDUJA

BANQUE PRIVÉE

India House View

September 2025



Thoughts of the CEO

“Navigating India’s Path Through Tariff Headwinds.”

India today stands at the forefront of a renewed trade confrontation with the United States. On August 27, 2025, Washington imposed an additional 25 per cent tariff on most Indian exports, effectively doubling duties to 50 per cent on more than half of India’s shipments to America. The official justification is New Delhi’s continued purchases of Russian crude oil, which the U.S. argues weaken its sanctions regime.

The immediate consequences are clear. Exporters face higher costs, loss of competitiveness, and pressure on margins. For the broader economy, the tariffs could trim 0.3–0.6 percentage points from GDP growth in FY26. The burden falls heavily on labor-intensive sectors such as textiles, gems and jewellery, seafood, leather, and footwear. Small and medium enterprises, which provide vital employment in these industries, are particularly exposed. In parallel, the rupee has weakened to record lows, and capital markets have seen foreign outflows as global investors reassess risk.

Yet India retains significant resilience. Domestic demand remains robust, services exports continue to grow, and demographics provide a long-term foundation for expansion. Tariff-immune sectors such as IT services, pharmaceuticals, autos, and renewables still offer strong opportunities. Regions like Bengaluru, Hyderabad, and Pune — India’s knowledge economy hubs — remain relatively insulated and continue to attract capital and talent.

Policy responses are already materializing. The government is preparing an “export promotion mission” of ~USD 3 billion, designed to ease credit, subsidize borrowing, and provide faster refunds for exporters. Industry bodies are pressing for interest relief and supportive measures to mitigate job losses. On the diplomatic front, India has condemned the tariffs, engaged US negotiators, and left WTO complaints or reciprocal steps as options. Encouragingly, both US and

Indian officials have recently emphasized cooperation and balance. Ongoing talks suggest that a negotiated resolution is likely, and our base case is that an agreement will be reached in the coming months, easing tariff pressure in a meaningful way.

At the same time, India is recalibrating its wider trade relationships. A notable shift has occurred with China, where recent discussions between Prime Minister Modi and President Xi in Tianjin highlighted partnership rather than rivalry. Early confidence-building steps — including potential resumption of direct flights and reduced restrictions on Chinese components — may strengthen India’s supply chains in electronics, renewables, and pharmaceuticals. Strategically, closer economic ties with Beijing enhance India’s bargaining position with Washington and open the door for more resilient “China plus India” production models.

For investors, the near term will remain dominated by three themes: tariffs, foreign investor outflows, and subdued earnings momentum. But volatility also creates opportunity. We favor sectors with limited dependence on US exports and stronger capacity to diversify markets (IT, pharma, autos, renewables, and domestic-oriented consumer businesses). Within exposed industries, the survivors will be those that scale efficiently, embrace automation, and maintain disciplined cost structures. Effective currency and credit risk management will be key to unlocking value for patient investors.

As ever, our responsibility is to guide portfolios with prudence, selectivity and conviction.

Sincerely,

Fabrice d’Erm





Tensions amid Trade Tariffs

We examine the background and rationale, sector-by-sector impacts, macroeconomic effects, investment implications, strategic and diplomatic responses, and outlook for the future.

On August 27, 2025, the United States imposed a sweeping additional tariff of 25 per cent on most Indian exports, bringing the total US duty on those goods up to 50 per cent. This move was in reaction to India's continued purchases of Russian crude oil, which the US claims help fund Russia's war in Ukraine. More than half of India's exports to the US in value terms are now affected. The tariffs have immediate trade, economic, investment, and political consequences.

US Tariffs: Background & Rationale

The US has previously applied reciprocal tariffs (25 per cent) to many Indian exports under its 'Reciprocal Tariff Executive Order'. The recent additional 25 per cent (bringing many goods to 50 per cent) is specifically tied

to concerns about India's continuing purchase of Russian oil, which the US views as undermining its sanctions regime. Certain sectors and some exports remain exempt (for example, many pharmaceutical, electronics, and petroleum products) from this additional tariff.

Prior to these tariffs, India-US trade relations had already seen tension around trade deficits, intellectual property, market access and reciprocal duty demands. Several examples of this are found in the pharmaceutical sector where the US has long criticized India's patent laws, for being too lenient in allowing generic drug production. The current move is part of a broader trend of US protectionist trade policy under its administration, especially toward countries viewed as not aligned with US foreign policy objectives.

Table 1: Trade & Scope of the Tariffs

Metric	Value	Notes
Annual Indian exports to US (goods)	≈ USD 86.5 billion	FY2024-25 estimate
Value of exports now facing 50 per cent tariff	≈ USD 60.2 billion	Two-thirds of US-bound goods are covered by the tariffs
Value of exports exempted (pharma, electronics, petroleum)	≈ USD 27.6 billion	Not subject to the 50 per cent hike
Worst-case fall in exports of affected sectors	Up to 70 per cent drop	From \$60.2B to ~\$18.6B in some sectors
Worst-case drop in total US exports from India	~43 per cent	If the tariffs fully bite

Source: Media reports, SP Hinduja Banque Privée

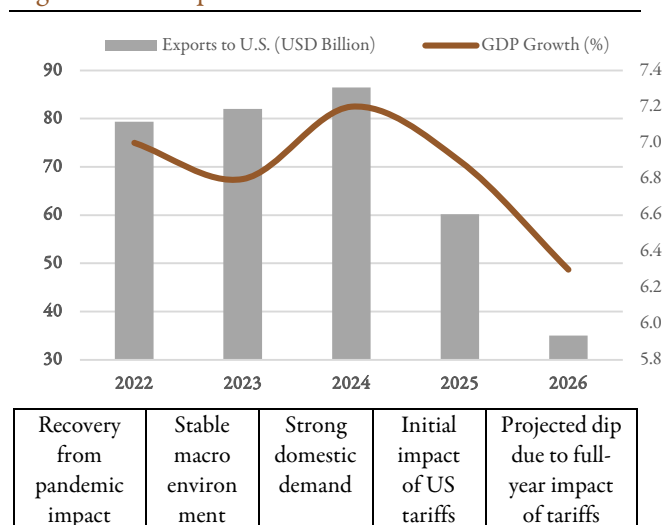
Macroeconomic Impact

Growth: Indian GDP growth for FY26 is estimated to reduce by 0.3-0.6 percentage points due to this tariff move. As of 2024, Indian exports to the US accounted for about 3.1 per cent of Indian GDP. The overall impact on India's annual GDP depends pretty much on the assumptions concerning the loss in export volumes (demand elasticity). Different estimates point to a range of 0.3-0.8 pp drag on annual output, material but not catastrophic.

In terms of the Indian labor market, significant risk of job losses could happen in export-intensive sectors which are labor-heavy: textiles, gems & jewelry, seafood, leather goods. Medium and small enterprises are especially exposed (MSMEs). Besides, the tariff shock has weakened the rupee to record lows, and has triggered outflows from equities and bonds as foreign investors

reassess risk.

Fig. 1: Indian Exports to US and GDP Growth Rate



Source: SP Hinduja Banque Privée

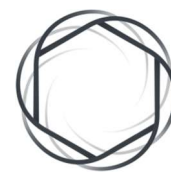


Table 2: Impact on Industry

Sector	Exposure to US Exports / Dependence	Key Impacts
Textiles & Apparel	Heavy dependence. The US is a major buyer. US tariffs for many textile/apparel goods will jump (from earlier ~13-25 per cent) to up to ~50-60 per cent.	Exports expected to decline steeply; MSMEs will see margin compression; some may stop manufacturing for US orders. Unemployment risk in textile hubs (e.g., Tiruppur) high.
Gems & Jewellery	Very exposed. Many exports to the US; small-scale and MSMEs dominate in places like Surat.	Tariffs increase cost by ~50 per cent, making Indian gems less competitive; risk of shift of orders to rivals.
Seafood / Marine Products (especially shrimp)	US is one of the major markets for Indian shrimp / seafood.	Effective duties (with prior duties) may rise up to ~60 per cent. Shrimp farmers/exporters may pause production; inventory losses; loss of competitiveness vs exporters from Latin America / Asia.
Chemicals	Specialty chemicals, dyes, intermediates exported; exposure via export value but also via input costs.	Increased costs, loss of orders; some players may shift focus to domestic market or non-US export destinations.
Leather & Footwear	Labor-intensive; heavy reliance on US demand for leather goods.	Similar to textiles: risk of job losses, cancelled orders, margins dented.
Auto Components	Moderate exposure; some parts export to US under exposure; many products are still under lesser duties or exempt.	Affected firms may face downturn; but some room for adaptation, perhaps via shifting to assembly/domestic supply chains or export diversification.
Pharmaceuticals & Electronics	Largely exempt from the 50 per cent hike in many cases	These sectors are less immediately impacted. However, indirect impacts may occur (currency, input costs, investor sentiment...).

Source: SP Hinduja Banque Privée

Investment Implications for Specific Sectors

The 50 per cent tariff shock changes the investment landscape in several important ways:

1. Export-Oriented MSMEs & Labor-Intensive Sectors

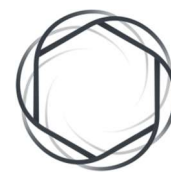
Textiles, footwear, gems & jewelry, seafood: These sectors often have small margins, high labor content, and, offer price-sensitive products and high dependence on US orders. Investment in these sectors is likely to slow or shift. Some firms may halt new capacity additions or delay projects due to uncertainty. Private equity and debt investors may reprice risk, demand higher returns, or even pull back. A good example is the Indian textile sector, which employs around 45 million people (mostly women in small units). Buyers in the US can easily shift to other countries such as Bangladesh, Vietnam or Latin America, which already have preferential trade deals. Even a 10-15 per cent contraction in US textile orders could directly affect thousands of workers in clusters

like Tirupur, Ludhiana and Surat. Similarly, the jewelry and seafood industries are heavily reliant on the US market, which absorbs between 30 per cent and 40 per cent of their total exports

2. Geographical Shifts in Investment

Regions heavily dependent on exports to US (e.g. Surat, Tiruppur, Kerala's seafood regions) will be more adversely impacted. This may lead to distressed assets, job losses, and perhaps relocation or closures. Investors may begin to favor regions/sectors with less US exposure or where local/domestic demand is stronger. To this effect, it is worth highlighting the IT and businesses services hubs like Bengaluru, Hyderabad, Pune and Gurgaon. These areas host the bulk of India's IT services and tariffs do not apply to services trades. Demand for outsourcing, cloud and AI services remain relatively strong and these hubs will remain attractive because their exports are tariff immune and tied to digital transformation. There where domestic demand provides a natural hedge, will receive the benefit of investors. This is the case of the Auto and auto





component sector, which presents a more diversified export market.

3. Diversification Strategies

To withstand a likely US tariff shock, affected Indian exporters will need a multi-pronged strategy. In the short term, companies can cushion the blow by diversifying into alternative markets, especially where India has free trade agreements (FTAs), while also focusing on higher value-added products to compete on quality rather than price. At the same time, they should tighten cost structures and boost productivity, using government incentives where available. Strategic options include forming joint ventures or setting up units in tariff-free regions to retain access to the US market, and pivoting more output toward India's fast-growing domestic consumer base.

On top of that, active industry-government engagement is vital to secure policy support and pursue favorable trade deals, while financial and supply-chain risk hedging can help protect margins. Together, these steps create a balanced response that mixes immediate relief with longer-term repositioning.

4. Currency, Financing & Risk Premiums

Firms with significant exposure to US exports are likely to face tighter financing conditions as banks and non-banking financial companies (NBFCs) perceive higher repayment risk, raising borrowing costs and restricting credit access.

Exporters with delayed shipments or shrinking orders may experience working capital stress, especially SMEs in labor-intensive sectors like textiles, gems, and seafood. With tariff-hit margins already compressed, even small fluctuations in the INR-USD exchange rate can severely impact profitability, prompting greater reliance on hedging instruments such as forwards, options, and swaps. This, in turn, could increase hedging costs and push up forward premiums in currency markets. Consequently, companies lacking access to sophisticated hedging tools may remain exposed to higher volatility, creating uneven resilience across firms.

Meanwhile, international lenders and rating agencies are also likely to apply risk premiums on firms heavily dependent on US demand, raising the cost of external borrowings.

In equity markets, foreign institutional investors may reduce positions in export-heavy stocks, especially midcaps, amplifying sectoral volatility. Reduced FII inflows from foreign institutional investors could exert downward pressure on the INR, creating a feedback loop of currency instability and further financing stress. Bond markets may also penalize firms with concentrated US exposure through wider spreads.

Fig. 2: Rupee Hedging Premiums on the Rise
(INR 3-month non-deliverable forward points)



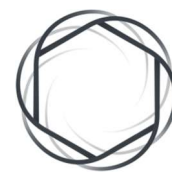
Source: Bloomberg

By contrast, diversified firms with strong domestic demand bases or multi-market export footprints are likely to be favored by investors and creditors. This divergence may accelerate capital reallocation away from vulnerable clusters like Surat or Tiruppur and toward IT, pharma, autos, and renewables. The end result is not only a squeeze on liquidity for exposed exporters but also greater market volatility around sectors with tariff risk. Therefore, those firms that actively communicate with investors, maintain diversified portfolios, and adopt disciplined hedging and financing strategies will be better positioned to ride out the turbulence.

5. Long-Term Strategic Investment

The tariff shock is likely to accelerate a stronger policy push from New Delhi, including export-linked incentives, subsidized credit, and targeted tax relief, alongside faster pursuit of bilateral and multilateral trade agreements to secure reliable market access.

For long-term equity investors, this creates an opportunity to back firms that can leverage these structural supports. Companies with the ability to scale



efficiently, invest in automation, and embed cost discipline will be positioned not only to withstand near-term volatility but also to capture a greater share of global demand once markets normalize or diversify. Over time, such firms could emerge as consolidated leaders within their industries, offering investors durable growth and competitive advantage even in a more protectionist world.

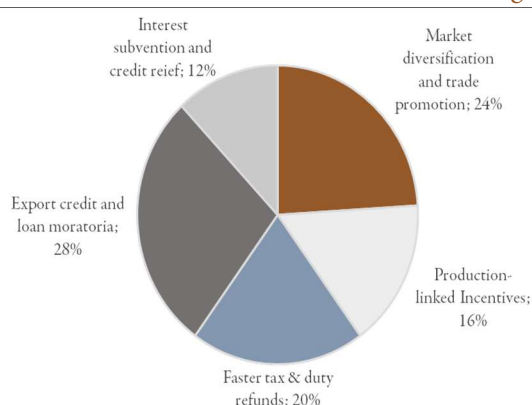
Political, Diplomatic & Strategic Response

India has officially condemned the tariffs as unfair, and has appealed diplomatically. The Commerce Ministry and industry bodies have asked for compensatory measures, interest rate relief, easing export credit, loan moratoria and faster refunds, among other.

Some state and industry clusters are already altering supply chains or considering local production in the US. Examples of this include Vadilal, an ice-cream maker considering local US manufacturing to avoid tariff costs and Titan (Tata Group), reportedly exploring moving some jewelry manufacturing to the Gulf.

The Indian government is actually preparing an “export promotion mission” package worth (~USD 3.0 billion).

Fig. 3: Indicative Allocation of USD 3.0 Bn Package



Source: SP Hinduja Banque Privée, illustrative

Diplomatically, India is also exploring legal avenues. WTO complaints or trade retaliation—though these are complex and slow. Market diversification is a key strategy: focusing on non-US markets to reduce dependency. Also, there is pressure on the government to formulate long-term trade policy to insulate vulnerable sectors.

Resolution Expected Soon

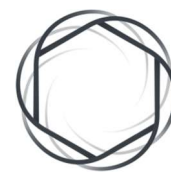
Over the last couple of weeks, there has been increasing optimism in media regarding the potential resolution of the 50 per cent tariffs imposed by the US on Indian imports. Reports have pointed to active discussions between trade representatives from both countries, signaling a willingness on both sides to negotiate terms that would bring an end to the tariff uncertainty. There is a growing consensus among economists and trade experts that both governments are keen to reach a deal in the near future, with indications that India may make concessions in areas like intellectual property protection and market access, while the US may offer tariff reductions in exchange.

Moreover, recent statements from both US and Indian officials highlight a focus on cooperation and compromise, with both countries emphasizing the need for a fair and balanced trade relationship. Sources in the business media have pointed to the upcoming high-level meetings as a potential breakthrough point. Given these developments, our base case remains that an agreement between India and the US will be reached in the coming months (if not sooner). This would lead to a material softening of the tariff regime. While uncertainties persist, the direction of talks and official statements suggest a compromise that eases trade pressures and restores greater stability in bilateral commerce.

Beyond the US: India's Trade Balancing with China

While India's immediate trade challenges are centered on its tariff dispute with the United States, the broader strategic context also includes evolving dynamics with China, its largest source of imports and a key competitor in global market

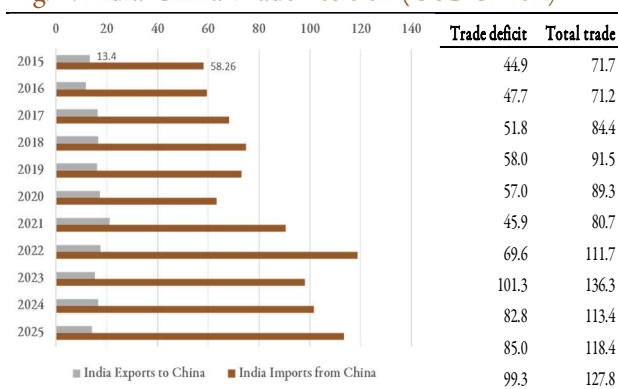
New Delhi is recalibrating its external relationships, with Beijing emerging as a pragmatic partner in the face of American trade pressure. The latest Modi–Xi meeting in Tianjin underscored a notable change in tone, with both leaders describing their countries as partners rather than rivals. Early steps toward confidence-building on the border, plans to restart direct flights, and discussions on easing Chinese export restrictions signal an attempt to stabilize ties and open space for economic cooperation.



The US tariff actions are reshaping incentives for both India and China. India's dependence on Chinese inputs for electronics, renewable energy, electric vehicles, and pharmaceuticals creates opportunities for targeted cost relief, while China views cooperation as a way to counter Washington's protectionist stance. At the same time, a warmer relationship with Beijing improves India's bargaining leverage with the US, while enabling supply chain strategies built around 'China plus India' models, where India takes on assembly and manufacturing expansion supported by Chinese components.

sensitive investments, while corporates and investors position themselves to capture opportunities in auto ancillaries, chemicals, logistics, and aviation, without losing sight of risks tied to the US market.

Fig. 4: India-China Trade Position (USD billion)

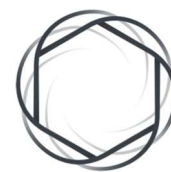


Source: Indian Embassy to China

Sectoral impacts are already visible. Electronics and semiconductor players in India may benefit from smoother input flows and new investment prospects, while EV and renewable energy sectors could see calibrated easing of component imports. Pharmaceuticals and chemicals may gain from cost normalization of key intermediates, and infrastructure projects could benefit from access to specialized Chinese machinery. Meanwhile, services such as IT and finance face limited prospects due to regulatory and data governance constraints.

Despite these improvements, structural challenges remain. The Line of Actual Control continues to be heavily militarized, India's USD 100 billion trade deficit with China persists, and market access barriers show little sign of easing. Moreover, geopolitical uncertainties around Pakistan, Taiwan, and Ukraine complicate the strategic equation. For India, the path forward lies in codifying border confidence-building measures, accelerating domestic manufacturing incentives in critical sectors, and carefully screening



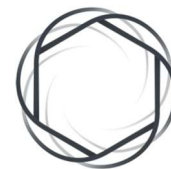


India Asset Allocation

September 2025

Asset Class	Strategic Opinion	Tactical Opinion	Constituents	Most Preferred	Least Preferred	Commentary
Cash	-	=				Liquidity and stability in portfolios. Tactical buffer. Cash to offset exposure to rich valuations in risk assets, preserving capital in case of a correction.
Fixed Income	=	+	Segments Core fixed income. Sovereigns and PSU issuers. Credit in the upperscale of IG rating. Infrastructure bonds and Tax-free bonds. Duration Medium-term	Sub-investment grade issuers	The improved investor sentiment following India's sovereign risk rating upgrade is expected to support the asset class. Therefore, we expect a continued supportive demand from both foreign investors and domestic institutions as confidence spreads. In addition, current core inflation is stable which gives the RBI space to consider easing rates further. We advocate for a diversified approach allocating between government bonds, investment grade rated corporate bonds and some opportunistic high yield securities, that provides a balance of liquidity, capital appreciation, and yield stability. The fixed income market is gradually deepening as suggested by growing corporate issuances during FY25. The 10-year G-Sec yield has risen ~25 bps since April as markets priced a 0.15–0.2% of GDP fiscal gap from tax cuts. We prefer short-to-medium maturity sovereign debt and high-quality (AAA/AA) corporate debt over long-duration to manage duration risk, until fiscal implications are clearer. Companies, especially top tier corporates and Non-Banking Financial Companies (NBFCs) stand to benefit significantly from lower funding costs and improved access to international capital, as their ratings align with the sovereign's standing. Infrastructure financiers are also poised to gain.	
Equities	++	=	Sectors Private Banks Consumer Discretionary Interest Rate Sensitives Infrastructure - Capital Goods, Industrials Styles Well Diversified large caps Thematic Plays	Staples Tech Energy & Materials Momentum driven strategies such as defensives	Long-term, our positioning in Indian equities remains constructive despite rich valuations in certain pockets. In the short term, concerns over 50% tariffs, sustained foreign investor outflows, and muted earnings are likely to dominate market attention. Tactically, those sectors that are more sensitive to lower interest rates (infrastructure, telecommunication services, utilities, real estate and financials), as well as those sectors with a bias to domestic consumption benefiting from the GST2.0 tailwind seem more compelling. We therefore hold a more constructive stance on Discretionary. Likewise, our preference is for sectors less dependent on US exports and better positioned to diversify into alternative markets. Banks and NBFCs (we have a preference for private names) are to benefit from higher demand for credit and improving asset quality in a low rate scenario. We continue to believe that there are opportunities in the insurance sector given the low level of penetration and improving regulatory environment. We have slightly improve our outlook on discretionary consumption (like Autos) as it could also benefit from improved lending conditions and recent tax reforms. Given the present uncertainty on the scale and duration of tariffs and visa access, we avoid broad exposure to export-dependent manufacturing and service sectors (IT, segments of auto components and textiles) until visibility improves. In terms of market size, we continue to maintain a defensive bias and prefer large caps over mid & small. Overall, we remain selective, favoring high-quality companies with strong balance sheets and pricing power, while maintaining flexibility to adjust exposure should market dynamics shift.	
Alternatives	+	+	Growth Capital & Late Stage Pre-IPO Precious Metals and REITs	High Yield	India's Private Markets have undergone a significant transformation over the past years - with a robust startup ecosystem they are essential to the investment strategy of long-term investors. Alternative Investment Funds (AIFs) have played a central role in the maturation of the Indian private equity landscape. Despite a fundraising dip, investor confidence remains high, driven by policy reforms and rising liquidity, positioning the asset class for sustained growth in 2025. Bank lending becoming more competitive after rate cuts makes private credit less attractive now. Our outlook for precious metals remains positive. Our positioning in gold and silver serve as a hedge against volatility and inflation upticks. The demand for silver is anticipated to experience substantial growth as the focus shifts towards sustainable energy, particularly in the development of electric vehicle (EV) infrastructure.	
Opinion	++ + = - --		very attractive attractive neutral unattractive very			





India macro data and projections *

	2021/22	2022/23	2023/24	2024/25	2025/26E
Real GDP (percent growth) Fiscal Year	9.7	7.0	8.2	6.5	6.4
CPI (percent growth) Fiscal Year	5.5	6.7	5.4	4.6	4.2
Industrial Production (percent growth)	-8.4	11.4	5.2	4.0	3.8
Interest Rates (percent) Fiscal Year	4.00	6.25	6.50	6.50	5.25
Fiscal Deficit (percent of GDP)	-6.7	-6.5	-5.6	-4.8	-4.4
Trade Balance (percent of GDP)	-3.8	-6.0	-7.9	-6.8	-7.1
Current Account Balance (percent of GDP)	-1.2	-2.0	-0.7	-0.6	-1.2
Public Debt (percent of GDP)	83.5	82.0	82.7	82.7	81.5
FX reserves (USD billion)	607	578	646	659	732

Sources: IMF, CEIC, RBI, Fitch * Data are for Apr-Mar fiscal years

MSCI India (USD) 1Y Performance



Nifty50 (INR) 1Y Performance



Source: Bloomberg

Sector Performances	Index Market Cap (USD Bn)	CY 2024	August 2025	% YTD	Fwd PE (x)
Nifty Realty	25.3	33.8%	-4.6%	-12.4%	31.0
Nifty Pharma	91.9	38.9%	-4.2%	-4.5%	28.2
Nifty IT	162.1	21.4%	-0.3%	-18.1%	22.3
Nifty Financial Services	682.1	9.6%	-4.1%	12.8%	15.8
Nifty Auto	147.9	22.8%	5.5%	18.9%	23.7
Nifty Metal	81.2	8.1%	-1.4%	15.9%	14.1
Nifty Energy	271.6	4.9%	-4.2%	2.3%	14.0
Nifty FMCG	135.8	-0.9%	0.6%	-1.4%	32.7
Nifty India Consumption	398.3	19.0%	2.7%	9.9%	34.4
Nifty Media	4.7	-25.2%	-0.9%	-10.5%	18.7
INR/USD		-2.9%	-0.7%	-3.1%	

Source: Bloomberg





Figure of the Month

6.86

In August 2025, India's exports to the U.S. fell to **USD 6.86 billion**, down from USD 8.01 billion in July. This sharp 14 per cent sequential decline underscores the immediate bite of Washington's 50 per cent tariff shock, with textiles, gems, jewelry, and seafood among the hardest-hit sectors, amplifying pressure on India's trade outlook.





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We are a private bank with an entrepreneurial spirit, embracing collective action and building creative solutions that advance the world, economically and socially.

The future of banking is emerging at the intersection of profit and purpose.

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