UOB

4Q 2026 Investment Outlook

Navigating a narrower path ahead



Right By You



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CIO Thoughts

Foreword: Taking some risk off the table

We moved equities from Overweight to Neutral post Federal Open Market Committee (FOMC). This is a tactically cautious decision, not a strategic retreat. Earnings remain healthy, but the near-term balance between oil, inflation, interest rates, valuations and crowded positioning has become less forgiving. After a strong year-to-date advance, we would rather surrender a little upside than assume that good earnings can indefinitely outrun a higher discount rate.

Neutral, not negative

The earnings cycle is not ending. We still expect healthy growth through the second half, while US mid-term history remains constructive beyond the immediate volatility window. Yet good news is losing some of its punch. Beat-and-raise results have produced less consistent share-price rewards, suggesting that expectations are already demanding. When excellent news merely keeps a stock standing still, the hurdle for the next quarter has become uncomfortably high.

Regionally, we are moving US and Emerging Asia equities to Neutral, while retaining Neutral positions in Japan and Europe. Taiwan and South Korea remain central to the Artificial Intelligence (AI) infrastructure chain, but their AI infrastructure concentration has become a vulnerability. China, meanwhile, has tested investors' patience. Patience alone is not an investment thesis. We have also moved China to a Neutral stance.

Oil, yields and the Fed

The tension is that earnings remain strong, but the price investors will pay for those earnings is under pressure. Higher oil prices complicate the inflation outlook, while a Federal Reserve that leaves the door open to further tightening keeps the discount rate unsettled. Equities can live with relatively high rates. What they dislike is having the goalposts shift with every oil headline and data release.

Oil rarely stays politely within its assigned inflation weight. It seeps into freight, airfares, chemicals, packaging and margins. With the US Strategic Petroleum Reserve (SPR) near multi-decade lows, critical infrastructure under threat and replacement supply potentially slow to arrive, another spike may be harder to cushion. That does not make a lasting oil shock inevitable, but it widens the range of outcomes.

Positioning leaves little cushion

Crowded positioning is not an automatic sell signal. It does, however, increase the potential speed of any unwind. The dominant theme remains AI, so finding genuine hiding places is admittedly difficult. Investors wanting to retain exposure may be better served by AI beneficiaries that can raise productivity and margins, rather than hardware suppliers whose returns depend on another large wave of capital spending.

AI's thesis is intact, but its timetable is less certain. Safety, regulation and geopolitics may defer or redirect infrastructure spending. Yet if the US believes it is in an AI race with China, a prolonged unilateral slowdown appears unlikely. Competitive pressure should limit any retreat, even as scrutiny raises the hurdle for new projects.

Where we prefer to rotate

Cash flow will matter even more from here. We like profitable companies generating cash today over businesses promising cash tomorrow. Quality dividend equities may initially struggle if bond yields rise, but yield-driven weakness could improve long-term entry points. Banks can benefit from higher rates, provided recession and credit losses remain contained. Defence remains a long-burn theme, while healthcare offers earnings less tied to the technology cycle.

What would bring us back to Overweight?

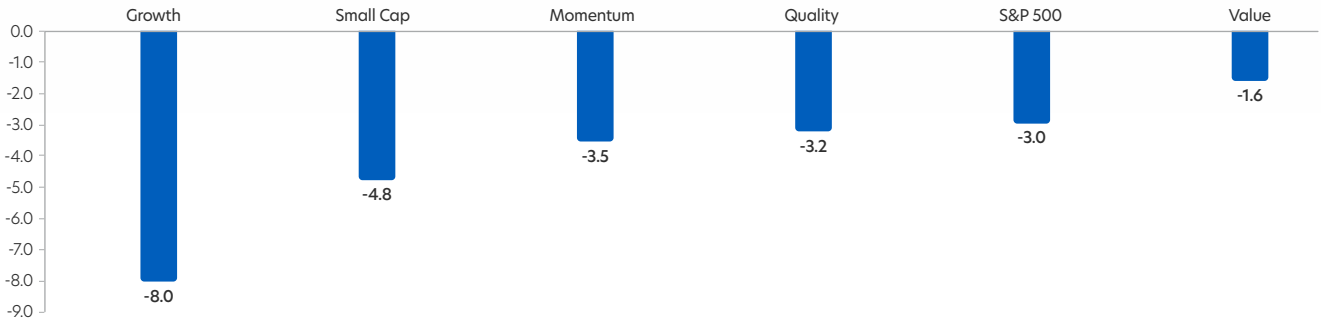
Three developments would improve the risk-reward balance. First, a sustainably lower oil price because supply conditions improve, not because demand collapses. Second, the Fed should place firmer boundaries around further tightening, allowing Treasury yields and inflation expectations to regain an anchor. Third, a market reset should leave earnings estimates intact. A correction with stable earnings revisions would be an opportunity. Falling prices alongside deteriorating profits would not.

Risks: Our caution may prove premature

The uncomfortable bull case is that crowded positioning becomes still more crowded. Oil could fall after a diplomatic breakthrough, the Fed could suddenly reverse to a dovish message, and strong earnings could again overpower valuation concerns. Major bull markets can remain expensive for longer than cautious investors expect. That is why we are moving to Neutral rather than Underweight. We are reducing risk, not abandoning the market.

Our stance is tactically cautious but strategically constructive. The market is being asked to absorb expensive oil, elevated bond yields and renewed tightening risk while expectations remain demanding. That is too much optimism resting on too little room for error. Stay invested, rebalance towards cash-generative companies and preserve capacity to add when the risk-reward balance improves.

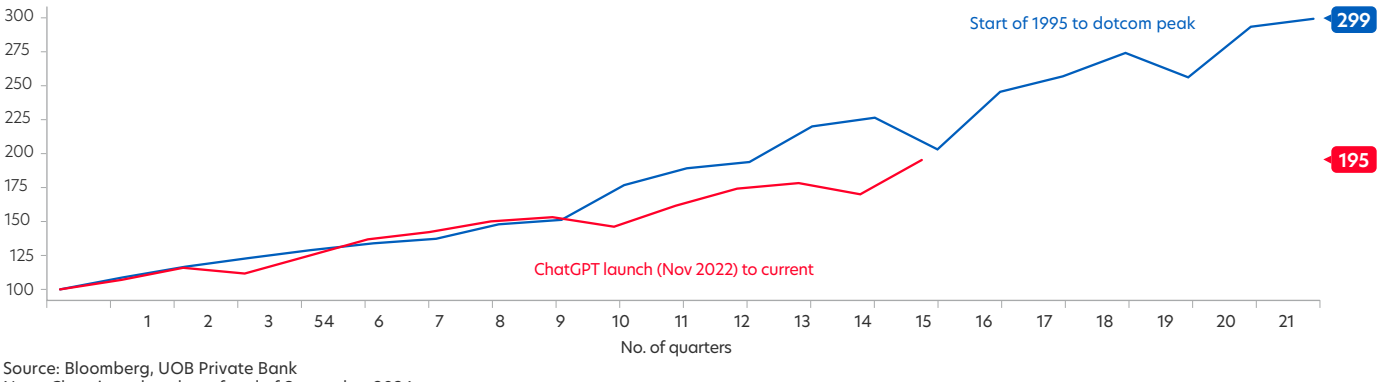
3 month average returns when Fed starts hiking



Source: LBMA, Nikkei Inc, SET, Nasdaq, S&P Global, SSE, Macrobond, ICE

Note: Chart is updated as of end of September 2026

S&P 500 since the ChatGPT launch versus the 1995-2000 dot-com rally



Source: Bloomberg, UOB Private Bank
Note: Chart is updated as of end of September 2026

US mid-term elections: Stay invested through the noise

Same issues, with AI thrown into the mix

Mid-terms usually matter less for markets than the campaign noise suggests. In the previous 19 mid-terms, the S&P 500 has not fallen in the 12 months after the election, as uncertainty fades and investors refocus on earnings. America's 3 November vote may change who controls Congress, but the more investable outcome could remain familiar: divided government, limited policy shifts and relief when campaigning ends.

Prediction markets now favour Democrats taking both the House and Senate. That would constrain the administration, but not give Democrats free rein. The President could veto legislation; an override requires two-thirds support in both chambers. Major bills may struggle to clear the Senate's 60-vote threshold. Gridlock is likelier than policy reversal.

That said, Polymarket and Kalshi can react faster than polls, but remain imperfect signals. We treat their pricing as positioning, not certainty.

This campaign still revolves around affordability, immigration, healthcare and the economy. AI matters because its physical footprint turns a national technology race into a local cost issue. Data centres consume power, water and land, while tax incentives can leave voters wondering who receives the upside. Reuters/Ipsos found 77% worry data centres will raise electricity rates, while only 14% would willingly live near one.

For investors, the link is direct. Mid-term pressure is unlikely to stop AI, because Washington regards compute capacity as strategic against China. It can, however, change who pays. Slower permits, fewer tax concessions and tougher cost-sharing rules would raise project costs. Hyperscalers can absorb them; smaller developers cannot. Utilities, equipment suppliers and engineering contractors may gain if operators must fund more generation and transmission. Data centre landlords relying on cheap power, water and local incentives face weaker economics.

Markets like gridlock and seasonality

A Democratic Congress would create winners and losers. Defence spending has been resilient, making the sector less sensitive to congressional control. Banks could benefit from gridlock, although proposed caps on credit-card rates remain a threat. Energy producers may face greater scrutiny, but utilities cannot ignore voter anger over electricity bills. Companies expanding America's scarce power and grid capacity remain better positioned.



Markets have historically rallied after mid-term uncertainty

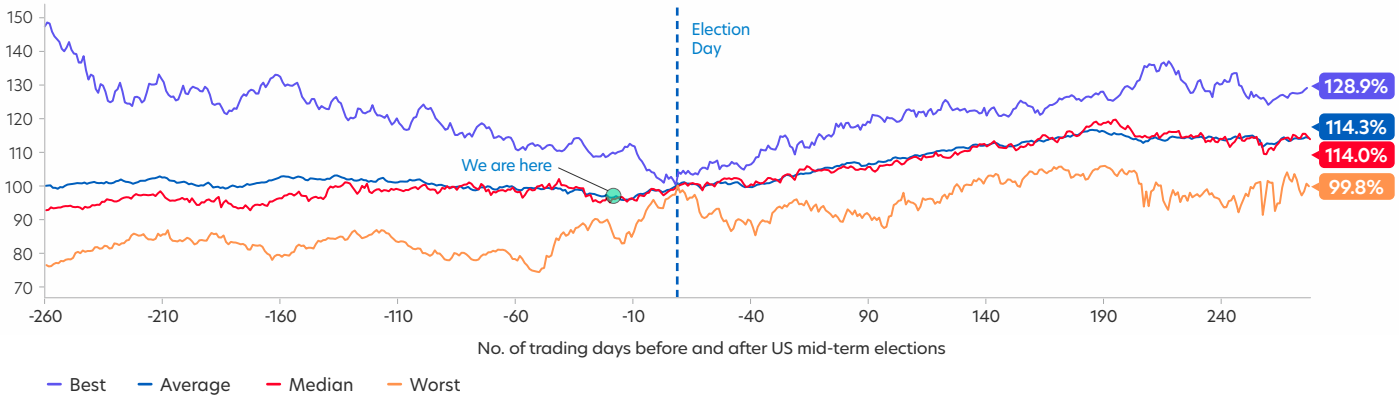
Mid-terms generate plenty of noise, but history says the bigger mistake is retreating to cash. In our study of the past 13 elections, US equities rallied afterwards as uncertainty faded and seasonal strength returned. The S&P 500 gained an average 14.3% in the eight months after a mid-term. BlackRock's longer horizon 31-election sample shows a 12.4% average 12-month return. Elections can clear uncertainty; earnings still drive lasting returns.

The real risks sit outside the ballot box

History is useful but not causal. It can fail if inflation reaccelerates, Treasury yields rise sharply, the Federal Reserve stays on a tightening cycle or AI-related capex disappoints. Democratic control of Congress could intensify investigations, budget disputes and uncertainty around taxes or regulation. Yet presidential veto power and narrow majorities would constrain sweeping change. Markets still depend on earnings, inflation and discount rates.

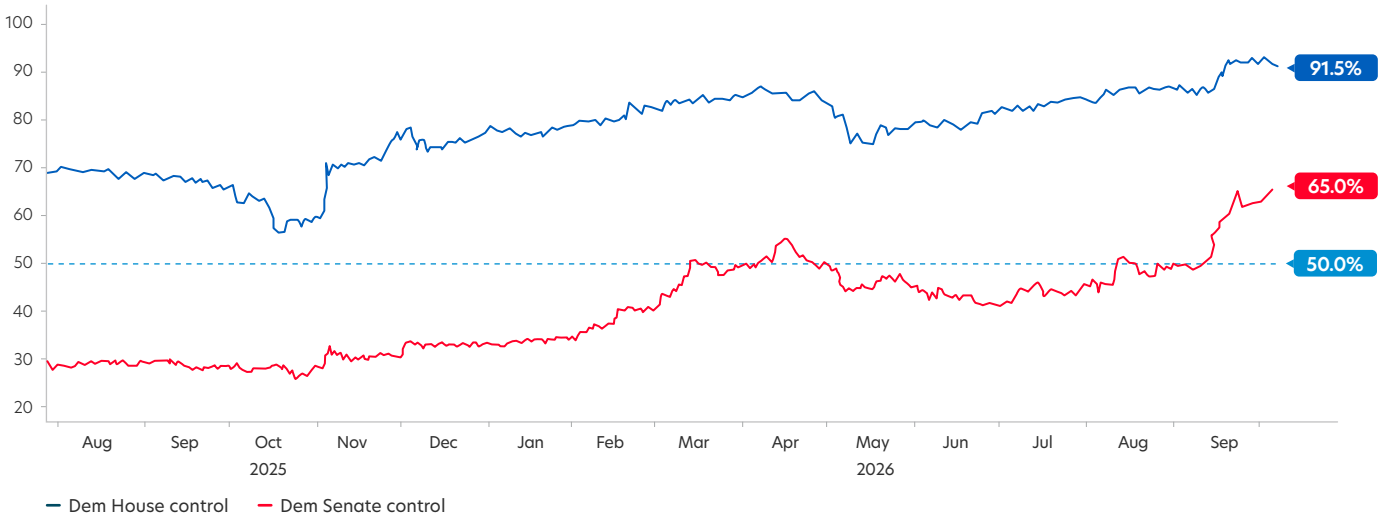
Our "stay invested" thesis breaks when politics changes the macro path, not when one party wins. Watch 10-year Treasury yields, inflation expectations, earnings revisions and hyperscaler capex guidance. Unless they deteriorate together, moving to cash before the vote remains worse than sitting through the noise. Fiscal standoffs may cause volatility, but should not derail broader AI adoption.

S&P 500 typically rises after mid-term elections



Source: Bloomberg, UOB Private Bank, S&P 500 performance during last 13 mid-term elections
Note: Chart is updated as of end of September 2026

Prediction markets point to Democrats controlling both the House and Senate



Source: Bloomberg, UOB Private Bank, Weighted prediction markets (60% Kalshi; 40% Poly)
Note: Chart is updated as of end of September 2026

AI's second act: The rise of corporate beneficiaries

The next AI winners may be its users

The first phase of the AI investment cycle was relatively easy to see. Demand for semiconductors rose, data centre construction accelerated and technology companies invested heavily in computing capacity. The next phase may be broader and less obvious.

AI is moving from technology laboratories into everyday business operations. Companies are using it to improve customer service, write software, detect fraud, manage inventories and automate administrative work. This creates opportunities beyond the companies building AI infrastructure.

Investors should ask not only who supplies AI, but also who can use it to improve profits. This distinction matters because announcing an AI product is not the same as making money from it. Many companies have launched AI tools and pilot programmes. Far fewer can show that these investments are raising sales, lowering costs or improving profit margins.

However, the latest earnings season offered encouraging signs. Investors increasingly rewarded companies that linked AI to measurable revenue, customer usage, productivity or margins.

"The first AI winners built the tools. The next winners may simply use them better."

Three pathways from AI to earnings

AI can sound abstract, but its financial impact is relatively straightforward. Companies can use it to sell more, spend less or lose less. These three pathways provide a simple way to identify potential AI beneficiaries.

Sell more: Increasing revenue

AI can help companies understand what customers want and offer them more relevant products and services. Digital platforms can use AI to improve advertising and product recommendations. Software providers can charge for new AI-enabled features. Healthcare companies can offer more useful clinical and workflow tools.

Spend less: Improving margins

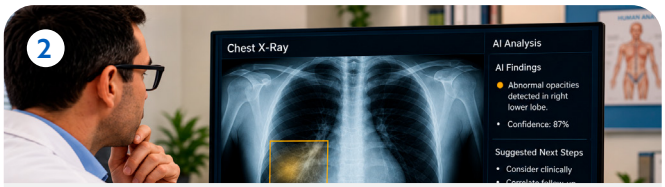
AI can automate repetitive work and help employees complete complex tasks more quickly. An office employee can use an AI assistant to find information, prepare an initial report or summarise a large document. A clinician can use AI to create medical notes. The goal is not necessarily to replace employees. AI can also increase an organisation's capacity by allowing its employees to spend more time on higher-value work.

Lose less: Reducing risks and mistakes

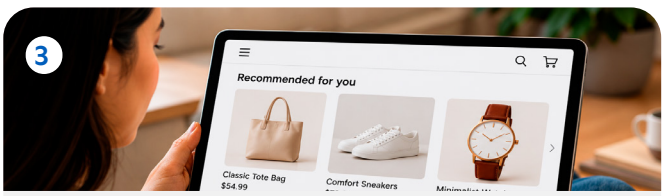
AI can analyse large amounts of information and identify unusual activity earlier. A bank can use AI to flag a suspicious transaction. An insurer can use it to detect unusual claims. A retailer can improve demand forecasts and reduce excess inventory.



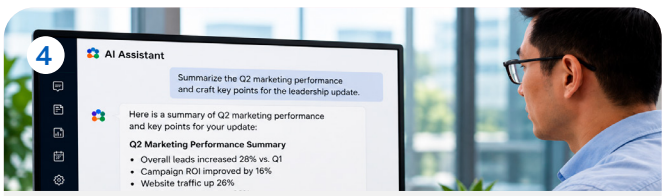
Bank employee reviewing a transaction alert
AI analyses transactions in real time to help protect customers and the bank.



Clinician using an AI-supported medical image
AI highlights areas of concern and gives clinicians more confidence in their assessment.



Online shopper receiving product recommendations
AI personalises recommendations to help shoppers find products they'll love.



Office employee using an AI Assistant
AI helps employees save time, find information and get work done.

Intelligence is becoming cheaper

The growing use of AI is also being supported by falling costs. Large language models process information in small units called tokens. Companies generally pay according to how many tokens their AI applications process.

A simple way to understand tokens is to think of them like units of electricity. An AI application consumes tokens when it reads information, considers a question or produces an answer. A lower price per token makes the application cheaper to operate.

The LLM token expenditure index



Note: Unit is in USD / Million tokens
Chart: Alex Harring / CNBC

Advances in AI technologies and stiff competition have driven token prices lower. Silicon Data's token expenditure index measures the average price paid for one million tokens and the index has recently fallen to USD 0.97, its lowest level since launch.

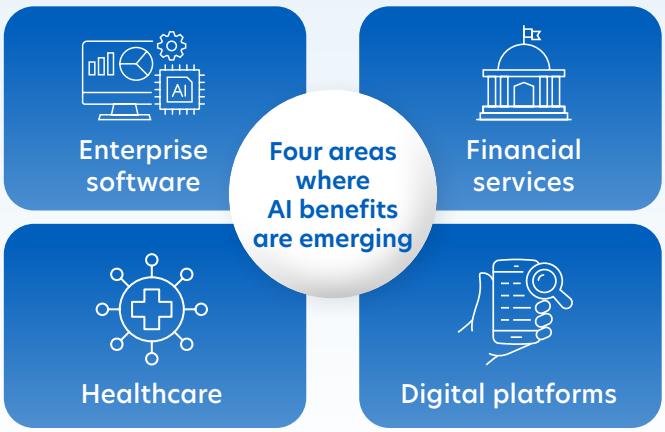
As intelligence becomes cheaper, more business uses become economically viable

Lower prices can make it economical to apply AI to more tasks. Companies may initially reserve AI for high-value work, such as detecting complex fraud or assisting specialist employees. As costs decline, they can extend it to more routine customer enquiries, document reviews and administrative activities. This can improve the potential return on AI investment and support wider adoption across software, financial services, digital platforms and healthcare.

AI beneficiaries are emerging in the real economy

Falling costs are making AI easier to adopt, but lower prices alone will not determine the investment winners. Companies must also possess valuable data, effective distribution and workflows where AI can make a measurable difference. The strongest beneficiaries should be able to show that adoption is contributing to revenue, margins or risk reduction.

We see four areas where evidence is beginning to emerge: Enterprise software, digital platforms, financial services and healthcare.



Enterprise software: Selling AI through existing workflows

Software companies can add AI directly to tools already used for sales, accounting, customer service and procurement. This provides a relatively short path from AI adoption to additional subscription or usage revenue.

Recent evidence is encouraging. ServiceNow's subscription revenue increased 24.5% y/y in the second quarter of 2026, Salesforce's Agentforce (Agentic AI) annual recurring revenue reached approximately USD 1.2 billion, and SAP reported strong growth in its cloud enterprise resource planning suite. These figures show rising demand, although they do not yet prove that every customer is achieving an attractive return.

Investment implication: Favour established platforms with proprietary data, strong customer relationships and software embedded in essential workflows.

Financial services: Lower costs and fewer losses

Banks can use AI to review documents, detect fraud, support customer service and assist software developers. AI can therefore help financial institutions spend less and lose less. JPMorgan said AI had enabled job reductions of up to 40% in certain roles, although many affected employees were redeployed. Banks are also benefiting from financing AI-related data centres, power projects and corporate transactions. Goldman Sachs and JPMorgan reported record quarterly revenue in July 2026, partly supported by trading and investment-banking activity linked to the wider AI investment cycle.

Investment implication: Favour banks with exposure to AI cycle through equity and debt offerings. We also see the potential for banks with strong digital capabilities to turn efficiency gains into a meaningful earnings impact.

Healthcare: Reducing administrative friction

Healthcare's clearest near-term opportunity lies in everyday workflows. AI can prepare clinical notes, automate medical coding, support imaging and reduce time spent on insurance administration.

Doximity, a US digital platform for medical professionals, reported more than 800,000 active prescribers using its workflow tools in its fiscal fourth quarter of 2026. Nearly half used its clinical AI, while prompts per user almost doubled between January and April. Full-year revenue increased 13% y/y, although AI was only one contributor.

Separately, an Oliver Wyman survey found that around 20% to 40% of healthcare providers had broadly deployed selected AI-enabled tools across documentation, coding, billing and prior authorisation.

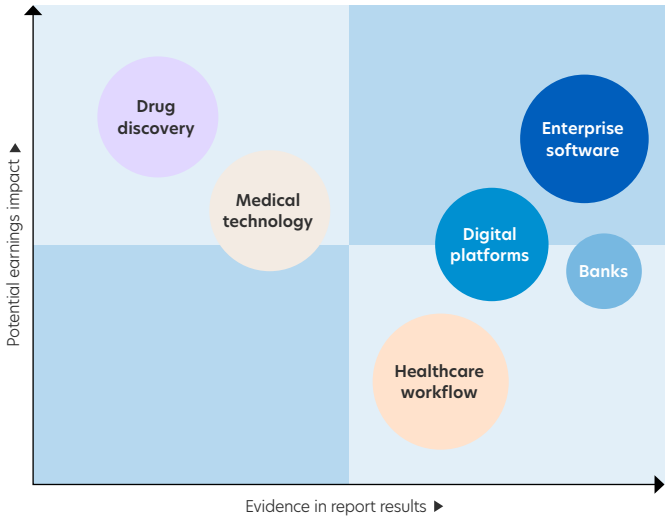
Investment implication: Prefer healthcare software, administrative automation and medical technology. AI-led drug discovery is another promising field that is currently in its early stage.

Digital platforms: Better recommendations, higher sales

Digital platforms already use AI to recommend products, personalise content and target advertisements. Better predictions can improve customer engagement and sales conversion, providing a clear "sell more" pathway.

Recent Big Tech results remained supportive, with AI contributing to cloud, advertising and platform growth. However, investment spending also remained substantial, leaving investors focused on whether future profits can justify the capital committed.

Current evidence and potential earnings impact vary by sector



Investment implication: Prefer platforms with valuable customer data and established advertising or e-commerce networks.

High selectivity within beneficiaries remains essential

Risks: Although AI is likely to improve corporate earnings through one of the three pathways, we are not convinced that every company using AI will be a winner.

Companies may overstate AI-driven gains, while the costs of computing, integration, cybersecurity and workforce training can offset productivity improvements. Investors should also recognise that AI can disrupt today's winners as quickly as it strengthens them, particularly in software and outsourced services.

Finally, regulation, data security and trust requirements, especially in sectors such as banking and healthcare, may slow adoption but remain essential for sustainable long-term growth.

Conclusion: Follow the earnings

The AI investment opportunity is broadening beyond semiconductors, data centres and computing infrastructure. Falling usage costs and improving capabilities are making AI practical across a wider range of business activities.

Software companies can sell AI through established workflows. Digital platforms can improve advertising and customer conversion. Financial institutions can raise productivity and reduce losses. Healthcare companies can reduce administrative friction and improve clinical workflows.

However, adoption alone is not enough. The strongest investment opportunities should demonstrate a clear path from AI usage to additional revenue, lower costs, wider margins or reduced risk.

The emerging divide is not between technology and non-technology companies. It is between businesses that convert AI into measurable returns and those that convert it into another expense.

We expect AI benefits to broaden beyond infrastructure providers towards companies applying the technology within valuable products and workflows. Selectivity remains essential, with a preference for companies demonstrating measurable revenue, productivity or risk-management benefits.

Super El Niño: Weather risks back on the radar

Getting hot

Major climate agencies currently indicate an elevated probability of a strong El Niño event (November 2026 to February 2027). If intensity reaches levels comparable to 1997-98 or 2015-16, macroeconomic and market impacts could become material. Ocean temperatures in the Pacific are already well above normal levels. If realised, it could surpass the strength of the 2015-16 event and become a significant macroeconomic as well as climate event.

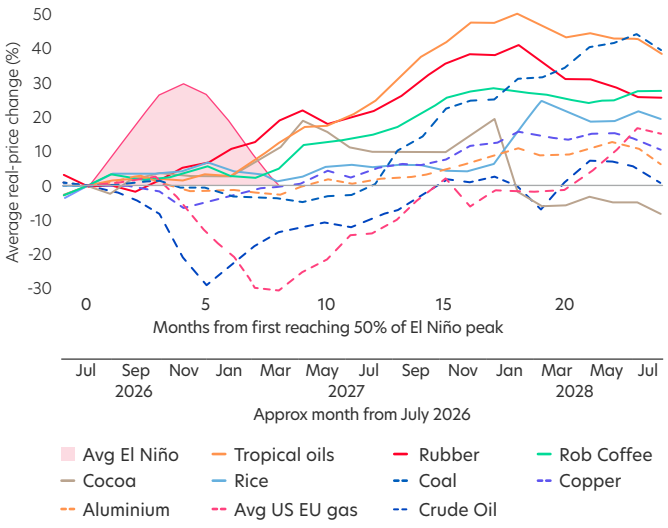
Historically, major El Niño episodes have disrupted agricultural production, altered energy demand and contributed to inflationary pressures, creating both risks and opportunities across global markets.

Commodity markets most exposed

Agricultural commodities have historically been among the clearest beneficiaries of El Niño conditions. Drought-related disruptions often reduce supply of palm oil, coconut oil, rubber, coffee and rice, supporting prices. Energy and industrial markets can also be affected through reduced water availability, lower hydropower generation and disruptions to industrial activity.

Importantly, industrial commodities tend to respond with a lag. Aluminium, copper and thermal coal have historically delivered stronger performance one to two years after El Niño emerges, reflecting the delayed transmission of weather-related supply disruptions into broader economic activity.

Average price moves from the current stage in El Niño



Analysis starts around 50% into historical El Niño events, similar to July 2026. Red shading indicates a typical El Niño that peaks around Oct-Dec. Price moves are based on events between 2005 and 2026, with an average peak El Niño index of roughly +1.5°C.

Source: NOAA, Bloomberg, World Bank, Barclays Research

Note: Chart is updated as of end of September 2026

Potential commodity beneficiaries

Potential beneficiaries	Expected direction
Palm oil	Strongly positive
Coconut oil	Strongly positive
Rubber	Strongly positive
Coffee	Positive
Rice	Positive
Aluminium	Positive (longer-term)
Copper	Positive (longer-term)
Thermal coal	Positive (longer-term)

The risk-reward profile currently favours selective exposure to agricultural commodities and related producers, while opportunities in industrial commodities may emerge over a 12-24 month horizon.

Regional winners and losers

The impact of El Niño is highly uneven.

Southeast Asia is among the most vulnerable regions globally due to its dependence on monsoon rainfall, agriculture and water resources. Drought conditions can affect food production, hydropower generation, commodity exports and water security. Central America and parts of northern Latin America face similar risks. Conversely, parts of South America may benefit from improved growing conditions, although excessive rainfall can increase flood risks.

ASEAN: An inflation story more than a growth story

For ASEAN and India, El Niño is likely to be felt primarily through inflation rather than growth.

Inflation risks

Food prices are expected to face upward pressure, particularly for rice, wheat, maize and vegetable oils. Food inflation could be amplified by policy responses such as export restrictions, stockpiling and food-security measures, which may further tighten supply. Headline inflation has already begun to drift higher across ASEAN-5 and India.

Growth impact

The impact on growth is likely to be more contained. As a supply-side shock, the economic damage should remain concentrated within agriculture and rural incomes. Manufacturing and services sectors are expected to remain relatively resilient unless drought conditions become severe enough to affect water supplies, electricity generation and broader supply chains.

Trade and external balances

Higher food prices could weaken trade balances and current accounts across much of Asia. The greatest vulnerabilities lie in rice, wheat, maize and vegetable oils. Net food importers such as the Philippines and Malaysia are particularly exposed, while Indonesia and Malaysia may partially offset pressure through stronger palm oil exports.

Policy implications

El Niño strengthens the case for a more cautious policy stance across the region. Central banks are likely to pay close attention to rising food prices given the risk that higher food inflation spills over into broader inflation expectations. UOB continues to expect a tightening bias across ASEAN and India, with further policy rate increases remaining possible through 2026 and 2027.

The policy response is likely to centre on protecting food security rather than broad economic stimulus. Measures such as stockpile releases, import diversification and targeted subsidies are more likely than large-scale cash assistance programmes, given fiscal constraints across the region.

Most exposed ASEAN economies

Philippines is the most vulnerable economy in the region, followed by India and Thailand.

Risk tier	Economy	Key vulnerabilities
Very high	Philippines	High food Consumer Price Index (CPI) weight, rice import dependence, production risks
High	India	Kharif crop exposure, food inflation, rural income sensitivity
High	Thailand	Rice and sugar exposure, agricultural dependence
Moderately high	Indonesia	Rice exposure partly offset by palm oil exports
Moderate	Vietnam	Concentrated agricultural risks
Moderate	Malaysia	Food supply risks offset by palm oil exports

Conclusion

A strong El Niño would represent an important macroeconomic event rather than simply a weather event. The clearest transmission channel is likely to be higher food prices and inflation, particularly across Southeast Asia and India. From an investment perspective, agricultural commodities appear best positioned to benefit in the near term, while industrial commodities may offer opportunities over a longer horizon. At the policy level, the prospect of persistent food inflation increases the likelihood that ASEAN and Indian central banks remain hawkish into 2027.



Portfolio Strategy

Asset Class Summary

Asset Classes	U/W	N	O/W	Comments
Equities		● ←	○	**Downgrade to Neutral, reflecting a less compelling near-term risk-reward profile amid rising market headwinds.**
North America		● ←	○	Downgrade to Neutral. A prolonged Fed tightening cycle and higher bond yields are creating a less supportive backdrop.
Europe		●		Stay Neutral. We see selective opportunities in areas like AI infrastructure and utilities amid modest growth.
Japan		●		Stay Neutral. We see structural tailwinds but cyclical risks. Favour companies riding on fiscal-policy driven themes.
EM Asia		● ←	○	Downgrade to Neutral. AI hardware exposure and China's uneven recovery cloud near-term outlook.
Fixed Income		●		**Stay Neutral. Stay opportunistic on recent credit spread widening. Prefer an average duration of 4-5 years.**
DM IG			●	Stay Overweight. Attractive all-in yields support portfolio income, although Fed tightening could generate near-term duration volatility.
DM HY	●			Stay Underweight. Risk-reward remains asymmetric with sector mix being unfavourable.
EM IG			●	Stay Overweight. Continue to favour ASEAN regional champion financials, Asian quasi-sovereigns and strategic SOEs.
EM HY		●		Stay Neutral. Selectivity is required given company-specific risks on the balance sheets.
Commodities				
Precious Metals		●		Stay Neutral. Beyond near-term inflation risks, Gold can thrive on safe-haven demand and continued central bank allocation.
Money Market		○ →	●	**Upgrade to Overweight. Gradually deploy dry powder as market volatility presents opportunities.**

▼ Underweight ■ Neutral ▲ Overweight ● Current quarter's position ○ Previous quarter's position

Notes:

- EM: Emerging Markets, DM: Developed Markets, IG: Investment grade, HY: High Yield
- The asset class summary above is based on a "Balanced" risk profile (See next page).
- In the headers, "U/W" represents "Underweight", "N" represents "Neutral", and "O/W" represents "Overweight".
- Each black dot indicates current quarter's position. If any, each white dot indicates previous quarter's position.

Asset Allocation for 4Q 2026

Asset Classes	Very Conservative CRP 1 (%)		Conservative CRP 2 (%)		Balanced CRP 3 (%)		Growth CRP 4 (%)		Aggressive CRP 5 (%)		Comments
	Now	Chg.	Now	Chg.	Now	Chg.	Now	Chg.	Now	Chg.	
Equities			27.5	▼-2.5	45.0	▼-5.0	60.0	▼-5.0	70.0	▼-5.0	
Fixed Income	90.0		65.0		42.5		27.5		17.5		Avg. duration: 4 to 5 years
Money Market	10.0		7.5	▲2.5	12.5	▲5.0	12.5	▲5.0	12.5	▲5.0	

Notes:

- "Chg." refers to changes in asset allocation relative to last quarter. If any, these changes will be reflected accordingly (plus weighting in green, minus weighting in red).
- Figures may not sum to 100% due to rounding to one decimal place.



Our View of the World

Economy

- Global growth has remained more resilient than expected, led by a still-solid United States (US) economy and continued artificial intelligence (AI)-related investment across technology, semiconductors and data centres.
- The AI capital expenditure (capex) cycle remains the key structural theme supporting growth across the US, Taiwan, South Korea and Singapore, helping offset weakness in traditional manufacturing and trade sectors.
- Key macro risks remain uncertainty over the future Federal Reserve (Fed) policy path, elevated energy prices, geopolitical tensions in the Middle East, and increasing concerns over the sustainability of US fiscal policy.

Monetary Policy

- UOB now expects two additional Fed interest rate hikes, in December 2026 and the first quarter of 2027, before staying on hold for the rest of 2027. We do not think the September rate increase is a "one-and-done hike" from the Fed, and as per previous rate hike cycles, the Fed usually does not stop at one. On the other hand, we do not believe this is the start of a long series of hikes.
- Globally, several other central banks are still normalising policy. UOB expects further tightening from the Bank of Japan (BOJ), European Central Bank (ECB) and other Asian central banks as inflationary pressures firm while domestic growth remains relatively resilient.
- China remains the outlier as the People's Bank of China (PBOC) is maintaining accommodative monetary policy and is likely to rely on fiscal stimulus, targeted property sector support and liquidity support measures for banks and markets to support economic growth.

Inflation

- Global inflation has eased from its peaks, but higher energy prices caused by geopolitical tensions are keeping headline inflation elevated across many economies.
- We expect US headline inflation to average 3.5% in 2026 before easing to 2.0% in 2027, as housing and rental inflation falls while energy-related price pressures gradually fade. However, oil prices and geopolitical tensions pose key upside risks to inflation.
- China's inflation remains very subdued, with headline consumer price index (CPI) forecast at just 0.9% in 2026 and 1.1% in 2027, reflecting weak domestic demand and limited corporate pricing power despite policy support.

Asset Allocation

- Downgrade Equities from Overweight to Neutral. Corporate earnings remain healthy but the surge in oil prices, inflation concerns, uncertainty over the Fed policy path and crowded investor positioning have weakened the near-term risk-reward balance.
- Remain Neutral on Fixed Income. While yields are attractive, stay opportunistic as credit spreads have recently widened. Maintain duration at 4-5 years. Overweight on Developed Market Investment Grade and Emerging Market Investment Grade bonds.
- Upgrade Money Market from Neutral to Overweight. Gradually deploy dry powder as market volatility may present buying opportunities.



Equities

United States

Constructive outlook, narrower risk-reward

Stance: We have downgraded US Equities from Overweight to Neutral for the fourth quarter of 2026. The shift reflects a less attractive near-term risk-reward balance rather than a negative view on fundamentals. The economy and corporate earnings remain resilient, while AI-related investment continues to support capital spending and productivity. However, renewed Fed interest rate hikes, elevated oil prices, high bond yields and crowded investor positioning have reduced the market's buffer against potential risks and unexpected events.

Even when companies report better-than-expected earnings and raise their forecasts, it is having a smaller and less predictable impact on share prices, suggesting that investors have already priced in much of the expected good news. With strong earnings growth in 2026 setting a high bar of comparison for 2027, future market gains are likely to depend more on companies delivering earnings and profit growth.

While maintaining exposure to the stock market, we favour keeping liquid capital on hand that can be selectively redeployed during market pullbacks if earnings forecasts remain resilient and oil prices and bond yields stabilise.

Macro and policy backdrop

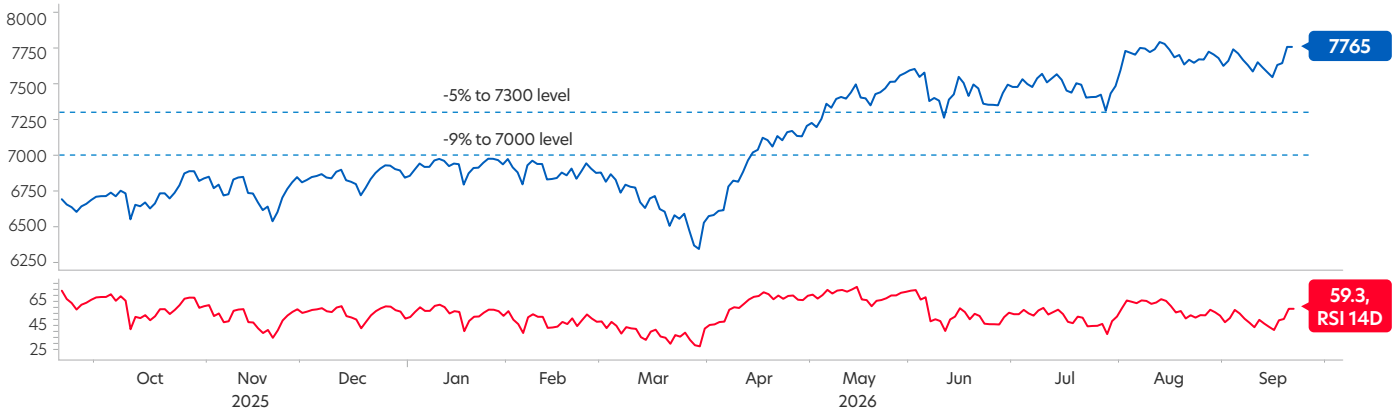
Fed path: The Fed raised the Fed Funds Target Rate (FFTR) by 25 basis points (bps) to 3.75% - 4.00% in September, its first hike since 2023. The decision and projections showed policymakers prioritised taming persistent inflation while economic growth remains resilient. Our latest house view expects another 25 bps hike in December 2026 and one more in the first quarter of 2027, taking FFTR up to a range of 4.25% - 4.50%, followed by a pause through the rest of 2027.

Inflation: August headline CPI rose 0.4% month-on-month (m/m) and 3.4% year-on-year (y/y), while core CPI rose 0.3% m/m and 2.4% y/y. The data reinforced expectations of a higher-for-longer interest rate environment and elevated bond yields.

Growth: We forecast US 2026 gross domestic product (GDP) growth at 1.9%, but higher energy and tariff-related costs may weaken corporate profit margins and lower-income consumption.

Politics and fiscal risks: The 3 November mid-term elections may increase market volatility. A divided government could limit major policy changes but may also impede any reduction in government spending which could raise debt-ceiling and government shutdown risks. Structurally large deficits and rising interest costs could see investors demand higher yields on bonds, keeping long-maturity yields elevated.

Use market pullback to add exposure. We expect S&P 500 key support levels at 7300 and 7000



Source: Bloomberg, UOB Private Bank

Note: Chart is updated as of end of September 2026

Earnings and valuations: Robust earnings, higher hurdle ahead

Earnings dynamics: US corporate earnings should remain robust into the fourth quarter of 2026, supported by resilient demand, AI-related investment, cost discipline and productivity gains. Market consensus expects S&P 500 earnings to grow 28.9% y/y in the third quarter of 2026, potentially marking a third consecutive quarter of growth above 25%. However, growth is front-loaded into the second half of 2026, and it may become harder to maintain the same pace of growth in 2027 after an exceptionally strong 2026, particularly for technology and semiconductor leaders. This does not imply that profits will decline y/y for two or more quarters, but the hurdle for positive surprises and favourable share-price reactions is rising.

Valuations: Valuations appear reasonable. As of 22 September 2026, the S&P 500 was trading at around 19.2x 12-month forward price-to-earnings (P/E), slightly below its five-year average of 19.9x and broadly in line with its 10-year average of 19.1x. While current valuations do not appear stretched, further upside could be constrained by 10-year Treasury yields hovering above 5%, higher long-term government borrowing costs and valuation disparities across sectors. Markets may also remain sensitive to developments in oil prices, inflation and Fed policy expectations.

Investment strategy

The US equity outlook remains tactically balanced in the short term but strategically constructive for the medium term, supported by robust earnings, resilient economic growth and continued AI adoption.

AI remains a key long-term growth theme, supported by ongoing investment in data centres and increasing enterprise adoption. However, elevated expectations and concentrated positioning in AI infrastructure and hardware-related names could leave parts of the market vulnerable to short-term corrections if earnings or capital investment trends disappoint.



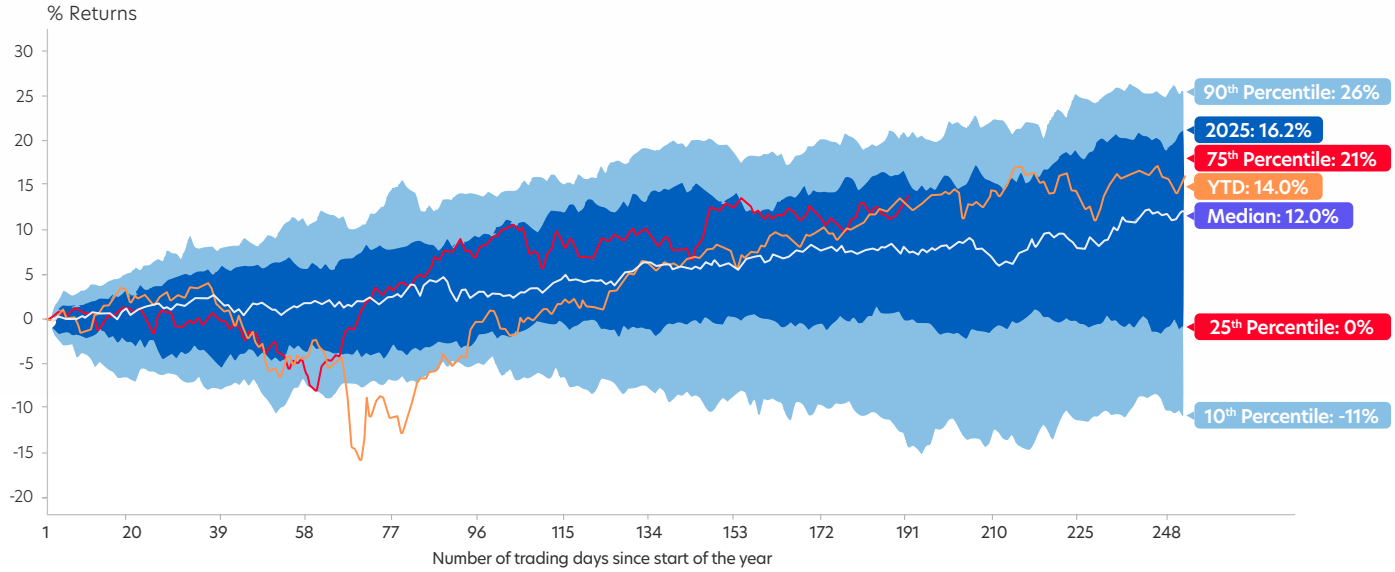
Having downgraded our US equity outlook to Neutral, we favour reducing excess risk, increasing cash on hand, and diversifying rather than fully exiting the market. Investors should avoid chasing overbought stock names and instead raise some excess capital that can be gradually deployed in quality companies during market pullbacks. A market correction could create a better entry point if earnings estimates remain stable, while easing oil prices, lower bond yields or clearer Fed guidance would improve the risk-reward balance.

Diversification remains important. Within AI, investors should complement infrastructure beneficiaries with profitable adopters that can use AI to lift productivity and profit margins without committing heavy capex.

Balance this with exposure to quality cash-generative businesses, banks that may benefit from higher interest rates absent a recession, healthcare for defensive earnings, and selected industrial and defence names supported by structural spending.

Key risk: Unexpectedly aggressive Fed interest rate hikes, persistently high oil prices, rising Treasury bond yields, geopolitical shocks, crowded investor positioning and slower AI infrastructure spending could weigh on market sentiment. In addition, large fiscal deficits, midterm election-related policy uncertainty, a potential government shutdown after 11 December and future debt-ceiling negotiations may add market volatility.

Current-year and 2025 returns compared with the historical distribution since 1976



Source: Bloomberg, UOB Private Bank

Note: Chart is updated as of end of September 2026

CIO's View

We downgrade US equities from Overweight to Neutral for the fourth quarter of 2026, balancing resilient fundamentals against a less compelling near-term risk-reward profile.

Europe

Neutral with selective opportunities

Stance: We maintain a Neutral outlook on European equities in the fourth quarter. The macro backdrop has proven more resilient than anticipated, underpinned by solid labour markets, improving domestic demand, and a sustained increase in fiscal spending on infrastructure and defence. That said, elevated energy prices and renewed inflation have kept the ECB on a monetary policy tightening path, while higher valuations following a strong market rally leave less scope for further upside.

This environment increasingly favours selectivity rather than relying on a broad market rally. The STOXX Europe 600 Index has advanced around 11% year-to-date, repeatedly setting record highs, with the German, French and Italian stock markets all reaching all-time peaks of their own. Market leadership has broadened meaningfully, with banks, steel, industrials and semiconductor-equipment names joining, and in some cases overtaking, the luxury and pharmaceutical franchises that traditionally were the key drivers of the European equity market.

Around three-quarters of the companies in the STOXX Europe 600 Index are trading above their 200-day moving average, near the top of the decade-long range. Against this backdrop, we recommend balanced portfolio positioning, combining high-quality defensive names and dividend payers with selective exposure to structural growth beneficiaries.

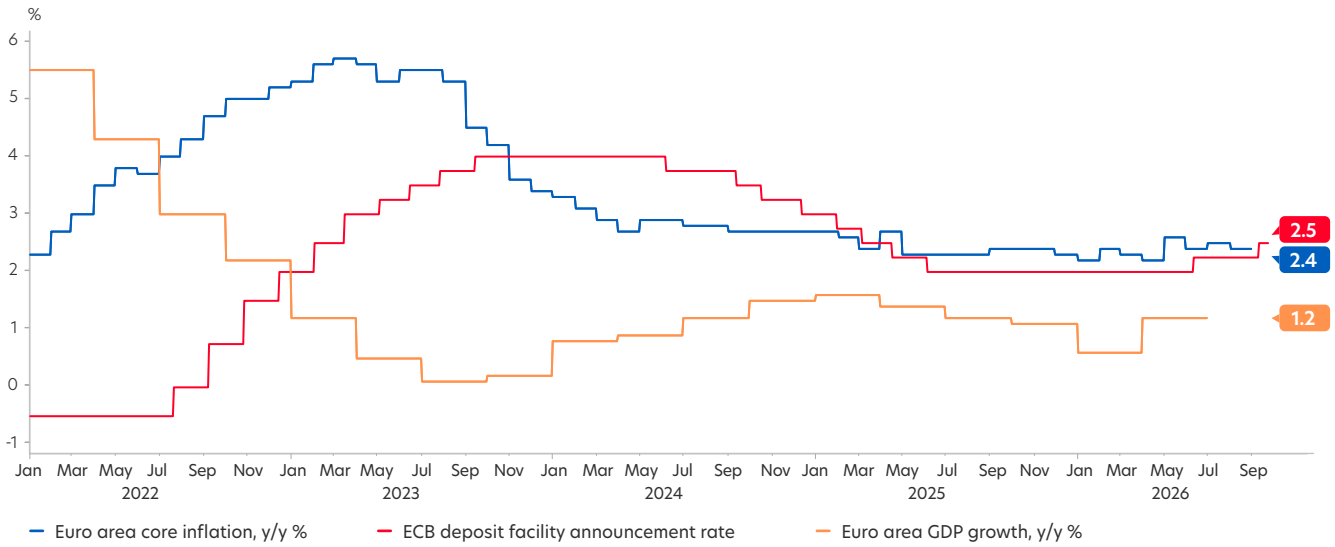
Macro and policy backdrop

ECB policy: The ECB has taken a stronger stance on monetary policy tightening as energy-driven inflation has picked up again in 2026. Eurozone economic growth has held up better than expected, but headline inflation is expected to stay above target into 2027, with ECB policymakers prioritising price stability over an uneven economic recovery. Following the ECB's 25 bps interest rate hike in September, we expect the ECB to deliver a final 25 bps rate hike in December, taking the deposit rate up to 2.75%.

Inflation: Headline inflation is expected to remain above the ECB's 2.0% target due to elevated energy prices and geopolitical risks, but core inflation should continue to ease due to soft economic activity, a softening labour market while weaker demand contains services-sector price pressures.

Growth: Economic activity has held up better than expected despite lingering geopolitical uncertainty. ECB projections point to Eurozone GDP growth of 0.9% in 2026, supported by resilient labour markets, improving consumer confidence, and increased public investment in infrastructure and defence. Unemployment remains stable at 6.4%, while wage growth of around 2.6% points to a healthy but not overheated job market. However, policymakers are closely watching to see if higher energy costs lead to stronger wage demands.

ECB needs to strike a balance in its rate management amid lacklustre Euro GDP growth



Source: Bloomberg, UOB Private Bank
Note: Chart is updated as of end of September 2026

Earnings and valuations: Improving backdrop, limited upside

Earnings dynamics: European corporate earnings have exceeded expectations through most of 2026, with growth stronger than anticipated despite energy-price volatility and geopolitical disruption. The second quarter earnings per share (EPS) growth for the STOXX Europe 600 Index reached roughly 24% y/y, while market consensus expects an earnings growth for 2026 in the mid-teens. Crucially, the improvement has expanded beyond the largest stocks in the index, supported by bank profitability, infrastructure spending, and continued investment tied to AI and electrification.

Looking ahead, we expect the earnings outlook to remain positive, though growth should moderate from this year's exceptionally strong levels. Market consensus is for continued upward revisions to earnings forecasts, underpinned by resilient domestic demand, defence spending, grid modernisation and AI-related investments.

Valuations: As of 22 September 2026, the STOXX Europe 600 traded around 14.5x 12-month forward P/E, broadly in line with its historical average but towards the upper end of its range in recent years. While European equities continue to trade at a discount to US peers, the valuation gap has narrowed considerably. We view current valuations as broadly fair rather than cheap, with future gains likely to depend more on continued earnings growth rather than investors paying higher prices for earnings that are already priced in.

Investment strategy

We continue to favour companies exposed to structural themes where earnings visibility is high and investment cycles remain intact. Key areas of conviction include AI infrastructure and digitalisation beneficiaries, power and grid investment, defence modernisation, and select financials.

AI infrastructure remains attractive as hyperscalers and enterprises continue to increase AI-related investments. European companies dealing with semiconductors, data-centre infrastructure and specialised equipment remain well positioned to benefit from sustained demand.

The utilities and power infrastructure sector also offers an appealing combination of defensive characteristics and structural growth. Continued investment in grid modernisation, renewable energy and energy security is supporting long-term earnings visibility, while rising electricity demand from data centres and electrification trends should continue to drive long-term capex.



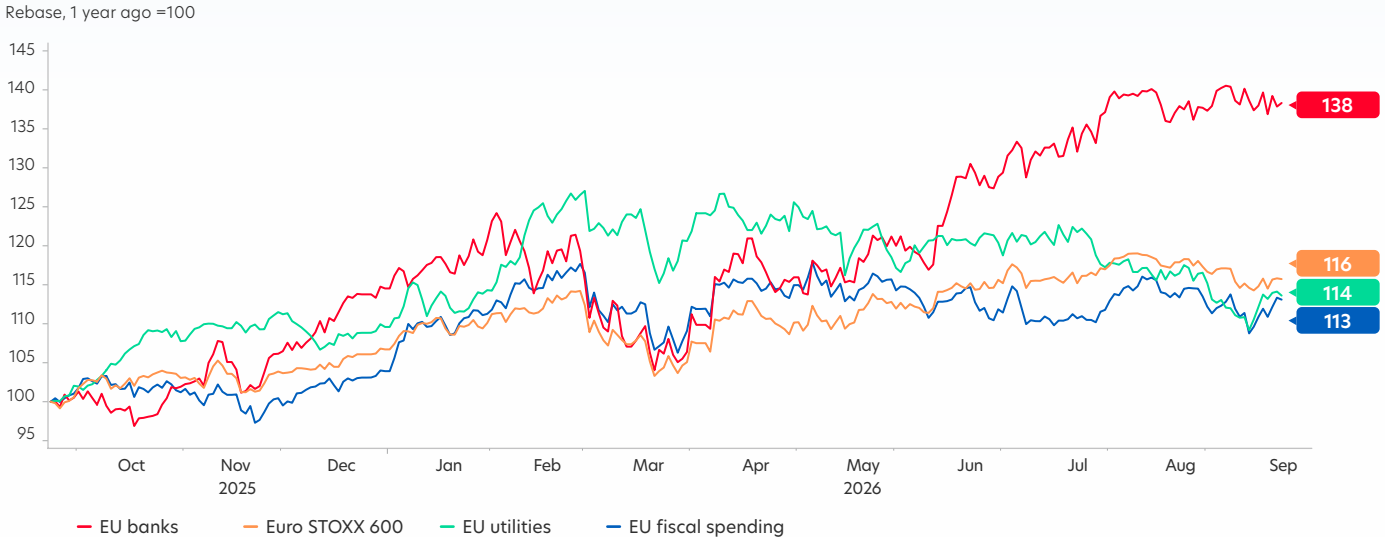
The defence sector is benefiting from a multi-year increase in military spending as geopolitical tensions and security concerns encourage governments to modernise defence capabilities, replenish ammunition stockpiles, and strengthen strategic autonomy.

We also remain constructive on select European banks within the financial sector. A higher-for-longer interest rate environment supports net interest income and profitability, while healthy balance sheets and attractive shareholder returns add to the sector's appeal.

Overall, we expect European equities to remain a stock-picker's market in the fourth quarter. While earnings momentum has improved, tighter monetary policy and elevated energy prices may limit the scope for broad market gains. We favour selective exposure to structural growth themes such as AI infrastructure, power and grid investment, defence modernisation and high-dividend financials.

Key risk: Skewed towards policy uncertainty and geopolitical developments rather than fundamentals.

Stick to the winning themes



Source: Bloomberg, UOB Private Bank

Note: Chart is updated as of end of September 2026

CIO's View

We maintain a Neutral outlook on European equities for fourth quarter of 2026, balancing improving macro conditions against persistent inflation, policy constraints and elevated valuations.

Japan

Structural tailwinds intact, but earnings delivery matters more

Stance: We maintain a Neutral outlook on Japanese equities for the fourth quarter of 2026. Structural reforms, stronger shareholder returns and favourable government policies offer support. However, above-average valuations, slower economic growth, tighter monetary policy and Middle East-related oil risks warrant a selective approach.

Japan's investment narrative continues to shift from cyclical recovery towards structural transformation. Corporate governance reforms with a stronger focus on shareholder returns, national resilience, economic security and supply-chain investment should support medium-term earnings quality and return on equity (ROE). However, after strong market gains, further upside in stock prices will increasingly depend on earnings delivery, pricing power, cash generation and disciplined capital allocation rather than investors simply paying higher valuations.

We favour quality companies aligned with defence, grid investment, infrastructure renewal and supply-chain security. Selected technology companies remain beneficiaries of AI investment, but their performance is increasingly linked with US and global technology trends. We therefore prefer firms with consistent earnings and multiple growth drivers rather than exposure based solely on the AI narrative.

Macro and policy backdrop

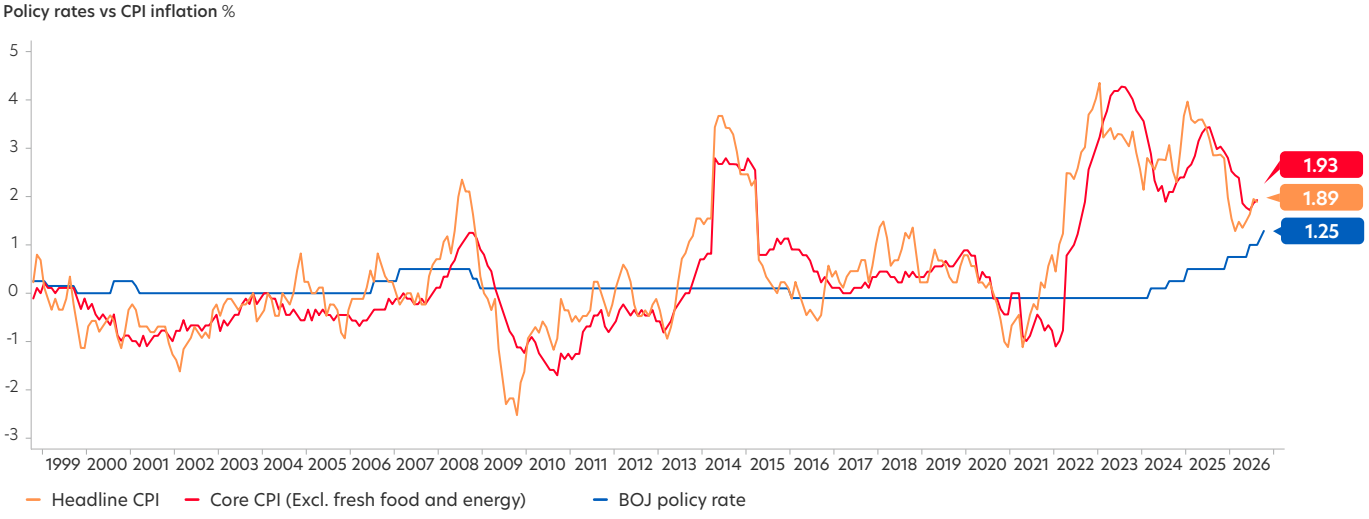
The government's economic strategy prioritises national resilience, economic security, supply-chain investment, AI infrastructure and advanced manufacturing. These initiatives should support capex, although the near-term macroeconomic backdrop remains clouded by Middle East uncertainty and elevated oil prices.

BOJ policy: The BOJ raised its policy rate by 25 bps to 1.25% in September, its highest level in 31 years. We expect a pause for the rest of 2026, followed by a final 25 bps hike to 1.50% in the latter part of the second quarter of 2027. However, there is a meaningful 40% risk that the next rate hike is brought forward to the fourth quarter of 2026 if inflation risks rise, external pressure intensifies and the government becomes more open to a faster pace of policy tightening.

Inflation: Japan's headline inflation is forecast to average 2.0% in 2026, with upside risks due to elevated oil prices, strong wage growth, and Yen weakness, although government subsidies may help to cushion some of the rise.

Growth: We lowered our 2026 real GDP growth forecast to 0.7%, reflecting subdued consumption, softer business investment and elevated energy costs. Japan's reliance on imported energy leaves household purchasing power and company profit margins vulnerable to a prolonged Middle East conflict.

BOJ has raised its policy rate to the highest level in 31 years



Source: Goldman Sachs, Bloomberg, UOB Private Bank
Note: Chart is updated as of end of September 2026

Earnings & valuations: Resilient profits, narrower margin for error

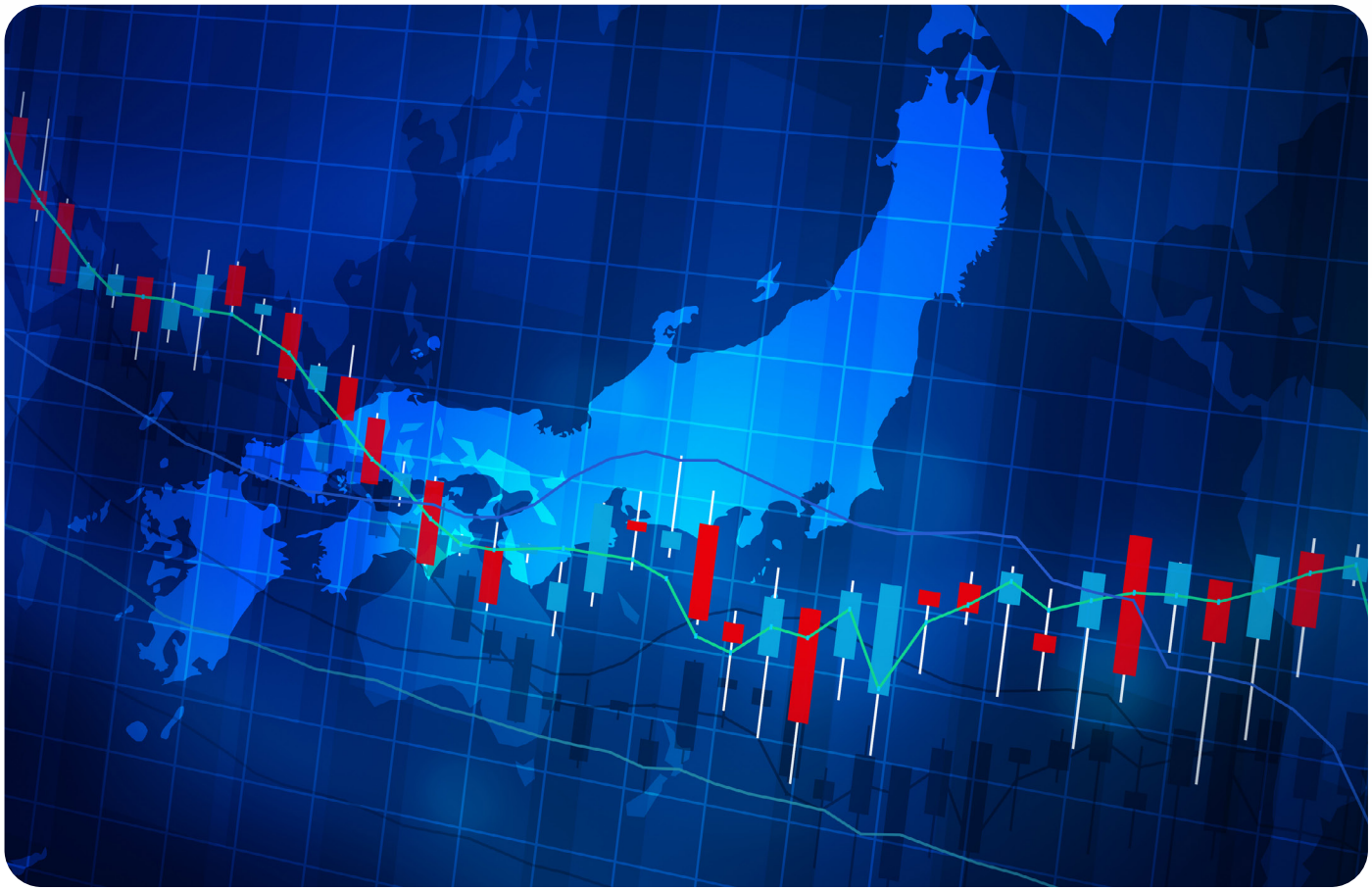
Earnings dynamics: Japanese corporate earnings remain resilient, but leadership is broadening while there is an increased divergence in earnings growth across different sectors. Robust second-quarter results and limited downgrades in earnings guidance by companies point to potential earnings upgrades in the coming quarters. However, Middle East-related oil risks could raise raw-material, electricity and transportation costs, placing pressure on profit margins for companies with little pricing power. Exporters also face uncertainty from volatile Yen moves and softer external demand.

Valuations: As of 22 September 2026, the Tokyo Stock Price Index (TOPIX) traded at 16.1x 12-month forward P/E, down from its peak of 18.5x earlier this year in February but still above its longer-term average. While stock valuations have become more reasonable, higher interest rates and elevated global bond yields may limit further gains. Going forward, further upside in valuations will increasingly depend on the delivery of earnings growth and improving corporate profitability.

Investment strategy

Japanese equities continue to benefit from structural reforms, but slower economic growth, higher interest rates and potential market volatility may limit broad-based market gains. Hence, we remain Neutral and selective, focusing on large-cap quality companies with strong earnings visibility, pricing power and a proven ability to invest and deploy capital effectively.

We favour Japanese megabanks, which are benefiting from wider lending margins, robust corporate loan demand, diversified sources of income, resilient credit quality, and have the capacity to increase share buybacks.



We also remain constructive on companies exposed to long-term structural growth themes, particularly those aligned with AI infrastructure, national resilience and strategic industries.

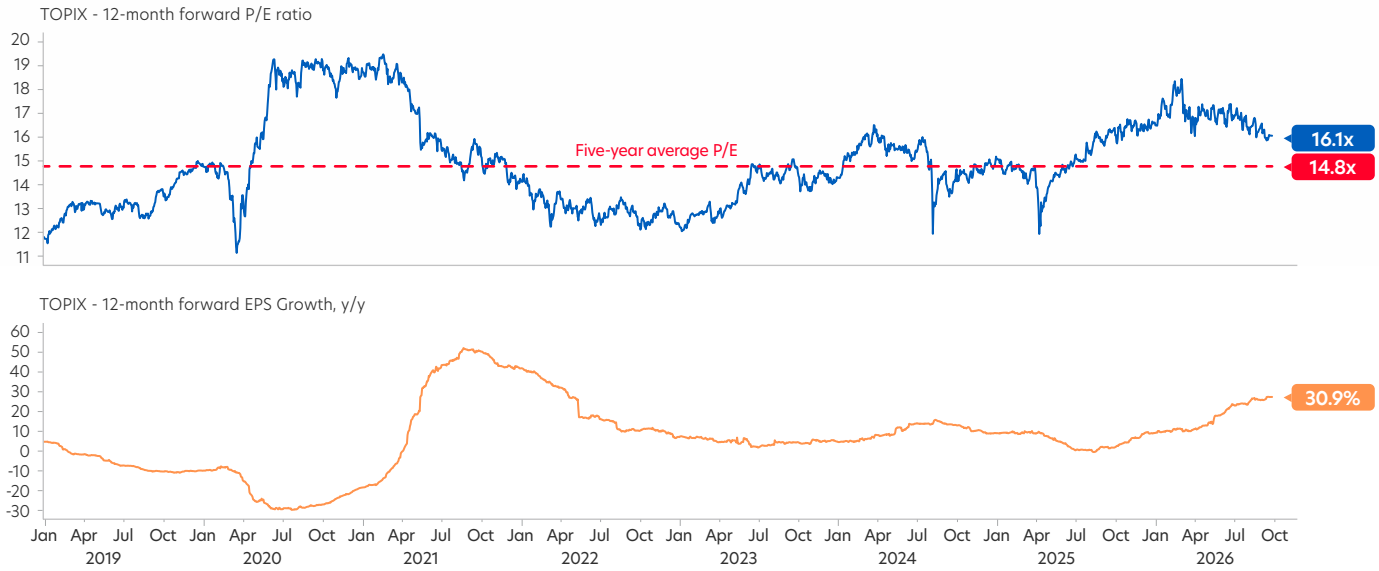
Japan remains well positioned within AI-linked technology through its strengths in semiconductor equipment, advanced materials, power systems and factory automation. That said, investors are becoming increasingly selective due to concerns about the durability of AI-related earnings, and are placing greater emphasis on valuations, earnings visibility, and the sustainability of future growth.

Japan is also entering a multi-year infrastructure renewal cycle as ageing transport, utility and communications assets require replacement and upgrading. This is supported by a sizeable national resilience budget expected to exceed JPY 5 trillion in financial year 2026 (FY 2026), benefitting construction, engineering, power-grid and disaster-prevention companies.

Strategic industries such as defence, energy security, strategic technologies, communications and cybersecurity should continue to benefit from government support and long-term investment. Corporate governance reforms that call for productive use of corporate cash piles provide additional structural support.

Key risks: A stronger Yen, rising energy costs or periods of global market uncertainty could weigh on investor sentiment and corporate earnings. Japanese technology stocks may also face volatility if global AI investment and demand for semiconductors slow from current levels. Meanwhile, faster-than-expected interest rate hikes could place pressure on stock valuations.

Relatively rich equity valuations warrant a selective approach



Source: Bloomberg, UOB Private Bank
Note: Chart is updated as of end of September 2026

CIO's View

We remain Neutral on Japanese equities for the fourth quarter of 2026, as structural tailwinds are balanced by the need for greater selectivity.

Emerging Asia

AI technology drives regional growth

Stance: We have a Neutral view on Emerging Markets (EM) Asia equities for the fourth quarter of 2026. While China's economic recovery has remained uneven, with real GDP growth slowing more than expected in the second quarter of 2026, resilient technology exports have helped offset some domestic weakness. The sustainability of export momentum, however, will likely depend on the pace and continuity of global AI infrastructure investment.

North Asia, particularly Taiwan, South Korea, and China's AI ecosystem, continues to benefit from strong demand for semiconductors and AI infrastructure, supporting earnings growth and capex. Taiwan and South Korea remain key beneficiaries of the AI and semiconductor cycle, although elevated positioning in AI-related hardware stocks could mean that some of these stocks are more vulnerable to shifts in interest-rate expectations and global risk sentiment.

China's export resilience increasingly reflects its expanding role in the global AI supply chain, even as domestic growth remains subdued. Beyond North Asia, AI-driven investment is gradually extending to ASEAN through supply-chain diversification, technology spending, and manufacturing relocation. Singapore remains a high-quality gateway to ASEAN growth, supported by strong financial institutions, capital inflows, and rising demand for digital and infrastructure investment. While EM Asia continues to offer attractive valuations relative to developed markets, a selective approach will be important.

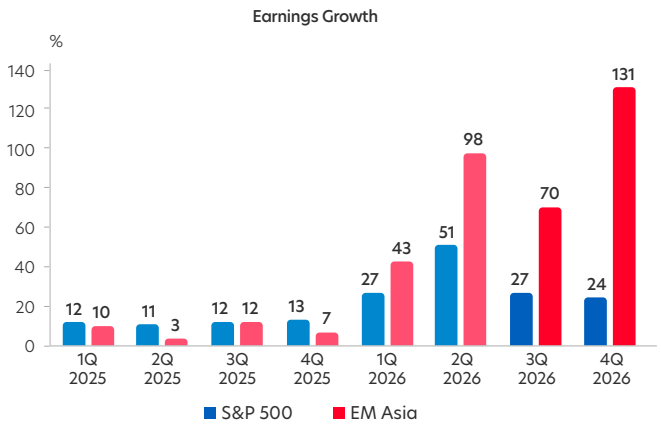
Macro and policy backdrop (China)

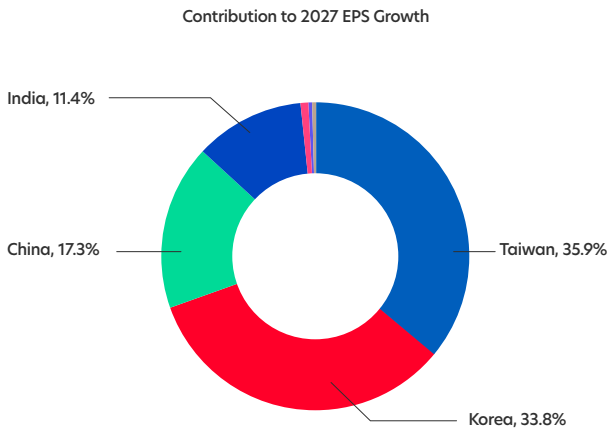
Growth: China's real GDP growth slowed more than expected to 4.3% y/y in the second quarter of 2026, down from 5.0% y/y in the first quarter of 2026. While AI-related exports provide support, softer domestic consumption and weak fixed asset investment remain headwinds to growth. As a result, we lowered our third quarter of 2026 GDP growth forecast to 4.3% and now expect full-year 2026 GDP growth of 4.5%. Overall, resilient technology exports have helped offset some domestic weakness, highlighting the increasing contribution of AI-related industries to China's economic activity.

China's exports: Exports remained a key source of support in August, rising 25.0% y/y in USD terms, driven by resilient global demand and continued investment in AI infrastructure. Ongoing AI-related capex and rising prices of technology products have supported both exports and imports, reinforcing China's role within the global AI supply chain. Meanwhile, the trade outlook has benefited from a more stable US-China relationship following two face-to-face summits between President Trump and President Xi in May and September.

Monetary policy: The PBOC continues to maintain an accommodative monetary policy, while taking steps to keep money market conditions stable. Slowing inflation and renewed pressure on economic growth could lead the PBOC to introduce further policy support.

EM Asia supported by solid earnings growth with heavy contribution by tech heavy countries





Source: Bloomberg, UOB Private Bank
Note: Chart is updated as of end of September 2026

Earnings & valuations: Technology-led earnings growth

Earnings dynamics: Technology-related sectors remain key drivers of regional earnings growth, supported by the ongoing memory chip cycle and AI investment trend. Market consensus is forecasting approximately 59% EPS growth for the MSCI EM Asia Index over the next 12 months. While regional earnings growth is expected to continue, the pace of growth is likely to moderate from current levels.

China earnings: Earnings growth accelerated to 24% y/y in the second quarter of 2026, up from 6% in the first quarter of 2026, marking the strongest quarterly earnings growth in five years. Earnings sentiment remained positive, with 45% of MSCI China companies reporting above consensus earnings. Although offshore internet companies delivered slightly weaker-than-expected results, earnings trends showed signs of stabilisation, supported by easing competition in food delivery.

China's AI profit pool continued to shift towards hardware, particularly semiconductors, with semiconductor earnings surging about 150% quarter-on-quarter (q/q) to USD 23 billion in the second quarter of 2026. AI investment momentum remained robust, supported by ongoing hyperscaler capex growth. Beyond semiconductors, China expanded its share of global AI profits across power, infrastructure, and physical AI segments in the second quarter of 2026. Overall, the market continues to benefit from policy support for advanced manufacturing and technology development, although growth trends remain uneven across sectors.

Valuations: The MSCI EM Asia Index trades at 9.7x 12-month forward P/E, while the Hang Seng Chinese Enterprises Index (HSCEI) trades at 9.3x 12-month forward P/E; both are trading at a discount to developed markets despite their strong growth potential. We expect the recovery path across the region to remain gradual and uneven, supporting a selective investment approach.

Investment strategy

EM Asia continues to be supported by earnings growth, technology-related investment and ongoing economic transformation.

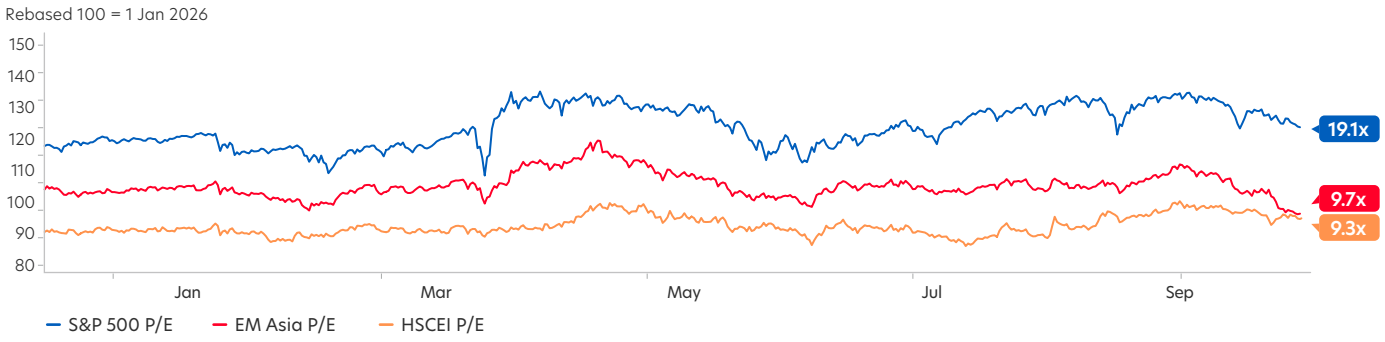
In China, we have adopted a diversified approach to help balance opportunities and portfolio volatility, with a strong focus on dividend-paying stocks. We also continue to favour areas aligned with China's long-term priorities of technological self-sufficiency and advanced manufacturing, particularly in AI, semiconductor localisation and advanced industrial automation.

Taiwan and South Korea remain well positioned to benefit from demand related to AI, high-performance computing and memory chips, due to their leading roles in the global semiconductor supply chain. Continued growth in AI-driven compute demand, together with a gradual shift towards longer-term contracts, may support earnings visibility. However, elevated investor positioning leaves parts of the two markets more sensitive to changes in interest-rate expectations and broader risk sentiment.

Within ASEAN, we favour Singapore equities for their resilience and defensive characteristics. Singapore stands out as a key regional financial and technology hub, benefiting from strong capital inflows, growing wealth management business, and expanding digital infrastructure.

Key risks: Geopolitical tensions and higher energy prices may drive volatility. Global tech demand could slow after the current investment cycle.

Earnings & valuations: Technology-led earnings growth



Source: Bloomberg, UOB Private Bank
Note: Chart is updated as of end of September 2026

CIO's View

We have a Neutral view on EM Asia equities for the fourth quarter of 2026. While EM Asia continues to offer attractive valuation discounts relative to developed markets, a selective approach remains important.



Fixed Income

Developed Markets Investment Grade

Prioritise quality income amid higher-for-longer interest rate environment

Developed Markets Investment Grade (DM IG) bonds have remained relatively resilient despite a challenging interest rate environment. Credit spreads, which reflect the additional yield investors receive for taking corporate credit risk, remained broadly unchanged during the third quarter. While the DM IG Index delivered a total return of -2.2% since June 2026, the decline was largely driven by rising interest rates and higher government bond yields rather than any deterioration in corporate fundamentals. Coupon income of 1.04% helped cushion part of the impact from a -3.3% decline in bond prices.

The rise in 10-year US Treasury (UST) bond yields above 5% was driven by stronger-than-expected inflation data and the resurgence of oil prices amid ongoing Middle East tensions. As a result, investors raised their expectations for higher US interest rates. Interestingly, the UST yield curve flattened as short-maturity UST bond yields rose by around 30 to 40 bps since August 2026, while the increase in 30-year UST yields was more modest amid the Fed's commitment to controlling inflation with an interest rate hike in September and the US Treasury Department's move to increase repurchases of long-maturity government bonds.

The US Fed raised interest rates by 25 bps in September and indicated that financial conditions have yet to become meaningfully restrictive while taming inflation remains a priority. Fed officials hinted that interest rates may need to stay higher for longer, with the latest dot plot indicating their expectation of one additional rate hike by the end of 2026. UOB now expects two additional hikes in December 2026 and the first quarter of 2027 before interest rates hold steady thereafter.

Despite the rise in UST bond yields, corporate bond markets have remained stable. Credit spreads have traded within a relatively narrow range of around 87-95 bps since July, reflecting continued investor confidence in the financial strength of investment grade issuers. Although bond issuance from AI-related companies has increased significantly, demand has remained strong and new bond issuances have generally been well absorbed by the market. This is due to healthy corporate balance sheets, solid earnings growth and strong credit metrics.



Looking ahead, risks remain, including the potential for further volatility in oil prices and the possibility of higher-than-expected interest rates. Nevertheless, attractive overall yields, a resilient US economy and strong corporate fundamentals should continue to provide support for DM IG bonds.

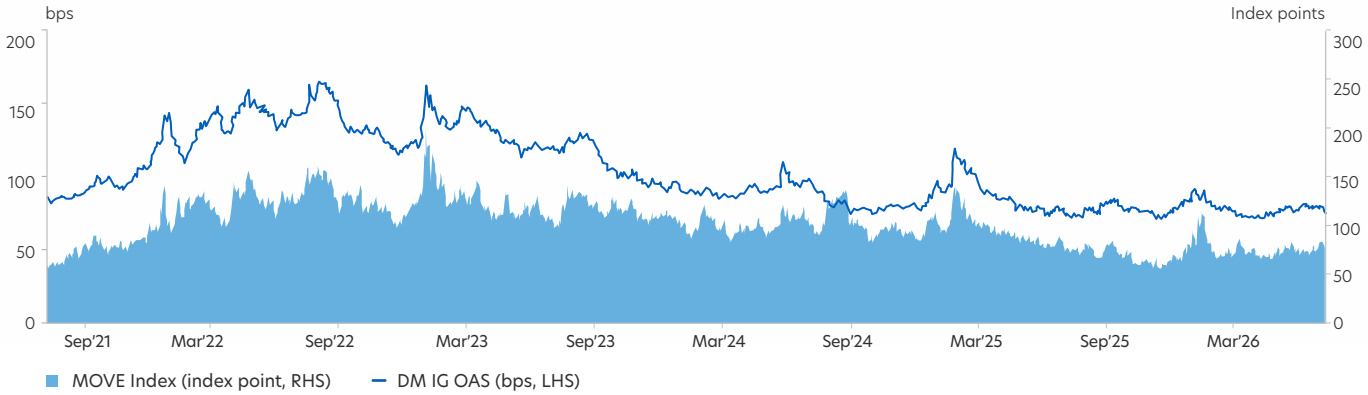
That said, with credit spreads already near historic lows, the scope for meaningful price appreciation appears limited. As a result, we expect future returns to be driven primarily by the attractive income rather than by significant gains in bond prices.

We remain cautiously positive on DM IG bonds, while maintaining a disciplined approach to managing interest rate risk. Given the uncertainty around how high interest rates may rise, we continue to favour bonds with a medium-term maturity profile of around 4 to 5 years. In our view, this offers a good balance between generating attractive income and limiting sensitivity to further increases in interest rates.

At the same time, we remain selective by focusing on high-quality issuers with strong fundamentals and stable cash flows. This helps investors capture attractive bond income while maintaining portfolio resilience as the macroeconomic environment becomes more challenging amid ongoing Fed policy tightening.

From a sector perspective, we prefer a mix of defensive businesses and companies that can benefit from long-term structural growth trends. In particular, we favour AI electrification beneficiaries and leading US AI hyperscalers, defence companies, regulated and integrated utilities, infrastructure, financial institutions, insurers, telecommunications companies and select upstream oil and gas producers.

Spreads remain near historical tights with subdued rate volatility



Source: Bloomberg, UOB Private Bank
* Note: DM IG OAS measures the extra yield that developed-market investment-grade corporate bonds offer over comparable government bonds, after adjusting for features such as the issuer's ability to repay the bond early.
Note: Chart is updated as of end of September 2026

CIO's View

Cautiously constructive on DM IG, focusing on income, high-quality credit selection, and a maturity profile of 4 to 5 years.

Developed Markets High Yield

Stay cautious amidst elevated valuations

Developed Markets High Yield (DM HY) bonds have delivered a resilient return of 1.73% year-to-date, driven primarily by coupon income of 4.72%. This underscores that high income is the key value proposition of the asset class. In addition, the relatively shorter maturity profile of the US HY market helped cushion the impact of the sharp rise in US Treasury bond yields. Credit spreads also remained broadly stable, trading within a narrow range of approximately 257 to 289 bps since May 2026.

Corporate balance sheets and credit fundamentals remain healthy, with net leverage for the DM HY Index holding broadly stable at 3.8x in the second quarter of 2026, while default rates remain low at around 2.0%, broadly in line with historical averages. Overall, credit quality has remained stable despite the higher interest rate environment. While current yield levels remain attractive and corporate earnings continue to be supportive, we see limited scope for further price gains in DM HY and for the credit spread to narrow further. As of 18 September 2026, the US HY Index spread of 267 bps remains well below the five-year average of 342 bps, suggesting valuations are relatively high compared to historical levels.

DM HY performance has also become increasingly dispersed across sectors. Higher oil prices, supported by ongoing tensions in the Middle East, have benefited HY bonds in the energy sector, which represents a meaningful portion of the HY market. In contrast, HY bonds in sectors such as communications, technology and transportation continue to trade at cheaper valuations, partly due to several financially distressed issuers.

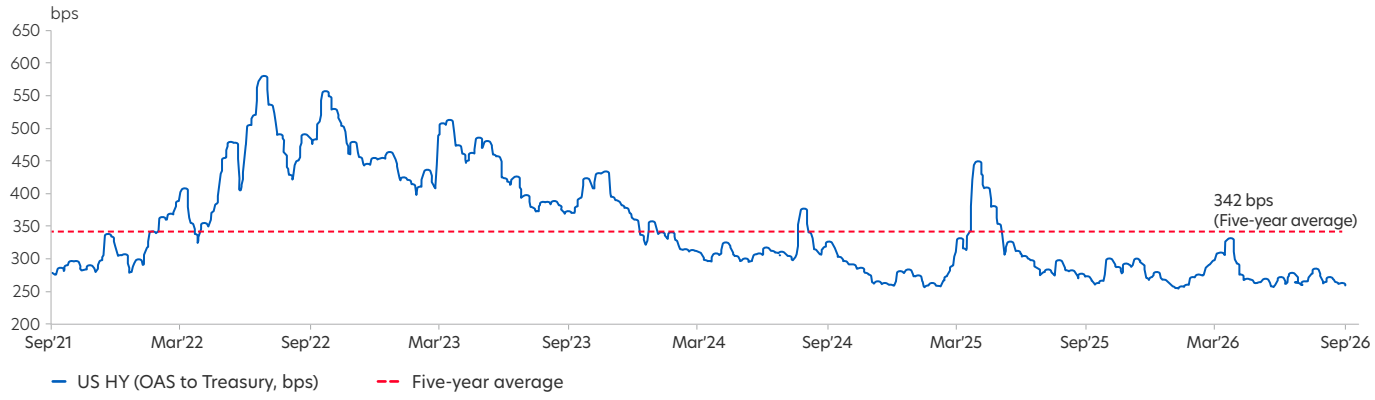
Looking ahead, a sharp rise in oil prices remains a key risk. Higher energy costs could exacerbate inflationary pressures, potentially leading to higher interest rates and slower economic growth. This could weigh on investor sentiment and put pressure on HY bonds.

The US HY primary market has remained active, with gross debt issuance rising 11% y/y during January to August 2026. Importantly, most companies have used the bond market to refinance existing debt rather than to significantly increase borrowing or fund aggressive spending. This should help preserve overall credit quality across the HY market.

Nonetheless, given the current environment, we maintain an Underweight outlook on DM HY bonds. While credit fundamentals remain resilient, tight credit spreads mean that investors are not adequately compensated for the uncertain macroeconomic and geopolitical backdrop. Uncertainty surrounding US fiscal and monetary policy, ongoing tensions in the Middle East and elevated UST bond yields could affect investor sentiment and lead to periods of volatility.

Although HY bonds continue to offer attractive income, we believe a more selective approach is warranted to strike a prudent balance between risk and return.

Limited room for spread compression given current stretched valuations



Source: Bloomberg, UOB Private Bank
* Note: OAS to Treasury measures the extra yield that a bond offers over a comparable Treasury bond after accounting for features such as the issuer's right to call the bond before maturity.
Note: Chart is updated as of end of September 2026

CIO's View

Remain Underweight, disciplined bottom-up credit selection remains key to avoiding idiosyncratic credit risks.

Emerging Markets Asia Investment Grade

Defensive qualities underpin Asia IG resilience

Emerging Markets Asia Investment Grade (EM Asia IG) bonds faced a more challenging environment in 2026, delivering a year-to-date total return of -0.61% as of 18 September 2026. Despite the negative total return, the asset class outperformed US IG bonds by 0.77%, highlighting its relative resilience during a period marked by interest rate uncertainty. The main drag on performance came from the sell-off in UST bonds, as the rise in 10-year UST yield above 5% weighed on bond prices globally.

Encouragingly, underlying credit fundamentals remain resilient. Credit spreads have tightened by 10 bps year-to-date to 74bps as of 18 September 2026. This resilience reflects steady investor inflows into Asian credit markets as investors diversify beyond US assets, as well as the generally strong credit quality of Asian issuers. Corporate balance sheets remain a key strength, with net leverage among Asia Pacific companies remaining relatively low across the second quarter of 2026.

Demand-supply dynamics also remain supportive. While Asia Pacific gross bond issuance was relatively stable y/y at USD164.8 billion as of end-August 2026, bond maturities totalled USD187.6 billion, resulting in a net redemption of USD22.8 billion, excluding coupon payments. In simple terms, more bonds are maturing than being issued, which has helped support demand for Asian credit.

Looking ahead to the fourth quarter of 2026, we expect returns to be driven increasingly by income rather than bond price gains. Credit spreads are already close to historical lows, limiting the scope for further compression. At the same time, performance is likely to become more dispersed across sectors. For example, increased AI-related investments by Chinese technology companies may lead investors to focus more closely on their cash flow generation and funding needs. Higher energy prices linked to Middle East tensions, ongoing inflation uncertainty and further upward pressure on government bond yields could weigh on investor sentiment.

We maintain our Overweight outlook on EM Asia IG credit. The asset class continues to offer a combination of quality, defensiveness and income potential, supported in part by its relatively high exposure to government-linked and quasi-sovereign issuers. While future returns are likely to be increasingly driven by income rather than price appreciation, the combination of attractive overall yields, healthy credit fundamentals and favourable demand-supply dynamics should continue to support EM Asia IG.

That said, we continue to favour issuers with strong balance sheets, resilient business models and stable cash flows. These include leading ASEAN regional banks, selected Asia-focused insurers, quasi-sovereign issuers, defensive consumer businesses and infrastructure-related companies.

All-in yield remains attractive relative to historical levels



Source: Bloomberg, UOB Private Bank
Note: Yield-to-worst (YTW) represents the lowest annualised return an investor can earn on a bond, assuming the issuer does not default and the bond is called or redeemed at the earliest possible date.
Note: Chart is updated as of end of September 2026

CIO's View

We believe EM Asia IG offers both resilience and diversification, supported by a broad investor base, healthy credit fundamentals and a supportive demand-supply backdrop.

Emerging Markets Asia High Yield

Supportive fundamentals underpin income, but elevated valuations constrain upside

Emerging Markets Asia High Yield (EM Asia HY) bonds have delivered a strong return of 4.6% year-to-date as of 18 September 2026 despite a backdrop of higher-for-longer US interest rates. Credit spreads tightened around 60 bps amid rising government bond yields, further supported by healthy corporate fundamentals, low default rates and favourable market conditions.

That said, the headline return does not tell the full story. Much of the outperformance was driven by a small number of specific situations, particularly the recovery in property-related bonds in China and Hong Kong, as well as selected frontier-market government bonds. Outside these areas, returns were primarily driven by the regular income generated from bond coupons, while gains from bond prices were more modest.

This distinction is important because the investment landscape is evolving. Many of the strongest performing bonds have already rebounded significantly from distressed levels. At the same time, EM Asia HY credit spreads are already tight at 302 bps currently. In our view, current valuations already reflect much of the improvement in EM Asia HY credit fundamentals, reducing the likelihood of another broad-based rally in bond valuations.

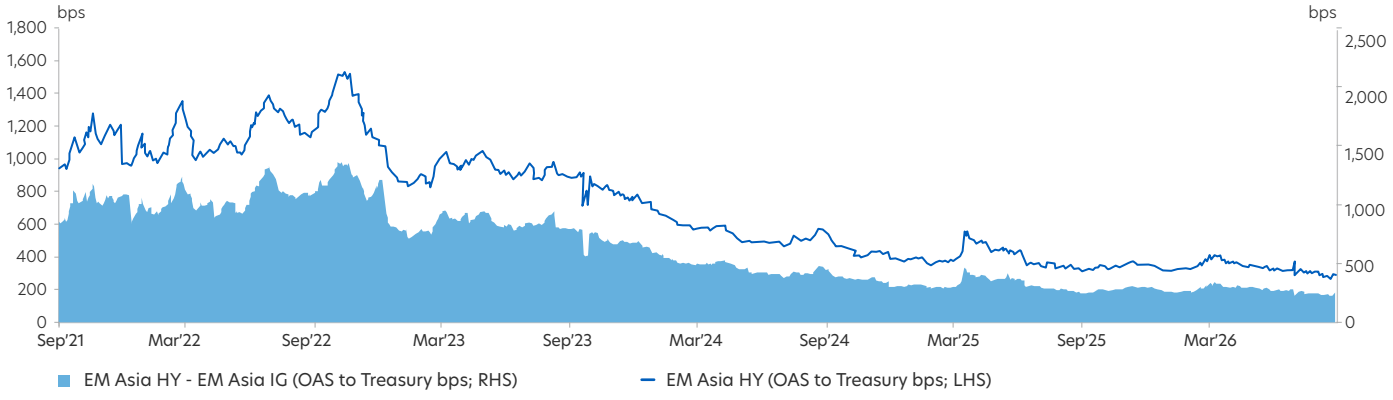
That said, we do not see a high risk of a sharp widening in EM Asia HY credit spreads. Corporate balance sheets remain resilient, default rates are contained and market supply conditions remain supportive, with bond maturities and redemptions continuing to exceed new issuance. In addition, many companies have improved their funding flexibility and reduced their reliance on offshore US dollar (USD) markets, making them less vulnerable to refinancing pressures that have historically contributed to periods of market volatility.

As a result, we expect returns over the next 6 to 12 months to be driven primarily by coupon income rather than significant capital gains. With many of the broad market gains already realised, generating excess returns is likely to depend increasingly on careful issuer selection rather than general market exposure.

We maintain a Neutral outlook on EM Asia HY bonds. While the fundamental backdrop remains supportive, the additional yield offered by EM Asia HY bonds relative to EM Asia IG bonds has narrowed considerably. This means investors are receiving less additional compensation for taking on lower-quality credit risk than in the past.

In this environment, we favour a selective approach, focusing on issuers with durable cash flows, strong liquidity positions and good refinancing flexibility. We also see better opportunities in subordinated hybrid bonds issued by high-quality companies. At the same time, we remain cautious on more speculative opportunities, as the potential rewards may no longer adequately compensate investors for the risks involved.

EM Asia HY increasingly expensive vis-à-vis EM Asia IG



Source: Bloomberg, UOB Private Bank
Note: Chart is updated as of end of September 2026

CIO's View

Neutral EM Asia HY where supportive fundamentals and technicals are offset by rich valuations.

US Technology Credits and Issuance Supply

Be selective to capture the best opportunities

AI-related bond issuance has continued at a rapid pace, with total year-to-date issuance from major cloud and technology companies reaching approximately USD220 billion. In addition to Alphabet and Amazon, SpaceX entered the bond market for the first time in June, raising USD25 billion through a five-part bond offering to refinance existing debt and fund investments in AI infrastructure. Nvidia also returned to the bond market after a five-year absence, raising USD25 billion across seven bond tranches with maturities ranging from 2028 to 2056.

The increase in AI-related bond issuance, particularly longer-dated bonds, has led investors to become more selective. As companies continue to invest heavily in AI, uncertainty around the long-term returns of these investments has prompted investors to demand slightly higher compensation for holding longer-term debt.

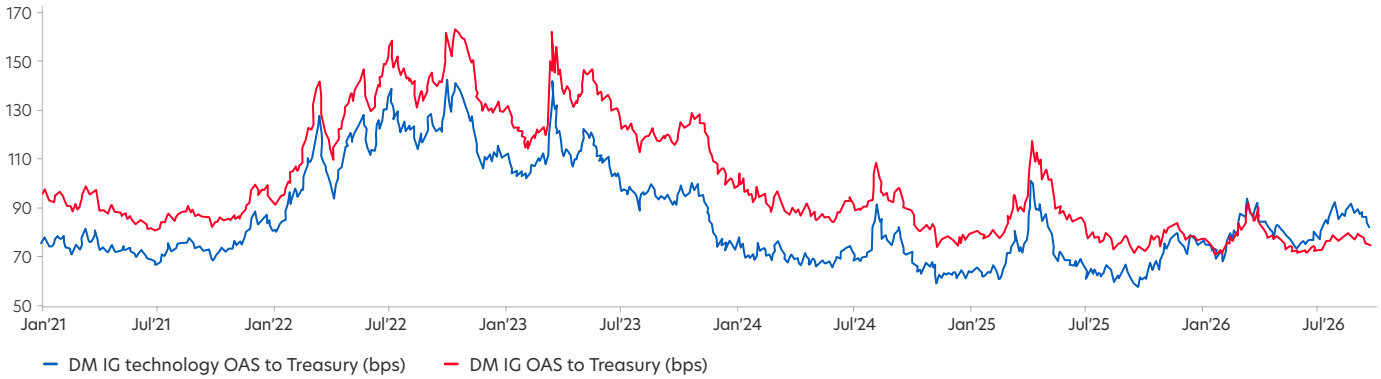
Against this backdrop, the two key questions are whether credit markets can continue to absorb such large volumes of new bond issuance without putting pressure on credit spreads, and how quickly can companies monetise their AI investments into stronger earnings and cash flow growth.

US IG technology bonds continue to trade at wider spreads than the broader Bloomberg US Corporate Index, a trend that has persisted since earlier this year. In our view, this presents an attractive opportunity for investors looking to gain exposure to high-quality technology issuers. We continue to favour leading hyperscalers with strong balance sheets, consistent free cash flow generation and resilient core business models.

At the same time, semiconductor and memory-chip manufacturers have benefited from exceptionally strong profitability, with many companies receiving credit rating upgrades or positive rating outlooks. Their robust free cash flow generation reduces the need for external borrowing and provides additional financial flexibility as the industry progresses through the investment monetisation cycle.

Beyond hyperscalers and chipmakers, the AI theme is also creating opportunities in industrials and utilities. As digitalisation accelerates and the energy transition gathers pace, rising power demand across data-intensive industries will drive growth in electrical equipment and power infrastructure, making these sectors attractive complements to core hyperscaler credit.

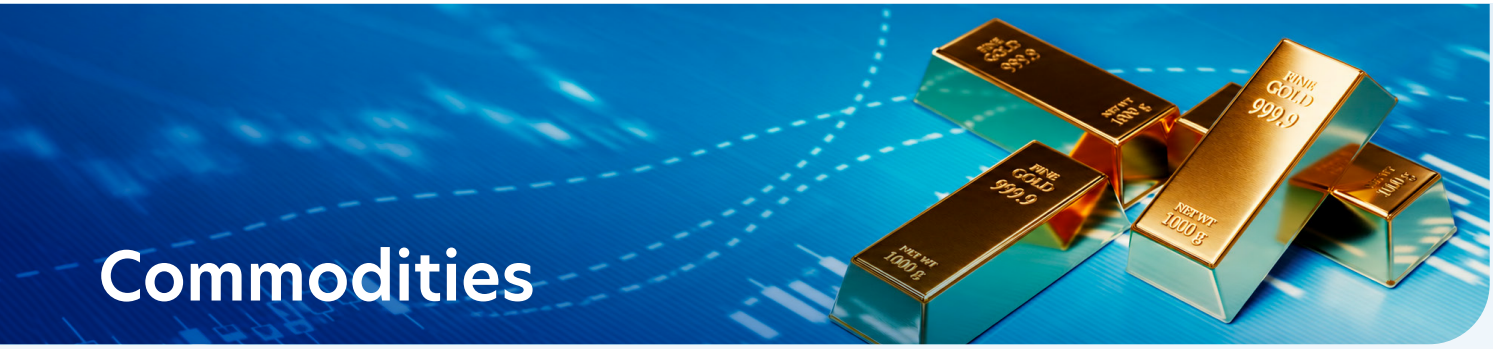
US IG technology sector offers attractive relative value post recent spread widening



Source: Bloomberg, UOB Private Bank
Note: Chart is updated as of end of September 2026

CIO's View

We favour hyperscalers with robust balance sheets and consistent free cash flow, providing a buffer as they progress through the capex monetisation cycle.



Commodities

Precious Metals (Gold)

Safe-haven demand to drive gold higher

Gold traded in a volatile range over recent months. After struggling to stay above USD 4,000 per ounce in June and July, prices surged to USD 4,600 per ounce following US Treasury Secretary Scott Bessent's announcement to increase the Treasury Department's buy backs of previously issued government bonds. But the rally was short-lived, with gold pulling back below USD 4,400 per ounce in early September as rising US Treasury bond yields reduced gold's appeal given its status as a non-interest-bearing asset.

In hindsight, there were two key factors that contributed to gold's sharp correction from its USD 5,500 per ounce high in January. First, the fear of missing out (FOMO) among retail investors began to ease. Chinese authorities shut down various excessive on-line speculative schemes, removing a key demand for gold. Second was the onset of the US-Iran war, which diverted many central banks' attention away from gold accumulation to provision for economic emergencies.

Looking ahead, barring an intense re-escalation of the Middle East conflict, it is likely that central banks, especially those in Emerging Markets and Asia, will resume their accumulation of gold.

Case in point, the PBOC took advantage of the recent pullback in gold prices to increase its gold reserves holdings.

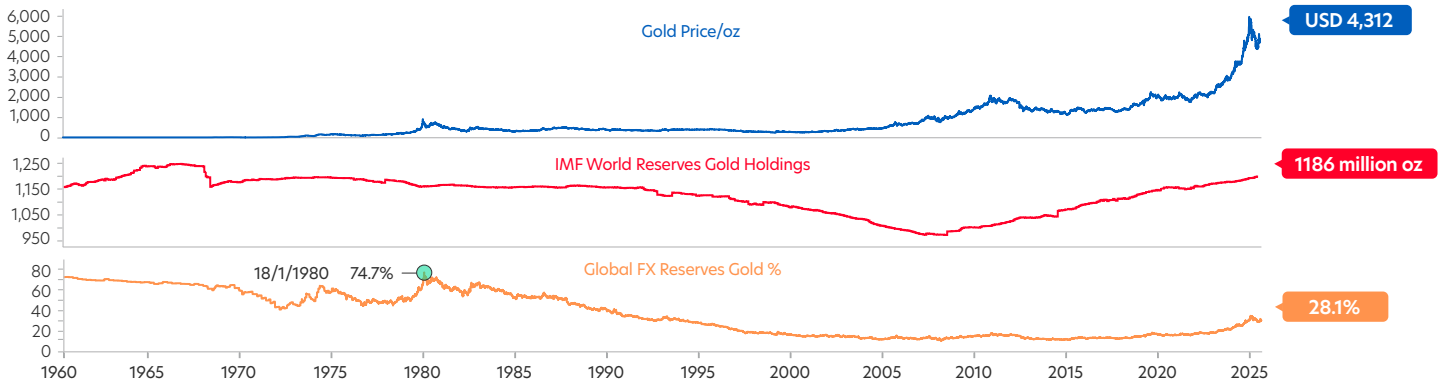
Meanwhile, growing concerns about the US government's rising spending and debt are likely to support gold prices over the long term.

In the near term, however, the biggest risk for gold is uncertainty over US interest rates. If the Fed raises rates further and Treasury bond yields climb even higher, this will reduce the appeal of gold.

Overall, we remain positive on gold in the long term. It is likely that gold has found a tentative bottom around USD 4,000 per ounce. We expect gold to consolidate in the near term before resuming its climb higher.

Commodity	4Q26F	1Q27F	2Q27F	3Q27F
Gold (USD/oz)	4,500	4,800	5,100	5,400

Gold: Rising prices are supported by safe-haven needs



Source: Bloomberg, UOB Private Bank
Note: Chart is updated as of end of September 2026

CIO's View

We remain Neutral on gold, as higher US rates and Treasury bond yields may weigh on prices in the near term, though rising central bank demand provides longer-term support.

Brent Crude Oil

Growing inflation risk on the back of energy and commodities price surge

On the surface, financial markets seem to have adjusted well to the ongoing closure of the Strait of Hormuz. Hostilities between the US and Iran have eased somewhat, while alternative arrangements have helped move as much as 10 million barrels per day (bpd) of crude oil out of the Persian Gulf. Thus, Brent crude oil is "deceptively calm" as it climbed "only" USD 10 per barrel across August to USD 90 per barrel. The worst of supply strains appears to be over, with conditions returning to more normal levels.

However, not all is well beneath the surface. There are increasing worries that the world has excessively drawn down oil and energy inventories. This inventory drawdown played a key role in mitigating the energy supply disruption in the second half of 2026 but this inventory buffer is increasingly thin. Specifically, US crude oil inventories have fallen sharply, with commercial stockpiles at Cushing, Oklahoma and the Strategic Petroleum Reserve (SPR) both declining to relatively low levels.

The refined fuel market is increasingly volatile and tight. Jet fuel prices have recovered much of their earlier decline, US diesel prices have surged, and Asian liquefied natural gas (LNG) prices have rallied to new highs. These developments suggest that refined fuel supply is struggling to keep pace with demand, despite crude oil prices appearing relatively stable.

Overall, Brent crude oil still faces ongoing supply disruption risks, especially when a Middle East peace deal remains elusive. Reflecting these risks, we have raised our forecasts by USD 10 per barrel across the board to USD 90 per barrel in the fourth quarter of 2026, USD 85 per barrel in the first quarter of 2027 and USD 80 per barrel in the second quarter and third quarter of 2027. A further climb in Brent crude oil towards USD 100 per barrel cannot be ruled out.

Commodity	4Q26F	1Q27F	2Q27F	3Q27F
Brent crude oil (USD/bbl)	90	85	80	80

Brent crude has hit over USD100/bbl, reflecting supply risks directly linked to inflation and tighter monetary policy



Source: Bloomberg, UOB Private Bank
Note: Chart is updated as of end of September 2026

CIO's View

We recommend fading the Brent Crude price surge once the geopolitical uncertainty recedes. Organization of the Petroleum Exporting Countries (OPEC) still has ample scope to increase oil production when needed.



Currencies

USD

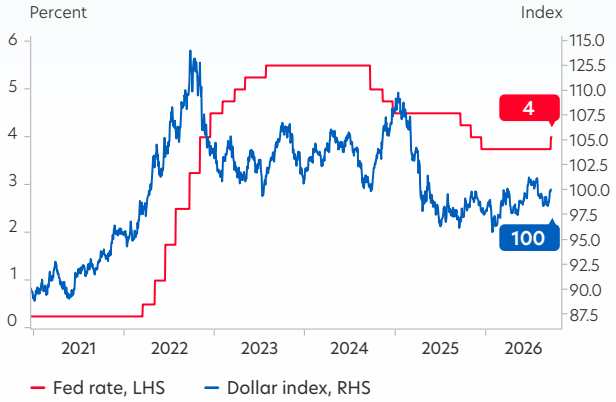
Shifting to a positive view as the Fed starts interest rate hike cycle

The September Fed interest rate hike marks a significant shift and challenged our prior medium-term negative outlook on the USD. It signals a renewed US rate hike cycle, which was not our prior base assumption. We now expect two additional 25 bps rate hikes, in December 2026 and the first quarter of 2027, followed by interest rates being kept steady for the remainder of 2027. Amid expectations of further Fed policy tightening over the coming months, the interest rate gap between the US and other major developed countries should start widening again since other countries are further along in their policy tightening cycles and are likely to deliver fewer rate hikes from here.

We therefore upgrade our near- to medium-term USD view from negative to positive and expect the US Dollar Index (DXY) to rebound. The strength of the recovery will depend on whether the boost from higher interest rates can outweigh longer-term challenges such as rising government debt leading to a loss of confidence in the USD, and weaker safe-haven demand.

FX	4Q26F	1Q27F	2Q27F	3Q27F
DXY	102	102.8	103.6	103.6

Dollar index x policy rate divergence



Source: Bloomberg, UOB Private Bank, Intercontinental Exchange (ICE), Federal Reserve

Note: Chart is updated as of end of September 2026

EUR

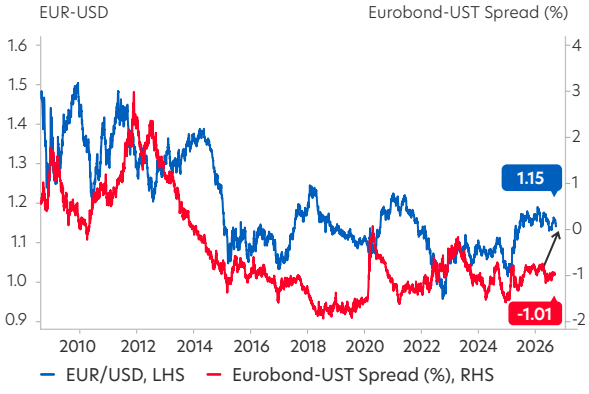
Projecting a gradual depreciation path for EUR

The ECB raised its deposit rate by 25 bps to 2.50% at its 10 September meeting, its second hike since the US-Iran conflict, while updated projections pointed to more persistent inflation. Despite this, we expect just one final 25 bps hike in December, taking the deposit rate up to 2.75% and marking the peak of this rate hike cycle. This is more conservative than market expectations of three additional hikes by April 2027.

We expect the interest rate differentiation between the US and Europe to widen further in favour of the USD as the Fed continues its rate hikes while the ECB approaches the end of its tightening cycle. We therefore lower our EUR/USD forecasts to 1.12 in the fourth quarter of 2026 and 1.10 by the second quarter of 2027.

FX	4Q26F	1Q27F	2Q27F	3Q27F
EUR/USD	1.12	1.11	1.10	1.10

Rate differential and positioning dynamics reinforce bearish view



Source: Bloomberg, UOB Private Bank

Note: Chart is updated as of end of September 2026

CNY

Shifting to a cautious medium-term outlook for the CNY

The immediate impact from the Fed's renewed rate hike cycle on Chinese Yuan (CNY) appears contained. The PBOC fixed the Yuan at 6.7459 on 22 September, the strongest fixing against the USD since February 2023, signalling China's continued commitment to currency stability. Even so, CNY continues to trade stronger than the PBOC's daily reference rate, reflecting continued investor preference for the currency, as evident from persistent demand for CNY from domestic and institutional clients.

However, the outlook for CNY is becoming less favorable over the medium term. As the Fed's interest rate hike cycle continues, the resultant USD strength will likely spark a rebound in USD/CNY, potentially mirroring the Fed tightening cycle in 2022.

It may be prudent from a risk management standpoint to hedge for a stronger USD, especially as hedging costs have become more attractive. While we shift to a cautious medium-term outlook on the CNY, the pace of depreciation is expected to be gradual and controlled. The PBOC's 2026-2030 five-year plan reaffirmed CNY stability and increased global usage as structural priorities. This should limit the pace and magnitude of any CNY weakness. Beyond that, the PBOC controls several tools that allow them to support CNY and prevent excessive currency volatility.

We revise our USD/CNY forecasts higher to reflect the shifting interest rate differential and a gradual unwinding of the CNY's recent outperformance.

FX	4Q26F	1Q27F	2Q27F	3Q27F
USD/CNY	6.75	6.80	6.85	6.85

Pace of depreciation expected to be measured



Source: Bloomberg, UOB Private Bank
Note: Chart is updated as of end of September 2026

JPY

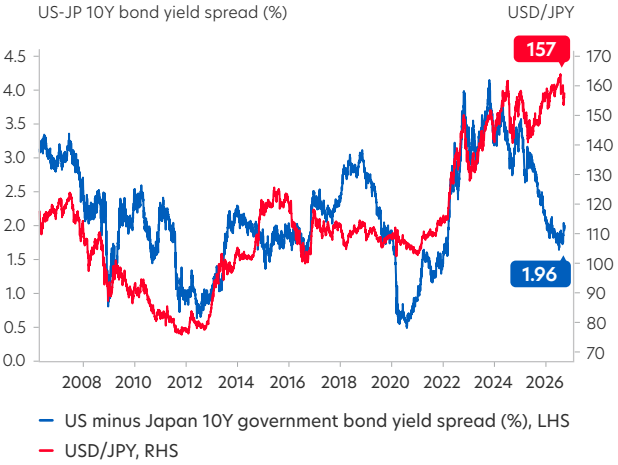
Higher USD/JPY supports demand for higher-yielding investments and delays a recovery in the Yen

Japanese Yen (JPY) presents a more nuanced outlook despite our positive USD view. The BOJ raised interest rates by 25 bps to 1.25% in September, and we expect one further rate hike in the second quarter of 2027, although an earlier move remains possible if inflation pressures persist. The Fed-BOJ interest rate differential remains the widest among the major currencies, and further Fed rate hikes will likely keep USD/JPY supported on an upward path. This may trigger broader demand for higher-yielding investments and delay the Yen's recovery.

However, USD/JPY upside may be limited as it approaches previous currency intervention levels near 160. Authorities have already signalled heightened vigilance, increasing the risk of intervention if Yen weakness accelerates. A more aggressive BOJ rate hike cycle, while not our base case, could also provide meaningful support for the Yen and partially offset broader USD strength.

FX	4Q26F	1Q27F	2Q27F	3Q27F
USD/JPY	159	161	162	162

Near-term upside capped by differential widening



Source: Bloomberg, UOB Private Bank
Note: Chart is updated as of end of September 2026

AUD

AUD has limited downside relative to peers

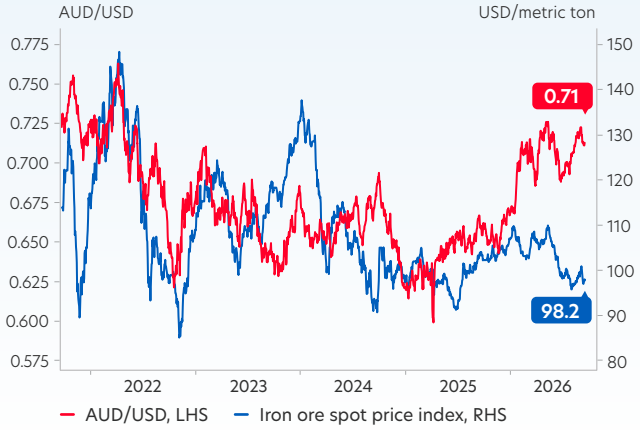
The Australian dollar (AUD) has been the strongest performing major currency in 2026, supported by the Reserve Bank of Australia's (RBA) ongoing rate hike cycle. Thus far this year, the RBA has delivered four interest rate hikes, taking the cash rate up to a near 15-year high of 4.60%, driven by resilient growth, a resilient labour market and above-target inflation.

Despite our positive USD view, AUD/USD should prove more resilient than most major currencies. The narrow interest rate differential between the Fed and RBA limits the extent to which higher US rates can weigh on the currency, distinguishing AUD from more vulnerable currencies such as the EUR, British pound (GBP) and New Zealand dollar (NZD).

That said, AUD remains exposed to external risks. A deterioration in global risk sentiment or a sharper economic slowdown in China could weigh down on the currency and accelerate AUD weakness. Nonetheless, even if AUD/USD faces downside pressure, its decline is likely to be less than that of most other major currencies.

FX	4Q26F	1Q27F	2Q27F	3Q27F
AUD/USD	0.70	0.69	0.68	0.68

Commodity support could limit downside



Source: Bloomberg, UOB Private Bank

Note: Chart is updated as of end of September 2026

SGD

SGD to be supported by MAS monetary policy stance and AI-led growth

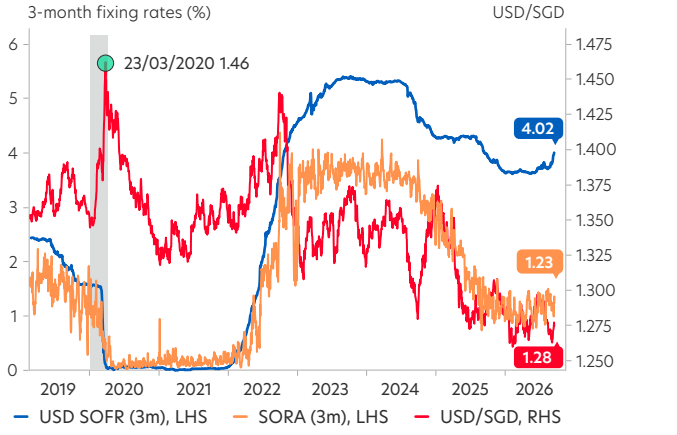
The Singapore dollar (SGD) is expected to remain resilient despite the Fed's renewed tightening cycle. Singapore's central bank (MAS) has tightened monetary policy twice in 2026, reinforcing an appreciation bias for the SGD that provides a buffer against USD strength. We expect the MAS to tighten monetary policy further in October, which should help limit USD/SGD gains in the near term.

Beyond policy support, the SGD continues to benefit from strong structural fundamentals, including fiscal prudence, a persistent current account surplus and AI-driven growth. These factors reinforce its status as Asia's preferred safe-haven currency and support demand that is largely independent of short-term rate differentials.

As a result, while USD/SGD may rise alongside broader USD strength, SGD weakness should remain measured and relatively modest compared with other regional currencies.

FX	4Q26F	1Q27F	2Q27F	3Q27F
USD/SGD	1.28	1.29	1.30	1.30

SGD's anticipated weakness is expected to be measured



Source: Bloomberg, UOB Private Bank

Note: Chart is updated as of end of September 2026



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