

Federal Reserve in the Crosshairs

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CIO View (1/6)

The struggle to balance slowing growth with sticky inflation raises US risks

Recent national accounts and labor reports give a mixed signal: real GDP rebounded strongly in Q2 2025 after a weak Q1 — the BEA’s second estimate put Q2 GDP growth at +3.3% annualized (Q1 was −0.5%).

At the same time, labor-market momentum has softened: headline payroll gains in August were far below run-rate norms and the unemployment rate ticked up (August data showed very weak job creation), signaling cooling in employment.

Meanwhile, inflation remains stubbornly above the Fed’s 2% goal: the July 2025 CPI showed headline +2.7% y/y and core (ex food & energy) +3.1% y/y, well above 2%. Monthly prints remain positive, driven by shelter and services.

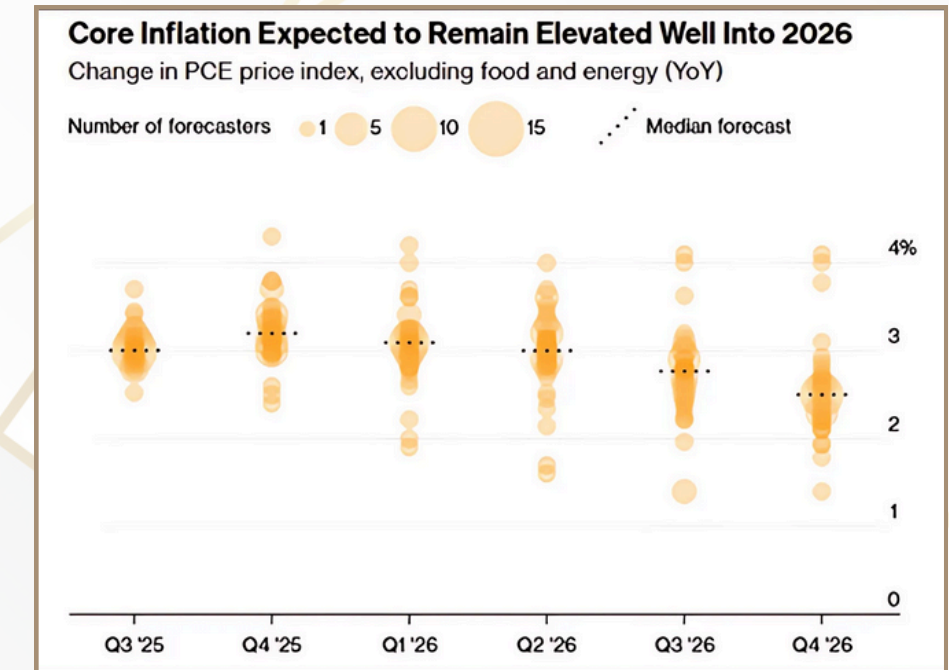
How can this combination coexist?

A conventional “growth slows, inflation stays sticky” outcome can arise if demand (consumption) holds up enough to support prices for services — especially rent/shelter — while goods-side momentum and hiring cool. Trade distortions (tariffs), supply frictions, and sectoral bottlenecks (housing, healthcare, insurance) can keep core inflation elevated even as headline cyclical indicators soften.

What does it mean for financial markets?

Consumption — discretionary vs essentials

If job growth weakens further and wage growth decelerates, consumers will retrench. Discretionary categories (leisure, durables) are most vulnerable, while essentials and sticky services (healthcare, rent) are more resilient. **That mix favors companies with recurring-revenue or pricing power, and penalizes highly cyclical, margin-sensitive retailers.** With core inflation still >2%, real incomes may be squeezed if nominal wage gains don’t outpace service inflation.



CIO View (2/6)

Credit & fixed income

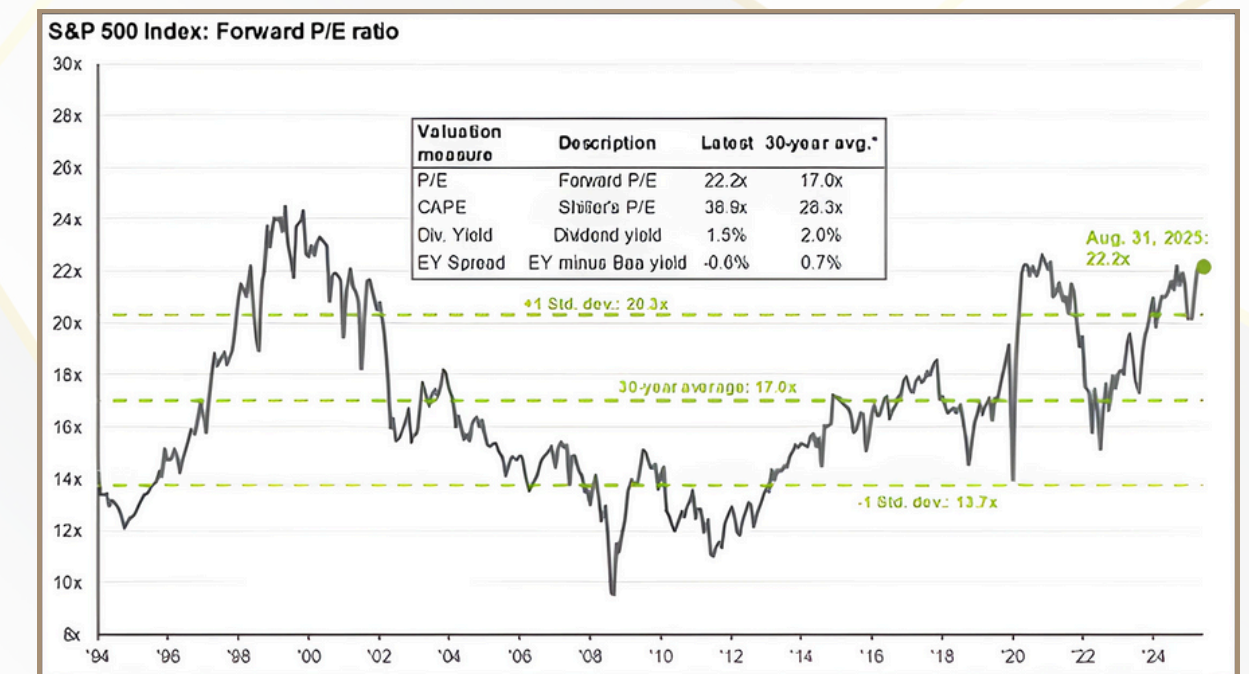
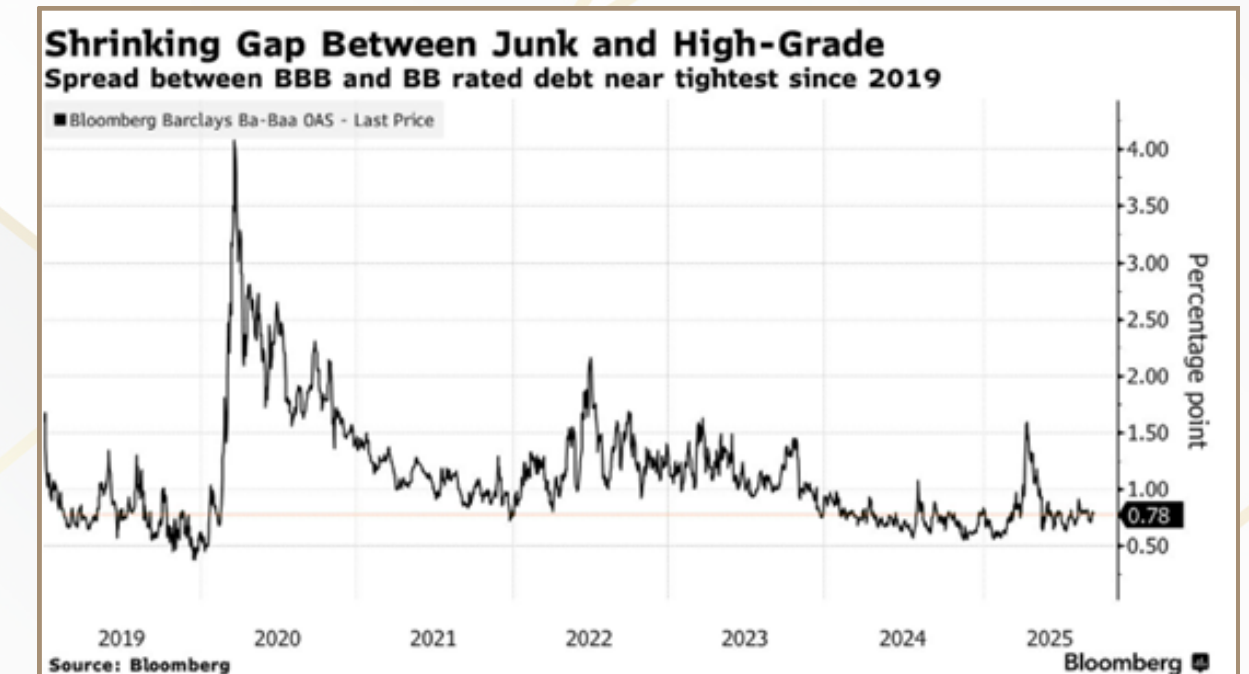
Slower growth raises default-risk concerns at the margin, particularly for highly leveraged speculative-grade borrowers and small-business credit that depends on local demand. However, persistent core inflation suggests the Fed will be cautious about cutting rates aggressively; markets currently price an elevated probability of a near-term cut but remain sensitive to upside inflation surprises. That dynamic lifts term premia: long yields can rise if investors demand compensation for higher expected inflation even as growth slows.

Corporate earnings

Earnings face a squeeze from two directions: (1) revenue risk if consumption softens in cyclicals and small-cap markets, and (2) margin pressure from persistent input and labor costs in services. Companies with strong pricing power and high operating leverage (large tech/software with subscription models, or consumer staples with brand power) should fare better than commodity or highly cyclical industrials.

Equity valuations across sectors remain vulnerable

S&P 500 (forward P/E \approx 23x) — Current forward P/E is well above the long-run average (~15–16x), reflecting strong multiple expansion driven by expected earnings growth and low real yields. **Elevated P/E at this growth/inflation juncture leaves equities vulnerable to two shocks: (a) a surprise to inflation or (b) a re-rating if earnings fail to meet lofty expectations.** If the Fed stays tight longer because core inflation persists, multiples could compress.



Source: JPMorgan

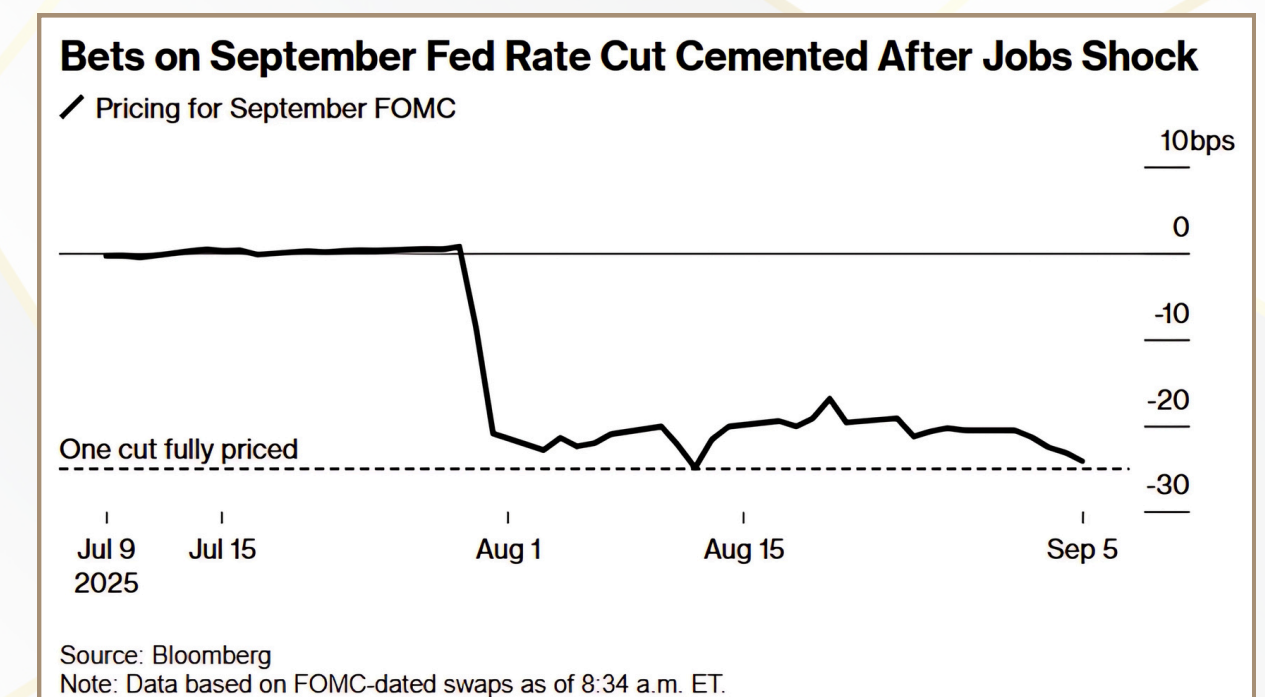
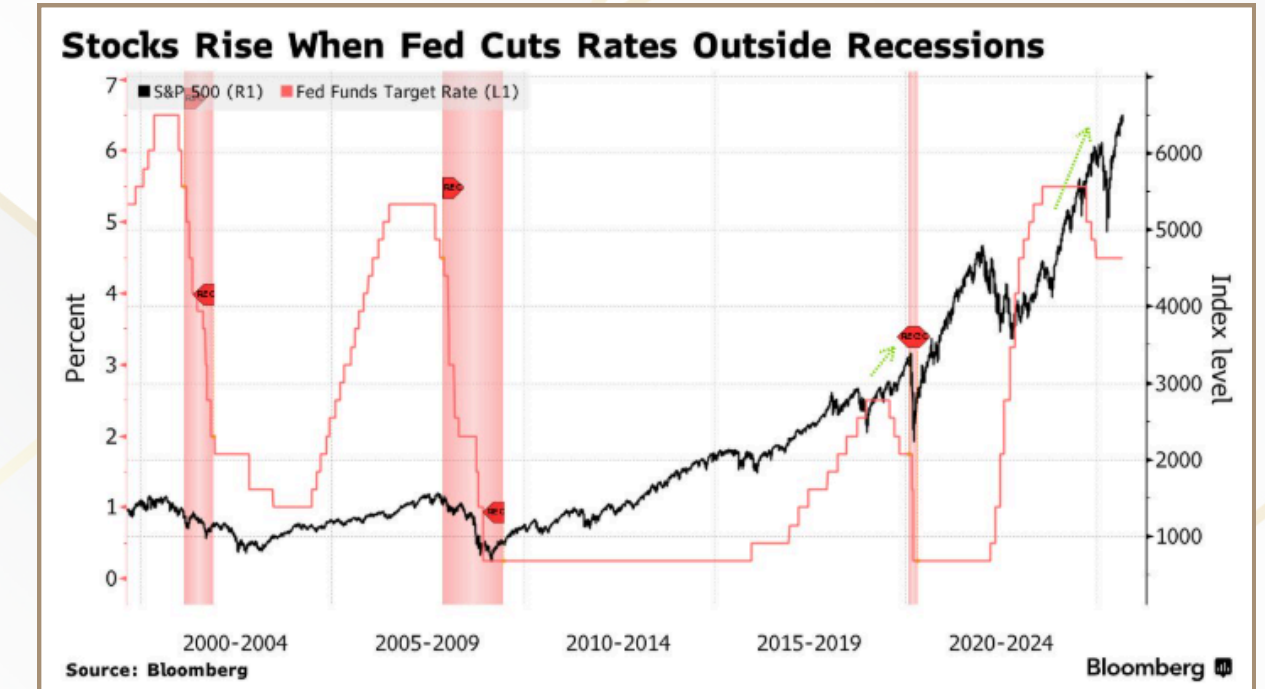
CIO View (3/6)

Nasdaq-100 (forward P/E \approx mid-20s to low-30s) — Tech’s premium pricing embeds assumptions of durable high growth and low discount rates. A slowing macro environment with sticky services inflation creates a tougher narrative: **revenue growth for some high-growth names could slow, and higher long yields hurt long-duration cash-flows more** — meaning more downside risk for richly valued growth names.

Russell 2000 (P/E \approx 18–19x) — Small-caps trade at a premium to their 5-year average and are more economically sensitive. Weaker domestic demand and tighter credit conditions would disproportionately hurt small caps’ top-lines and access to financing; **downside risks for earnings are therefore larger than for mega-caps, even if current P/E looks less extreme than Nasdaq.**

What to watch next

Market positioning will hinge on incoming labor and inflation prints (August CPI due early September) and Fed communication about the sequencing of cuts. If labor weakness persists and core inflation drifts down, markets may reward risk assets. But if core inflation remains stubborn, expect higher term premia, potential equity multiple compression (especially for long-duration growth names), and pressure on small-cap earnings. The present mix—slowing growth + above-target core inflation—creates a tricky policy and asset-pricing environment that favors selective, quality-biased positioning.



CIO View (4/6)

The Battle for The Fed

President Donald Trump's actions over the years suggest a desire to centralize decision-making with his office. It is therefore no surprise that the Federal Reserve, given its influence on the overall economy and financial markets, is in his sights. While current focus is on his most recent actions with regards to Jay Powell and now Lisa Cook, this is simply another step in a long journey started during his first term in office.

1 - Public pressure campaigns (2018–2019): Trump repeatedly blasted the Fed and Chair Jerome Powell in speeches and on Twitter/X for raising rates, an unprecedented level of real-time political pressure on monetary decisions.

2 - Exploring removal/demotion of the Fed chair (2019): The White House counsel's office examined whether the president could demote Powell from chair to governor—an extraordinary move that would have undermined the norm that the chair cannot be removed over policy disagreements.

3 - Nominating perceived loyalists to the Board (2019–2020): Trump floated Herman Cain and Stephen Moore (both withdrew amid opposition), and later nominated Judy Shelton, a gold-standard advocate whose confirmation failed in the Senate. These choices were widely criticized as politicizing the Board.

4 - Renewed personnel strategy to tilt the Board (2025): In his current term, Trump has pursued a Board majority aligned with his views, including efforts surrounding Governor Lisa Cook and the nomination of Stephen Miran. Reports highlight that reshaping the seven-member Board can shift policy even without removing the chair.

5 - Blurring lines between the White House and the Fed (2025): At his confirmation hearing, nominee Stephen Miran said he would remain an unpaid White House official if seated on the Board (or take unpaid leave), prompting concern over conflicts and independence. (He asserted he'd act independently.)

6 - Broader agenda to curb autonomy: Policy blueprints associated with Trump-aligned circles (e.g., Project 2025) include proposals to narrow the Fed's mandate and heighten executive control—ideas critics say would erode independence.

CIO View (5/6)

Why is an independent Fed so important?

Fed policymakers are not elected by the public. And this fact has been pointed out by some critics who believe that a powerful policymaker with distributional consequences such as the Fed should have oversight by elected officials. This is especially true during crises when coordination with fiscal authorities is vital.

However, most agree that an independent Central Bank guiding the economy helps to **anchor inflation expectations and credibility** by insulating rate decisions from election-cycle incentives.

It also **reduces the risk of “fiscal dominance”** (monetizing deficits), a lesson reinforced by the 1951 Treasury-Fed Accord that disentangled debt management from monetary policy.

Efforts to undermine the independence of the Central Bank have not borne good outcomes. In the US, President Truman pushed the Fed to cap yields to keep borrowing costs low; the standoff eventually ended with the Treasury-Fed Accord, foundational for modern independence.

Tapes also show President Nixon leaning on Chair Arthur Burns ahead of the 1972 election; later scholarship links political pressure to easier policy and subsequent inflation.

The perils of Central Bank independence being compromised have also been seen in Turkey, Lebanon and pre-Milei Argentina.

Overall, **when elected leaders subordinate central banks, markets typically demand higher risk premia, currencies weaken, and inflation risk rises.**

CIO View (6/6)

How has the market reacted so far?

Gold: Pushing record/high levels amid worries about politicized policy; safe-haven demand has been explicitly linked by reporters and strategists to Fed-independence concerns.

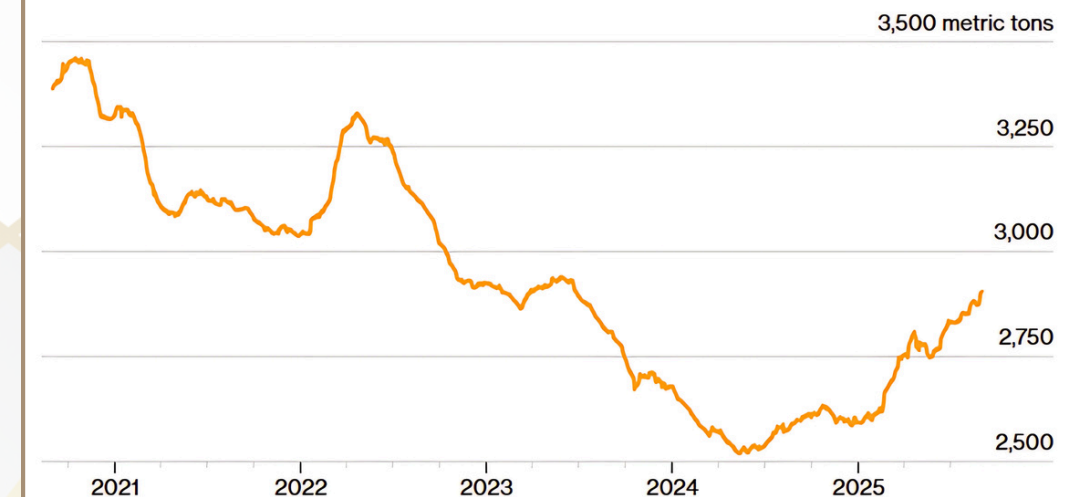
Rates & yield-curve: Long-dated Treasury yields have risen and strategists warn that impaired independence would mean higher term premia and inflation risk; some also see markets tentatively pricing easier policy (benefiting value/cyclicals) if the White House leans on the Fed.

Dollar & equities: The dollar reaction has been mixed; equities have rotated with value/real-asset exposure faring better on expectations of looser money and higher nominal growth, while long-duration assets face pressure from higher real yields. One unrelated factor that has kept equity markets supported thus far is the AI narrative, but the impact of that is restricted to a small number of companies.

Markets seem to be weighing two offsetting channels: (1) Short-run easing pressure (bullish for cyclicals, bearish for the dollar) and (2) Long-run credibility risk (higher inflation risk, steeper term premia, weaker currency). Historical analogs (Nixon-Burns; international episodes) bias investors toward hedges like gold and shorter duration.

Investors Have Piled Into Gold

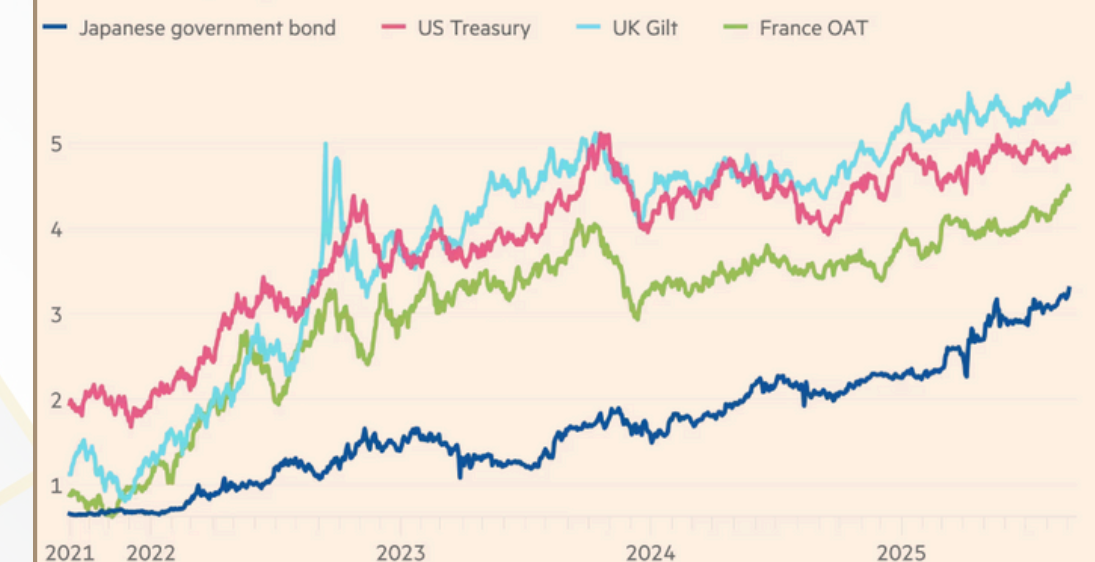
Total holdings in gold ETFs have swelled to levels last seen in 2023



Source: Bloomberg
Note: Data up to Sept. 1, 2025

We can only go higher

%, Yields on 30-year government bonds



Source: Bloomberg

Fed At The Tipping Point: Rate Cuts On The Horizon

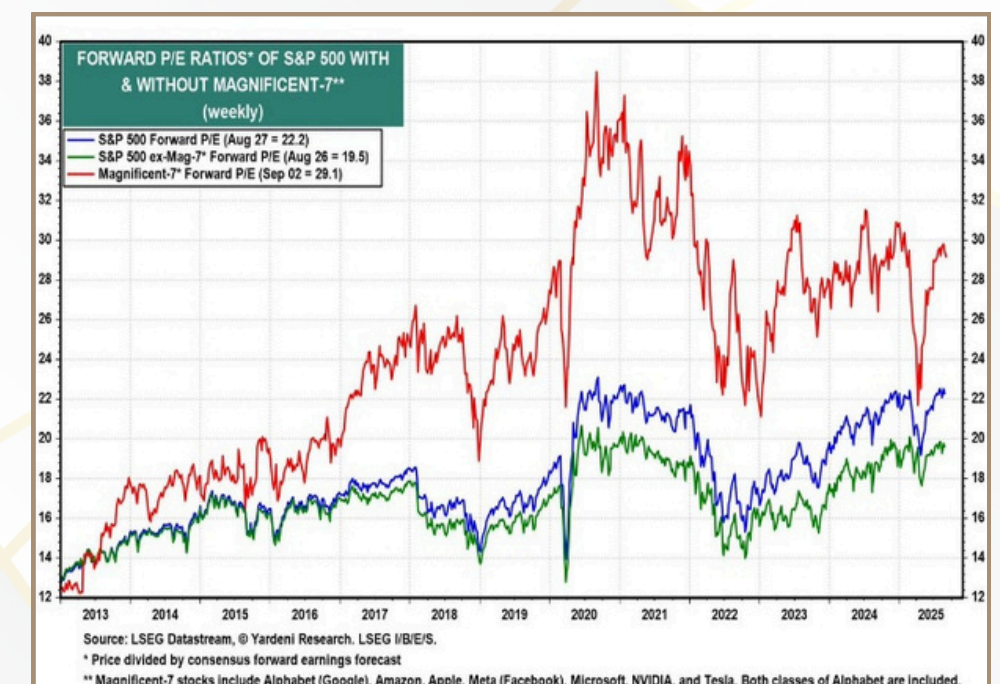
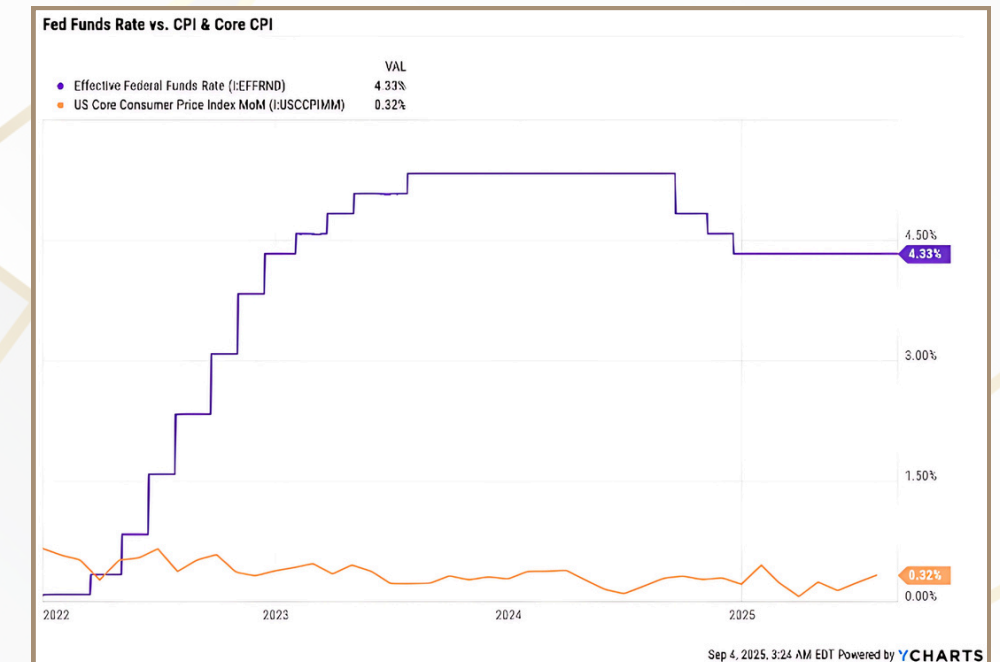
- Powell's Jackson Hole remarks emphasized managing inflation & employment simultaneously, rather than addressing them sequentially.
- The Federal Reserve shifted from a strict inflation focus to balancing risks across both mandates, signaling potential easing; Powell highlighted that, "risks to inflation are tilted to the upside, and risks to employment to the downside."
- Markets reacted positively, with rallies and higher rate-cut probabilities, though underlying data suggest a gradual, data-dependent path : S&P 500 +1.6%, Nasdaq +2.0%, Dow +1.9% on August 22; 2-yr T-yields fell ~10 bps, 10-yr yields down 7 bps.
- CME FedWatch Tool surged probability of a September 25 bps cut from 72% pre-speech to 89% post-speech.

U.S. Macroeconomic and Labor Landscape

- Economic Growth: Q2 GDP rose 3.3% annualized, but largely due to a one-time decline in imports; underlying investment and government spending remain weak.
- Inflation: July CPI rose 2.7%, core CPI 3.1%; tariff-driven price pressures present temporary inflation risks, allowing cautious Fed easing.
- Labor Market: July nonfarm payrolls added only 73,000 jobs, with downward revisions for prior months; unemployment stable at 4.2% due to slowing labor supply.
- Economic soft patch combined with structural headwinds implies cautious, selective investment strategy is essential.

Investment Outlook

- Rate-Cut Expectations: Market anticipates imminent cuts, but the Fed signals a gradual, risk-managed easing path through 2026.
- Valuation Risks: S&P 500 trades at ~21.7x forward earnings; market breadth narrow, concentrated in top mega-caps ("Magnificent 7").



With anticipated Fed rate cuts & stretched valuations, bottom-up selection on fundamentally strong, undervalued stocks is essential

Three Catalysts in Action: Credit, Capital & Consumption Powering India

Sovereign Credit Upgrade – Fiscal Credibility Restored

- S&P upgraded India's rating to BBB (Stable) from BBB– on Aug 14, 2025 — first upgrade in 18 years.
- Macro Strengths: Debt-to-GDP: 83% (from 90% in FY21) Fiscal deficit: 5.3% FY25 (vs 9.2% in FY21) FX reserves: USD 677 bn (~10 months import cover)
- Enhances India's eligibility for global bond index inclusion, potentially attracting USD 20–25 bn inflows.
- Lower sovereign spreads (–20 to –30 bps) reduce borrowing costs for both government and corporates.

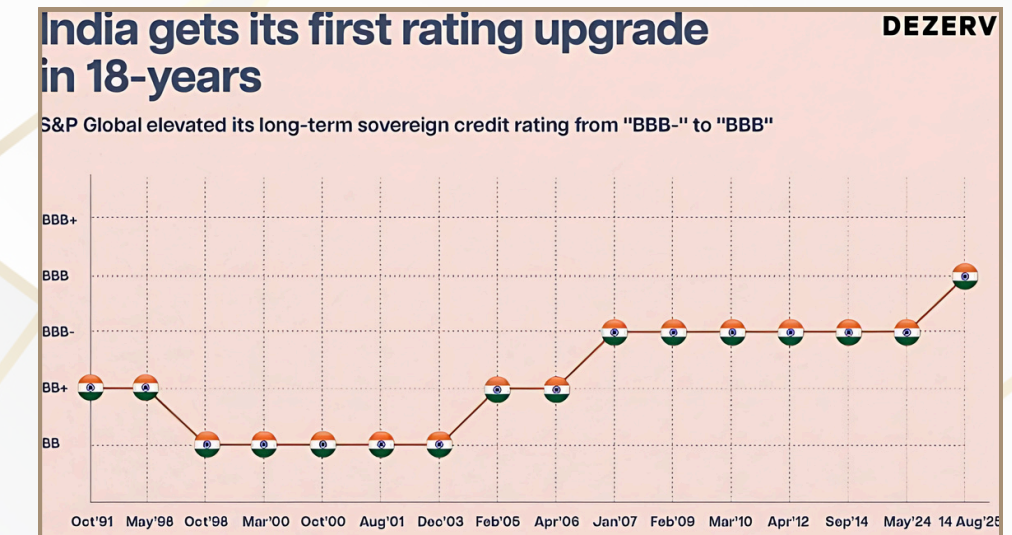
GST Rationalization – Consumption Engine Boosted

- Next-Generation reforms : GST simplified from 4 slabs (5%, 12%, 18%, 28%) to 2 slabs (5%, 18%) + 40% sin tax.
- Beneficiaries: FMCG, 2-wheelers, small cars, household durables now in lower tax brackets.
- Likely to boost household consumption by 0.5–0.7% in FY26. Corporate margins in consumer sectors may rise 50–100 bps.
- Simplification reduces SME compliance costs by ~15–20%, fostering entrepreneurship and formalization.

RBI Policy Easing – Liquidity & Growth Support

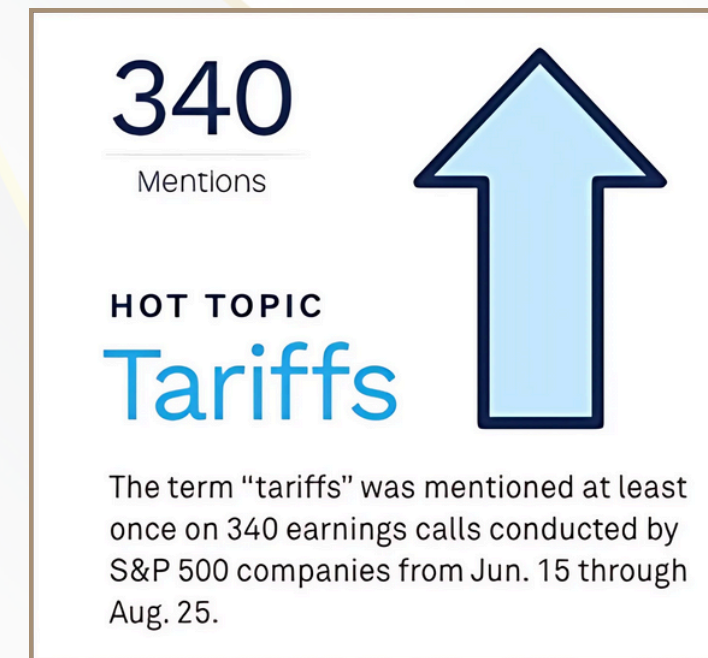
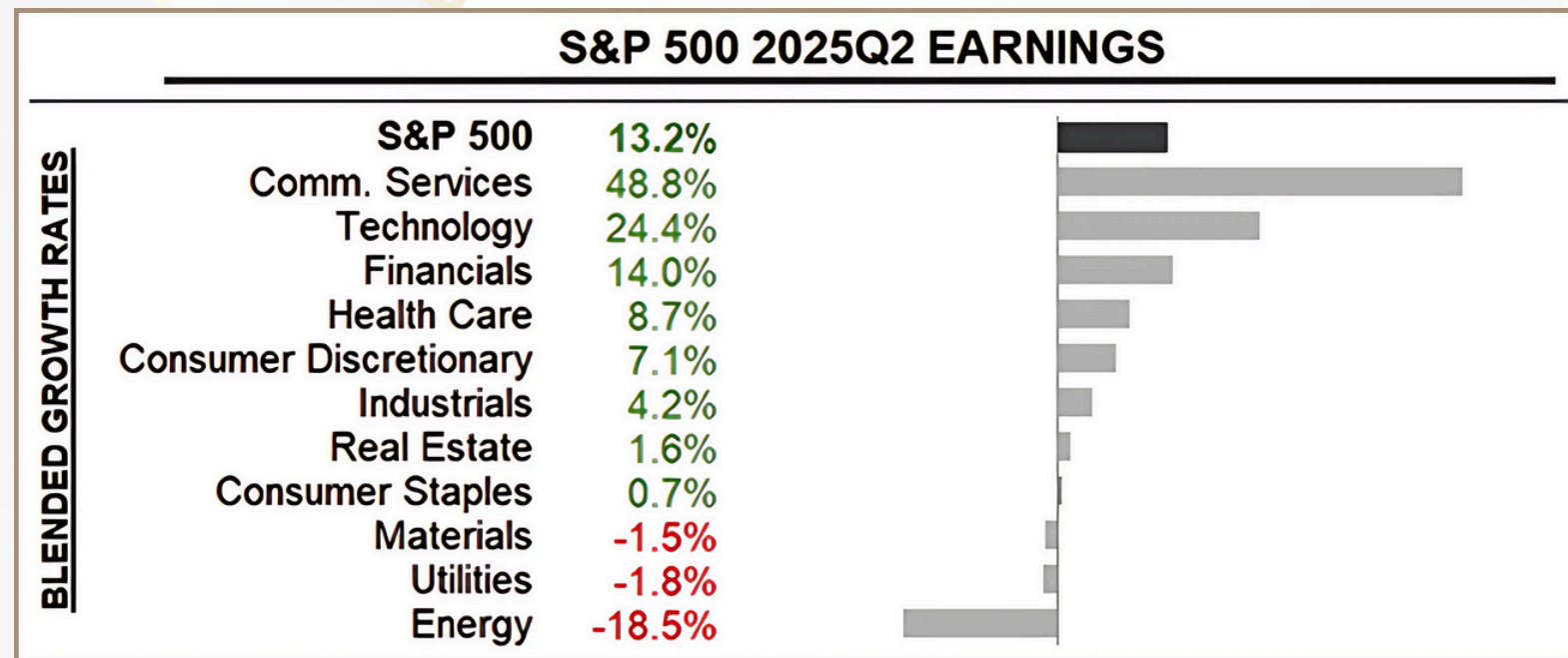
- Monetary Measures: Repo cuts: –100 bps YTD (6.50% → 5.50%) (Feb: –25 bps | Apr: –25 bps | Jun: –50 bps | Aug: hold)
- CRR cut: 100 bps → ₹2.5 lakh Cr. liquidity infusion
- Expected decline in retail & SME lending rates in H2 FY26, stimulating housing, auto, and MSME credit.
- Lower borrowing costs encourage infrastructure, manufacturing, and tech investments, aiding capex cycle.
- Supports GDP growth (6.8–7.2% FY26), bolsters equity and bond markets, while balancing inflation near 4–4.5%.

Invest in India, one of the world's most attractive markets, through INDA (ETF) or Boring AMC (Managed Fund)



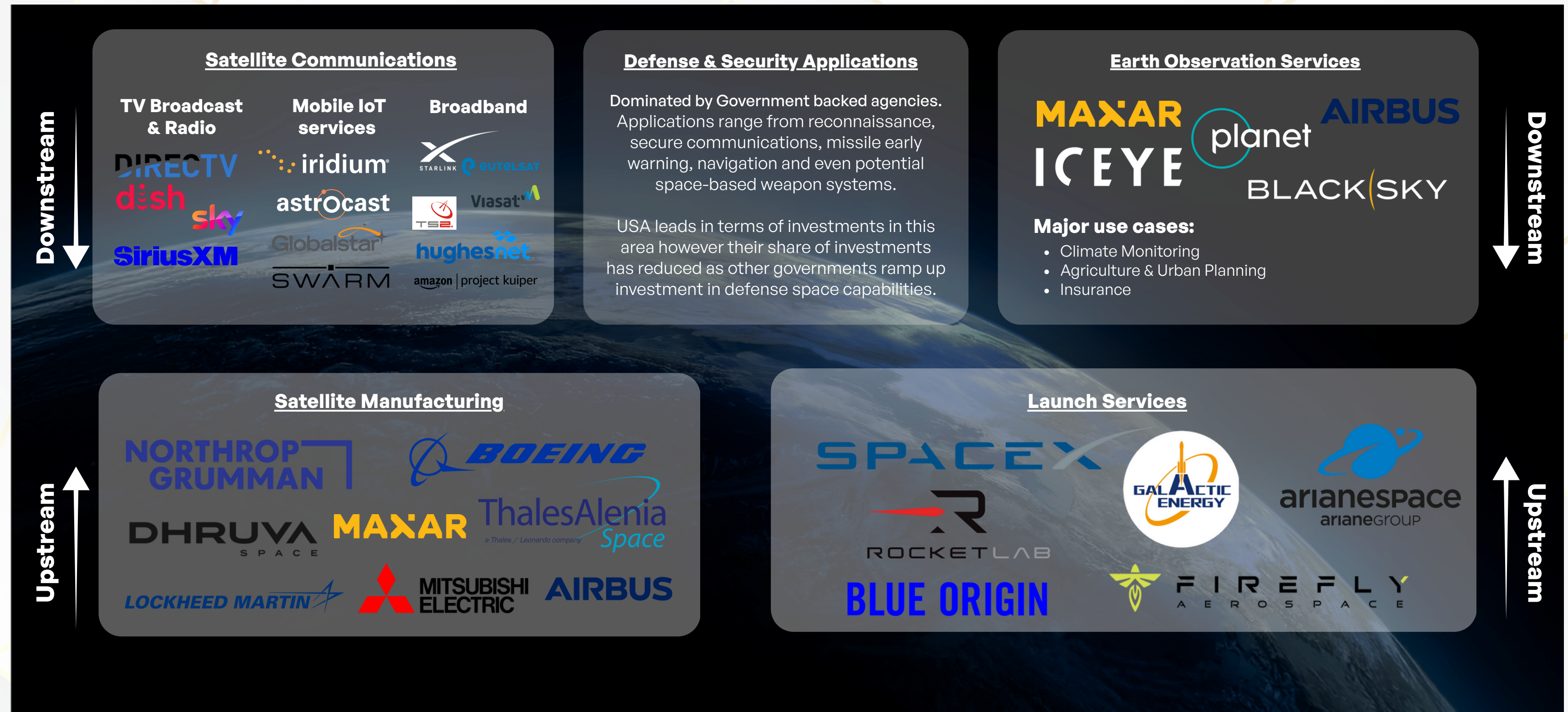
NEXT-GEN GST REFORM		
for Ease of Living & to build Aatmanirbhar Bharat		
From farmers to enterprises, from households to businesses, the Next-Gen GST brings happiness for all!		
Save Big on Daily Essentials		
Items	From	To
Hair Oil, Shampoo, Toothpaste, Toilet Soap	18%	5%
Bar, Tooth Brushes, Shaving Cream		
Butter, Ghee, Cheese & Dairy Spreads	12%	5%
Pre-packaged Namkeens, Bhujia & Mixtures	12%	5%
Utensils	12%	5%
Feeding Bottles, Nappies for Babies & Clinical Diapers	12%	5%
Sewing Machines & Parts	12%	5%
Uplifting Farmers & Agriculture		
Items	From	To
Tractor Tyres & Parts	18%	5%
Tractors	12%	5%
Specified Bio-Pesticides, Micro-Nutrients	12%	5%
Drip Irrigation System & Sprinklers	12%	5%
Agricultural, Horticultural or Forestry Machines for Soil Preparation, Cultivation, Harvesting & Threshing	12%	5%
Relief in Healthcare Sector		
Items	From	To
Individual Health & Life Insurance	18%	Nil
Thermometer	18%	5%
Medical Grade Oxygen	12%	5%
All Diagnostic Kits & Reagents	12%	5%
Glucometer & Test Strips	12%	5%
Corrective Spectacles	12%	5%
Automobiles made affordable		
Items	From	To
Petrol & Petrol Hybrid, LPG, CNG Cars (not exceeding - 1200 cc & 4000mm)	28%	18%
Diesel & Diesel Hybrid Cars (not exceeding - 1500 cc & 4000mm)	28%	18%
3 Wheeled Vehicles	28%	18%
Motor Cycles (350 cc & below)	28%	18%
Motor Vehicles for transport of goods	28%	18%
Affordable Education		
Items	From	To
Save on Electronic Appliances		
Items	From	To

S&P500 2025 Q2 Earnings



- As of 29th Aug, **489** companies in the S&P 500 have reported earnings to date for 25Q2. Blended **earnings YoY growth stands at 13.2%**.
- For 25Q3, there have been 64 negative EPS preannouncements issued by S&P 500 corporations compared to 45 positive EPS preannouncements. 2025 earnings is estimated to grow by **10.5%**.
- Forward PE ratio for S&P 500 stands at **22.9** which is above the 5-year average of 19.9 and 10-year average of 18.5.
- Communication Services sector had the highest earnings growth rate **48.8%** driven Alphabet (22%), Meta (38%) & Comcast (198%) followed by the IT sector with growth rate of **24.4%**.
- **The Magnificent 7 cohort grew earnings 26.6%** YoY versus just 8.1% for the rest of index.
- Big tech guidance pointed to continued — and in many places increased — AI investment in the coming quarters. **Capex for the largest four hyperscalers are forecasted to grow by over 43% to about \$375B in 2025**, versus just 4% for the rest of the index.

An Overview Of The Space Economy



The Space economy is in a nascent stage, ETFs (ARKX & UFO) are one way to invest in it

From Physical to Digital: The Future of Asset Tokenization

Market Growth and Projections

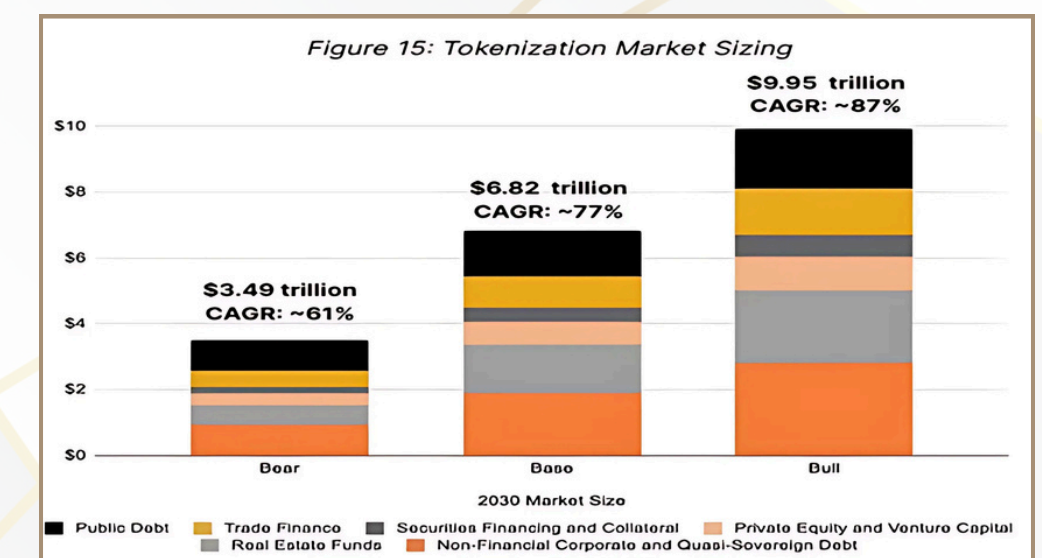
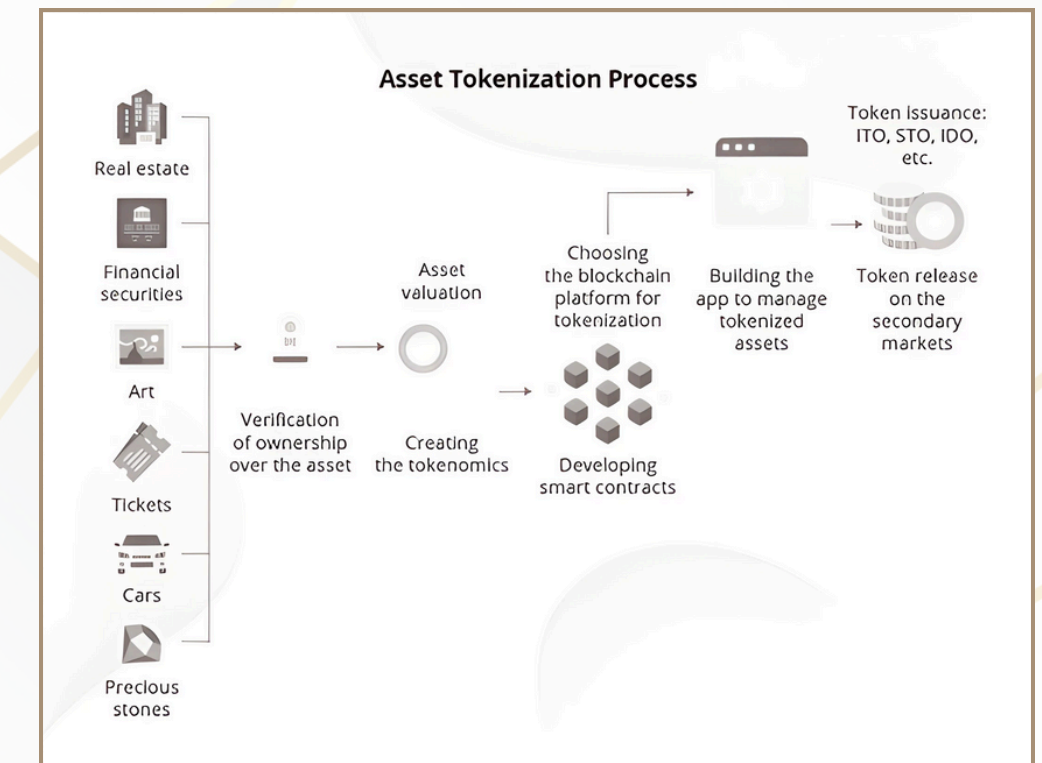
- Global tokenization market valued at \$3.32B in 2024, expected to reach \$3.95B in 2025, growing at 21.4% CAGR.
- By 2032, the tokenization market projected to expand to \$12.83B globally, reflecting increasing adoption across sectors worldwide.
- North America dominates with over 40% market share, generating \$1.28B revenue in 2024, largest regional contribution globally.
- North American tokenization market expected to grow at 20.4% CAGR from 2025–2030, driven by financial and tech adoption.

Institutional Adoption and Asset Tokenization

- Real-world asset (RWA) tokenization market reached \$24B in 2025, marking a 380% growth over three years globally.
- Major financial institutions, including Goldman Sachs, BNY Mellon, actively developing blockchain-based tokenized asset solutions.
- Tokenized commodities market, especially gold, valued at \$1.9B by early 2025, reflecting strong investor interest in digital assets.
- Exchanges like Coinbase, Kraken offer tokenized stocks, allowing fractional ownership and 24/7 trading opportunities for investors.

Opportunities and Challenges

- Tokenization democratizes high-value assets, enabling smaller investors to access real estate, fine art, and financial instruments.
- Digital tokens improve market liquidity, faster settlement times, reduced costs, and transparency for asset owners and investors.
- Regulatory uncertainty persists, varying across countries, requiring robust frameworks to ensure investor protection and sustainable token market growth.
- Blockchain vulnerabilities, including smart contract risks and cyber threats, demand strong security measures and operational safeguards for market participants.



Tokenization represents the future of investing, accessible via Kraken and Robinhood (HOOD) etc

From Property to Token: Dubai Setting Global Standards in Real Estate

Regulatory Strength as a Competitive Investment Advantage

- Dubai Land Department (DLD) as Pioneer: Adopted blockchain in 2017, launched Prypco Mint platform officially.
- Virtual Assets Regulatory Authority (VARA) Oversight: Classified real estate tokens as ARVAs, ensuring robust investor protections.
- Dual-Track Regulation: DFSA serves institutional clients; VARA covers retail crypto-native investors.

Market Momentum and Growth Opportunities

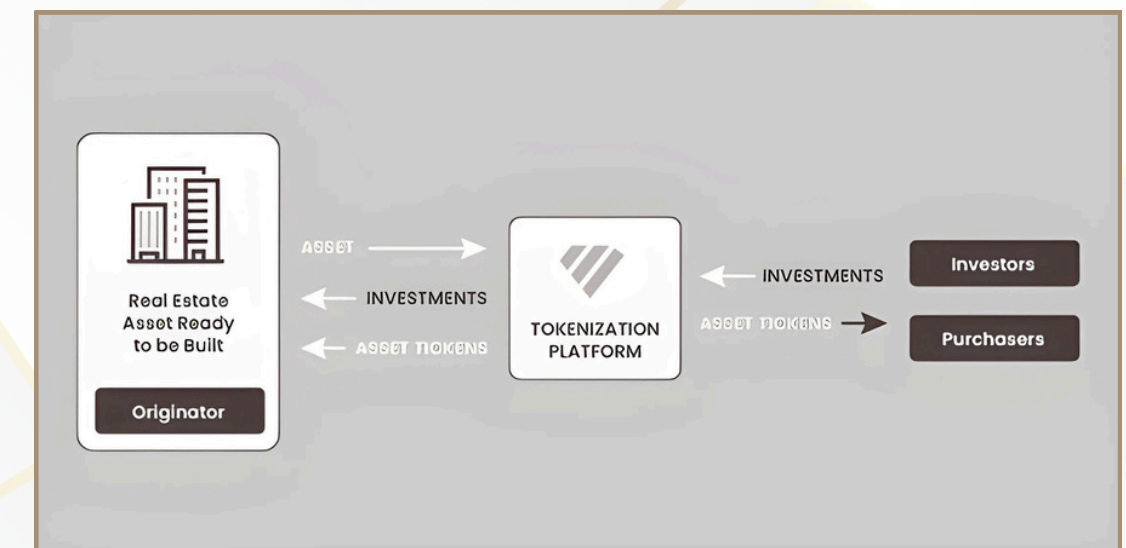
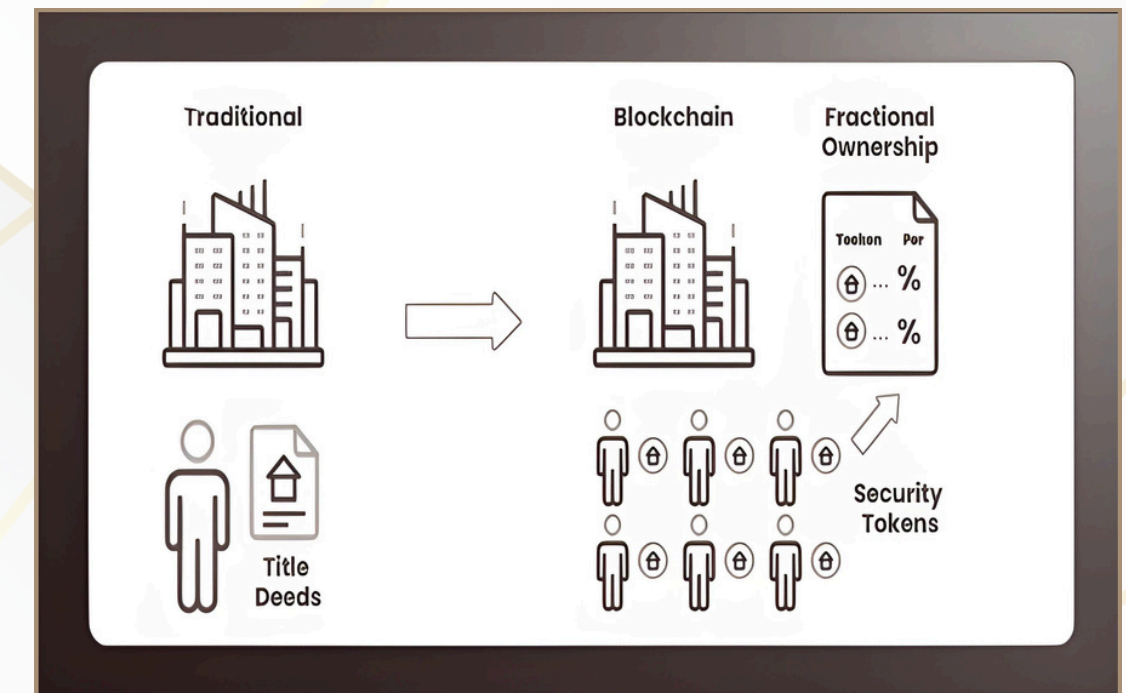
- Rapid Adoption: Dh1.75M villa sold five minutes; 169 investors participated globally.
- Accessible Investment: Prypco Mint allows AED 2,000 minimum; democratizes Dubai real estate.
- Market Potential: May 2025 sales AED 66.8B; \$3B tokenized, 7% projected.

Investor Benefits and Returns

- Liquidity Solutions: Secondary markets allow efficient trading, solving traditional real estate illiquidity problems.
- Transparency and Security: Blockchain ensures immutable ownership records and automated smart contract governance.
- Attractive Returns: SmartCrowd ROI 56%, Stake properties yield 9.71%-10.41% annual investment returns.
- Global Access: Tokenization opens UAE real estate markets to international investors efficiently.

Leading Platforms and Strategic Partners

- Prypco Mint: Government-backed platform enabling secure, regulated fractional property ownership.
- Stake & SmartCrowd: DFSA-regulated platforms offering low minimum investment and liquidity.
- Technology & Developers: Ctrl Alt, MultiBank, Mavryk issue tokens on XRP Ledger.



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ASAS CAPITAL
أساس كابيتال

Get In Touch



702 South Tower PO BOX 506806 Emirates
Financial Towers, DIFC Dubai, UAE



+971 4346 4700



inquiry@asascapital.com



www.asascapital.com