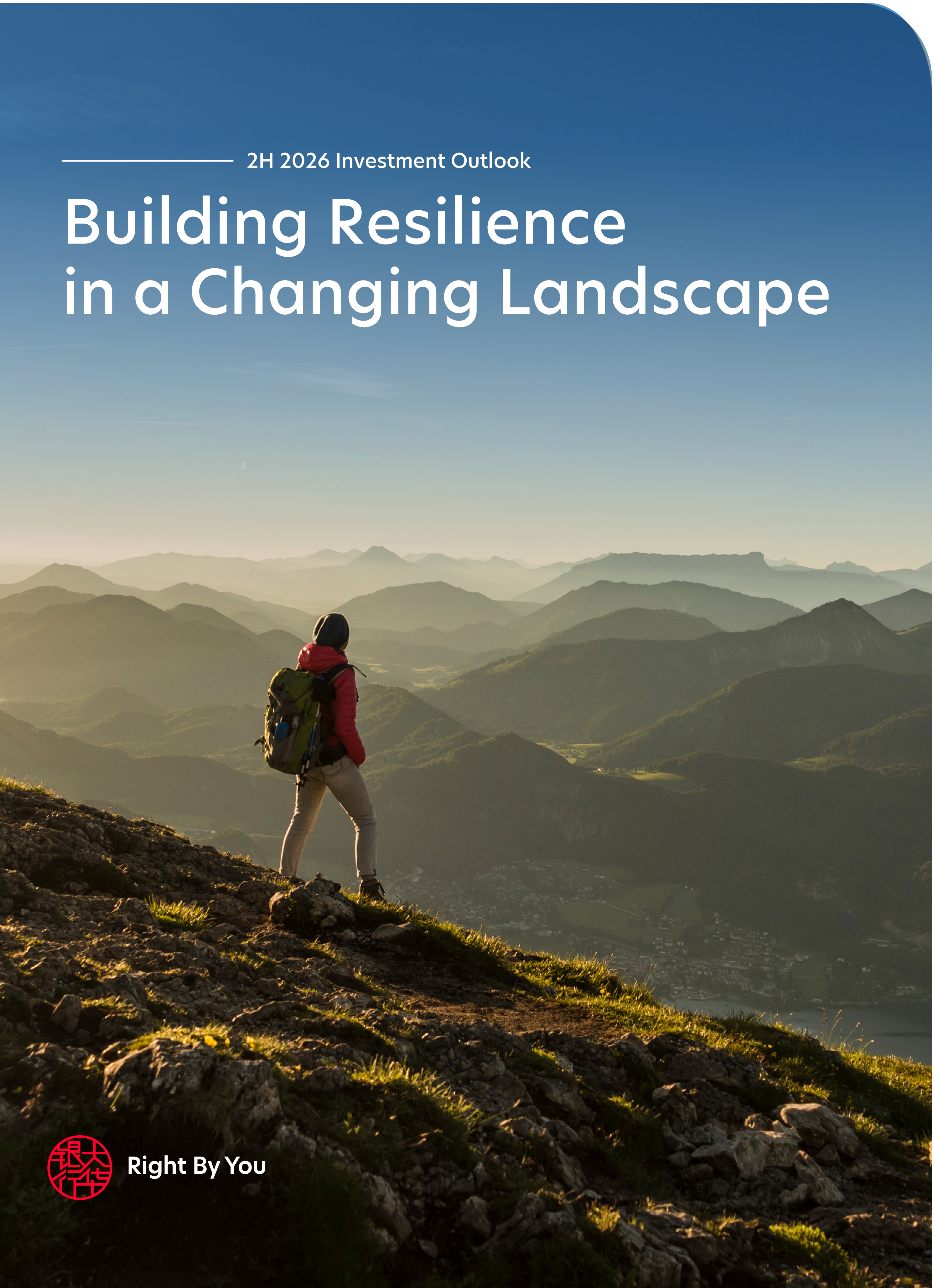
UOB

2H 2026 Investment Outlook

Building Resilience in a Changing Landscape



Right By You

Contents

CIO Thoughts

Foreword: Balancing resilience and reality

Markets have spent the past few years asking whether the world is returning to normal. The answer, increasingly, is no. Not because normal has been banned by committee, although it sometimes feels that way. Rather, because the old playbook was built for cheap capital, smooth global trade, low geopolitical tension and efficiency at almost any cost. That world has not vanished. But it is no longer the only game in town.

This quarter, our asset allocation remains risk-on with a focus on three structural shifts reshaping portfolios: agentic Artificial Intelligence (AI), China's two-speed equity market, and strategic reindustrialisation. We also frame them against a macro backdrop that is less friendly than the last cycle, but not necessarily hostile.

On monetary policy, a Federal Reserve under Kevin Warsh is likely to be neutral rather than hawkish. That distinction matters. We do not expect rate cuts in 2026, but we also do not see a central bank trying to break the economy for sport. Inflation is likely to remain slightly firmer than the pre-pandemic period. This argues for discipline in fixed income. We are therefore downshifting duration from 5–7 years to 4–5 years, while still recognising that bonds remain useful to stabilise portfolios.

AI: Moving from talk to action

The first structural shift is AI moving from conversation to execution. The first phase of generative AI gave us better answers, faster summaries and emails that sounded like they had been written by a very polite consultant. The next phase is more consequential. Agentic AI is about systems that can plan tasks, use software, retrieve data, flag problems and automate workflows. Put simply, most AI today talks. Agentic AI finishes the work.

AI: Getting physical

That makes the opportunity broader than the AI models themselves. The value sits across software, cloud platforms, cybersecurity, data systems and workflow redesign. It also sits in the physical infrastructure behind AI. Chips still matter, but they are no longer the whole story. Memory, power, cooling, data movement and the ability to run AI closer to end users are becoming just as important. Silicon still matters. It just needs electricity, plumbing and somewhere to sit.

This brings us to the less glamorous but more decisive layer: power grids, cooling systems, data centre equipment and the connections that move huge amounts of data. AI data centres are increasingly constrained by the ability to move data, remove heat and secure electricity. In other words, the AI trade is becoming an infrastructure trade. Silicon needs substations.

China: Tale of two markets

The second shift is China's bifurcated equity market. "China exposure" is not one tidy bucket. Onshore A-shares are increasingly tied to industrial policy, advanced manufacturing, semiconductors, clean technology and domestic innovation. Offshore H-shares remain more exposed to internet platforms, financials, telecoms and energy names.

This explains the performance gap. A-shares are pricing the future Beijing wants to build. H-shares are still wrestling with the business models investors used to love. Platform companies remain important, but they are spending heavily on AI, cloud infrastructure and consumer-service competition. Investors are rightly asking when the bill becomes profit. The answer is not to abandon China. It is to be precise. Hold recovery exposure where valuations are depressed. Add selectively where policy alignment and earnings visibility are stronger.

Autarky: "Just-in-case" is now the default

The third shift is strategic reindustrialisation. For decades, companies optimised supply chains for cost. The new priority is resilience. "Just-in-case" is less elegant than "Just-in-time", but much better when chips run short, ports close or energy routes become geopolitical poker chips. This supports grid infrastructure, power equipment, nuclear, renewables, storage, automation and critical materials. It also raises costs. Resilience is not free. It usually arrives with a larger invoice.

Risks: Capex slow down and inflation

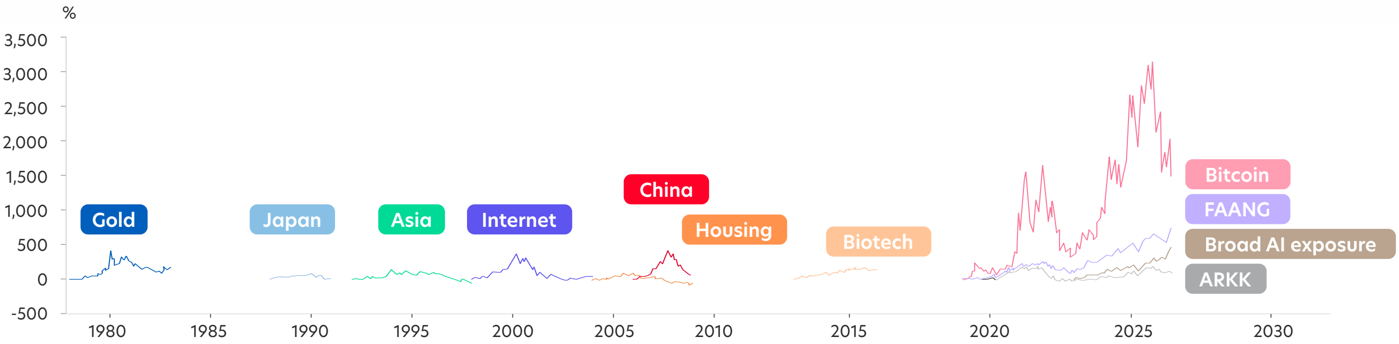
Of course, there are risks. If hyperscalers scale back capital expenditure, the AI infrastructure stack could take a hit. If oil spikes above USD 130 and stays there, central banks could turn hawkish again. That would be a problem. Markets dislike inflation. They dislike policy tightening even more. They especially dislike both arriving together, like uninvited relatives.

Summary: Resilience beats perfection

The common thread is control. Companies want control over workflows. Governments want control over supply chains. Investors want control over risk in a world that keeps refusing to behave.

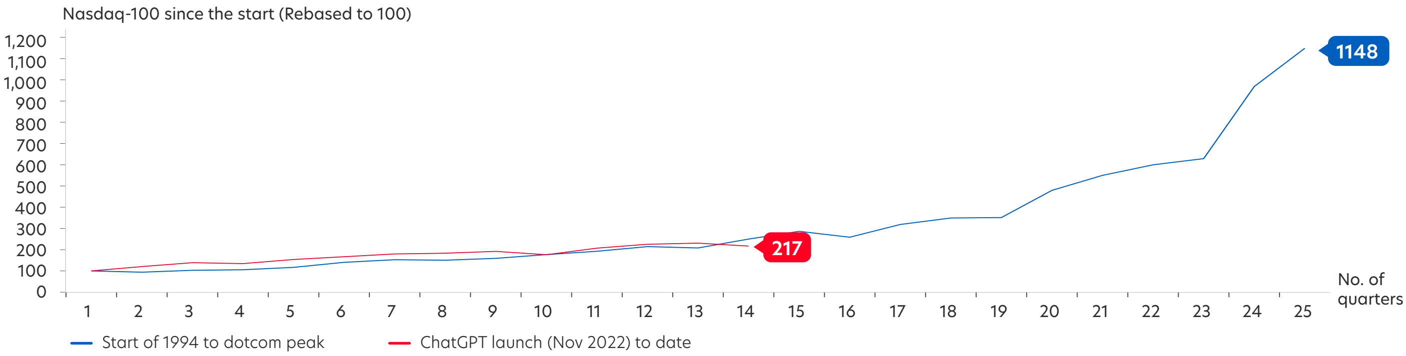
The old world rewarded the leanest system. The new world may reward the one that still works when something breaks. Less elegant. Far more investable. In this cycle, portfolios should be less like sports cars on a perfect highway, and more like off-road SUVs with a full tank and a spare tyre.

History of asset bubbles



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

Nasdaq-100 performance comparison: Today vs 1990s leading up to dotcom peak



Source: Bloomberg, UOB Private Bank
Note: Chart is updated as of 9 June 2026.

Agentic AI:
The move from answering questions to executing work

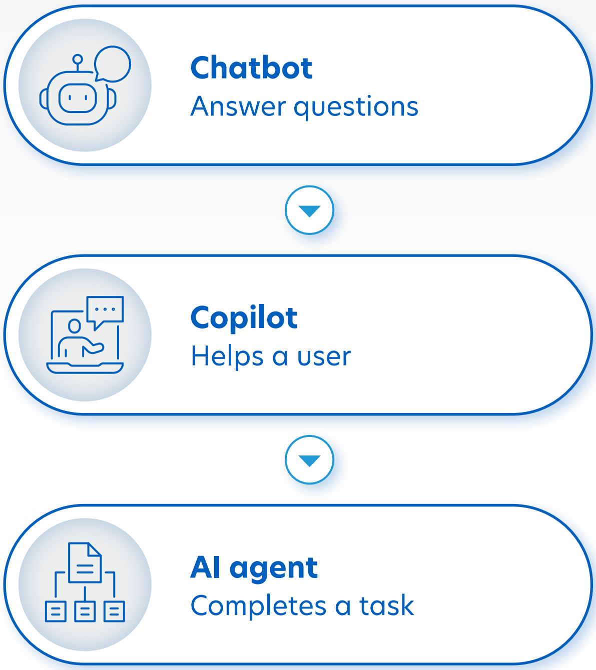
Agentic AI is the next step beyond chatbots

The first phase of generative AI was about content creation, search, summarisation and coding assistance. The next phase is about execution.

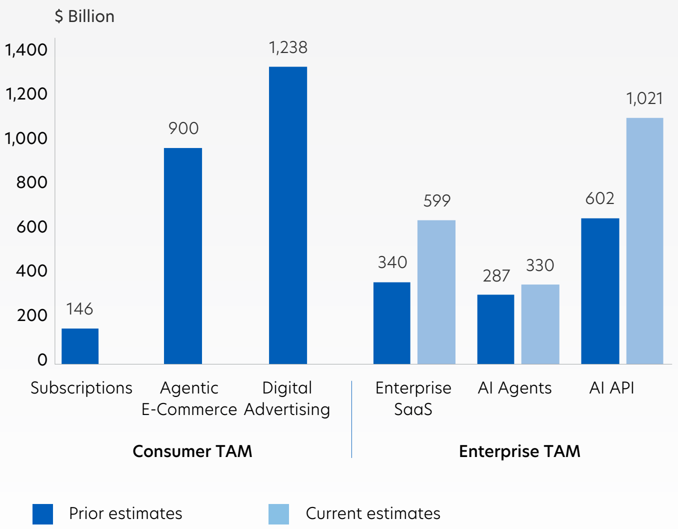
Agentic AI refers to systems that can work towards a defined objective, reason through tasks, interact with software and escalate exceptions. **In simple terms, most AI today talks, while agentic AI acts.**

This distinction matters because enterprises do not only need better answers. They need lower operating costs and faster workflows. The pivot to agentic AI therefore moves AI from a productivity tool (chatbot) to a potential digital worker that is automated. If successful, this is essentially a shift towards a "silicon-based workforce", which is likely to improve enterprise margins and earnings.

We believe this makes agentic AI a structural and long-lasting theme. The market is no longer debating whether enterprises will use AI. The debate is shifting towards where AI can be trusted to act, which workflows can be redesigned, and which platforms will control the orchestration, data and governance layers.

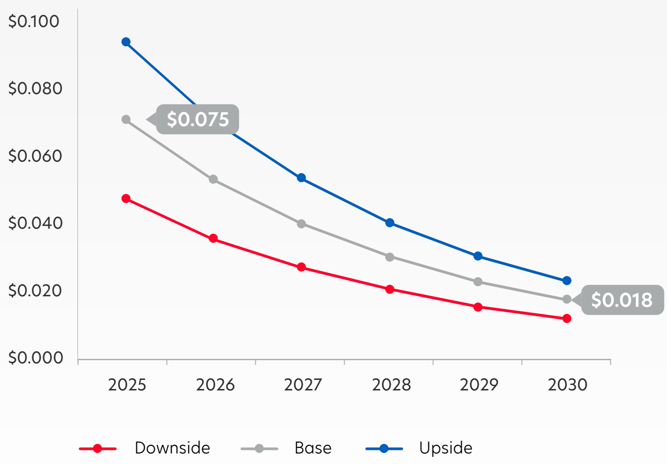


+4.2 Trillion AI TAM in 2030



Source: Citibank, UOB Private Bank

As compute costs/pricing dynamics scale, we also expect cost per query (across a range of bull/bear cases) to reduce materially over time.



Source: Goldman Sachs Global Investment Research

Deployment is early, but the direction is clear

Enterprise adoption is still at an early stage, but the direction of travel is encouraging. Gartner expects 40% of enterprise applications to include task-specific AI agents by the end of 2026, up from less than 5% in 2025. Gartner also projects that agentic AI could drive around 30% of enterprise application software revenue by 2035, in its best-case scenario.

The scale of the opportunity is significant because agentic AI does not sit in isolation. It forms part of a broader enterprise AI stack that includes subscriptions, AI Application Programming Interface (APIs) and workflow automation.

Within this broader opportunity, AI agents represent one of the fastest-growing layers, reflecting the shift from AI as a productivity tool towards AI as an active executor of work.

We are constructive on agentic AI today

We see three conditions converging that strengthen our thesis on agentic AI.

First, the software ecosystem is already mature, with enterprise applications, cloud platforms, APIs, and workflow tools ready to support agent deployment. The “railroads” to deployment are essentially ready.

Second, enterprise demand is shifting from broad AI experimentation towards measurable return on investment (ROI). Agentic AI is the next logical step to improve margins and to showcase the ROI to shareholders.

Third, the cost and capability curve is improving, making it easier to deploy agents in narrow, high-value workflows. Token prices (cost to run AI agents) are also expected to come down further as hardware advances, making the economics of agentic deployment more favourable.

First use cases of agentic AI

We see practical deployment of agentic AI rather than futuristic ideals in the near-term.

Early use cases are likely to be concentrated in customer service, call centres, software engineering, procurement, compliance, research and internal operations. These are areas where workflows are repetitive, data-rich and measurable, making them suitable for controlled agent deployment.

However, as token prices come down over time, we would expect use cases to expand materially into more data intensive areas and thus broadening the reach of agentic AI in enterprises.

Investment implications

We believe that the commercial value of agentic AI sits in the control layers, and the opportunity is broader than the foundational models (ChatGPT, Gemini, Claude) alone.

As such, we see the better investment approach as owning the ecosystem layers that benefit as enterprise agents scale.

Enterprise software and workflow platforms:
We favour companies that can embed agents into existing workflows, especially in customer service, sales, coding, enterprise resource planning (ERP), human capital management (HCM), procurement and compliance.

Cloud, compute and AI infrastructure:
Agentic AI increases inference demand because agents turn single queries into multi-step workflows. They plan, retrieve data, call tools, validate outputs and repeat actions.

This supports cloud platforms, accelerators, networking, memory and data centre infrastructure, although valuations already discount significant AI capex growth.

Security, identity and governance:
As agents gain access to enterprise systems, identity and access management become mission-critical. Agents are essentially "digital insiders" because they may operate with privileged access and make decisions without continuous human oversight.

This should support demand for cybersecurity, access control, monitoring, audit trails and AI governance software.

Data-control and connector layers:
Agents are only useful if they can access the right data, understand context and interact with enterprise systems securely. Companies that own the legacy system integration, data architecture and governance hold the key to deployment of widespread agents.

This makes data platforms, integration software and enterprise search important beneficiaries.

Professional services and workflow redesign:
The bottleneck is not only technology. It is process redesign. There should be an increase in demand reimagining operations for agents, rather than automating existing human workflows.

This should support consulting, systems integration and managed services around AI transformation.

Risks: Trust, cost and execution will decide the pace

The main risk is that enterprises confuse demos with deployment. Many agentic AI pilots work in controlled settings, but production systems require reliability, auditability, access controls, workflow redesign and clear ownership.

Security is the second major risk. AI agents can expose data, misuse tools, escalate privileges or interact with other agents in ways that are difficult to trace.

Cost is another constraint. Agentic systems can be compute-intensive because they require repeated reasoning, retrieval, tool use and validation. If inference costs do not fall quickly enough, enterprises may limit deployment to only the highest-value use cases. This could delay software monetisation and pressure infrastructure returns.

Regulation may also slow adoption in financial services, healthcare and public-sector use cases.

Strategic Reindustrialisation: Supply chains move from efficiency to resilience

"Just-in-time" to "Just-in-case"

The global economy is undergoing a structural shift in how supply chains are designed. For three decades, globalisation prioritised efficiency, consolidation and lowest-cost production.

Today, that model is being replaced by a more resilient framework centred on redundancy, diversification and domestic capability.

Strategic reindustrialisation reflects this transition. Governments and corporations are actively reshaping supply chains to reduce dependency on single regions, particularly in critical sectors such as semiconductors, energy systems and industrial inputs. The result is a move from "just-in-time" to "just-in-case" production models.

We view this as a multi-decade structural trend, not a cyclical recovery theme. The drivers are persistent: geopolitical fragmentation, energy security, decarbonisation and technological change. Once industrial capacity is rebuilt and supply chains are reconfigured, they are unlikely to reverse quickly.

"Old" globalisation model

- Single-country sourcing
- Just-in-time inventories
- Lowest-cost production
- Minimal redundancy
- Free market

"New" globalisation model

- Multi-country and "friend-shored" supply chains
- Higher inventory buffers
- Security of supply over marginal cost
- Government incentives and constraints

Why strategic reindustrialisation is being reinforced now

1) Geopolitical fragmentation is becoming structural

Global trade is increasingly shaped by national security considerations rather than pure economic efficiency. Export controls, trade restrictions and regional alliances are pushing supply chains towards multi-country and "friend-shored" models rather than global optimisation.

2) Middle East conflict highlights energy vulnerability

Recent escalation in the Middle East reinforces a key reality: energy security is exposed to geopolitical shocks. The implication is clear: energy is being treated as a strategic asset, not just a commodity. Countries are accelerating energy independence, shifting towards domestic power capacity, including nuclear and renewables.

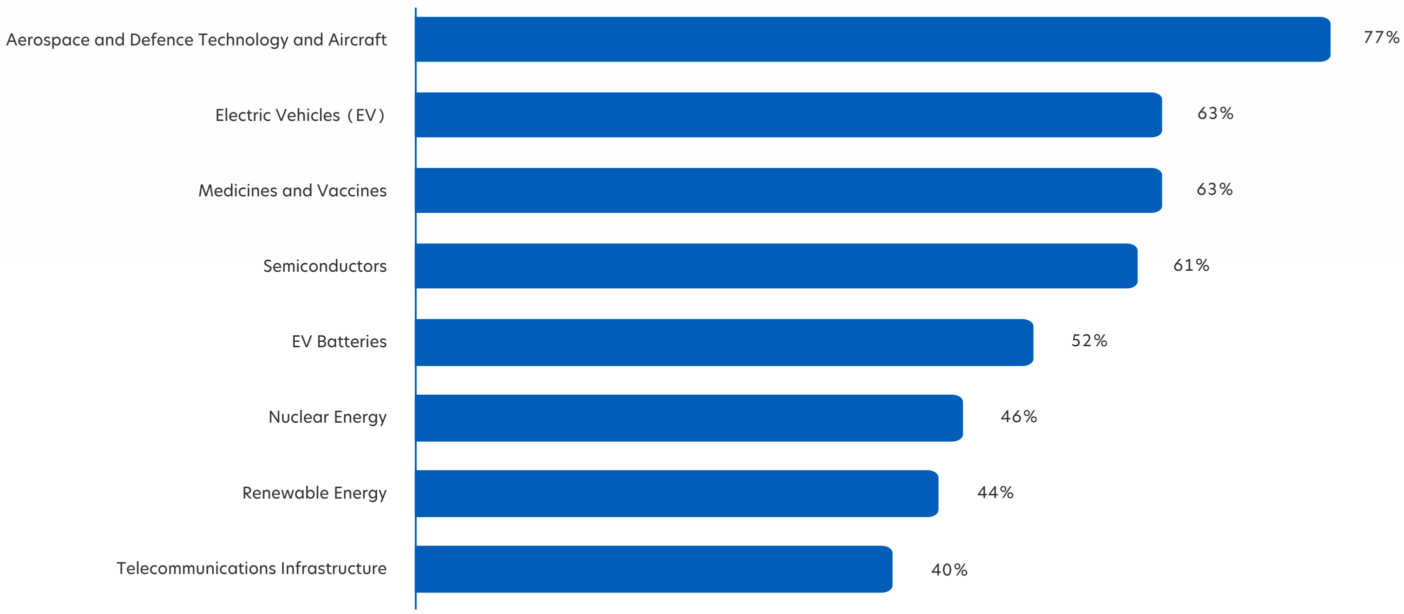
3) Supply-chain shocks have permanently changed behaviour

Recent disruptions from pandemic-era shortages to semiconductor bottlenecks have reshaped corporate risk frameworks. This resulted in a shift from lean inventories to buffer inventory models. Supply chains are now built for resiliency and a "what-if" scenario. As a result, resilience is now embedded into corporate decision making, reinforcing policy driven reindustrialisation.

4) The next phase of growth is likely to be more resource intensive

As industrial reshoring occurs, we see a need for more local energy demand which leads to grid infrastructure spending. This coincidentally ties in with the AI revolution and built out, accelerating the need for critical resources such as copper, lithium and rare earths.

% of organisations that believe it is critical to build sovereign manufacturing capabilities



Source: Capgemini Research Institute, Reindustrialisation executive survey, February 2024, N=1,300 executives.

Investment implications

The shift towards reindustrialisation and supply chain resilience is driving a structurally higher level of capital intensity across the economy. The surge in manufacturing construction spending over the past years also suggests that a significant portion of industrial capacity has already been physically built, and the system is now transitioning into its operational phase.

This transition is critical, as the energy intensity of growth typically rises once facilities come online, rather than during the construction phase.

Power and grid infrastructure: Utilities and electrical equipment providers should benefit as reindustrialisation drives structurally higher and more localised energy demand.

Nuclear, renewables and storage: The focus on energy security is likely to shift investments towards diversification of energy resources outside of oil. This favours nuclear as a source of stable baseload power, alongside renewables such as solar, supported by energy-storage solutions including battery technology.

Industrial automation: Higher labour costs, reshoring and factory modernisation should support demand for automation, robotics, sensors and industrial software.

Critical materials and commodities: We expect the practice of stockpiling to pick up whether in a formal (strategic reserves) or informal (corporate inventory accumulation) capacity.

This can apply to strategic assets like oil, Liquified Natural Gas (Liquefied Natural Gas), copper, lithium, rare earths etc. Such stockpiling behavior is likely to amplify demand cycles and tighten commodity markets, potentially increasing price volatility.

Higher cost base: The shift away from globally optimised supply chains towards localised, redundant, and energy-secure production inevitably raises capital and operating costs.

While this may introduce mild inflationary pressure at the system level, it also changes the investment landscape by increasing the value of assets with scarcity, pricing power, and regulatory support.

Energy infrastructure, grid assets, and critical materials are therefore not only beneficiaries of higher volumes, but also of structurally firmer pricing dynamics in a world where resilience is prioritised over marginal efficiency.

Risks and constraints

While the structural case for reindustrialisation remains intact, the path is unlikely to be linear. We see three risks ahead:

Pipeline risk: Manufacturing construction spending is front-loaded. Future growth depends on continued project announcements and policy support.

Financing constraints: Higher interest rates may limit marginal investment, particularly outside heavily subsidised sectors.

Execution bottlenecks: Labour shortages, permitting delays, and constraints in key equipment (e.g. transformers, grid components) could slow delivery and raise costs.

China:
A tale of two markets

A clear bifurcation has emerged within China equities. Upstream sectors such as energy and materials, together with high-end manufacturing, technology localisation, semiconductors and healthcare, have delivered stronger year-to-date returns than the broader market. Performance has been supported by improving earnings revision momentum, policy alignment, and investor preference for companies exposed to supply-chain localisation, industrial upgrading and “new quality productive forces”.

By contrast, offshore China stocks have lagged. Their index structures remain heavily concentrated in large-cap internet platforms, financials, telecoms and energy names, while being structurally underweight the A-share listings where many of the outperforming sectors are concentrated. This has created a widening gap between the China exposure captured by onshore and offshore indices. Put simply, A-shares are increasingly pricing industrial policy and domestic innovation, while H-shares remain more exposed to platform capex cycles, consumer demand uncertainty and legacy index composition.

At the same time, China’s initial public offering (IPO) market is undergoing a structural revival. Hong Kong raised around HKD 280 billion, or approximately USD 35 billion, in 2025, more than doubling YoY, while both mainland and offshore issuance rebounded on policy support and renewed demand for technology-sector listings. The recovery in primary markets is not merely cyclical. It reflects a broader reorientation of capital markets towards strategic sectors, particularly hard technology, advanced manufacturing, AI, semiconductors and biotech.

H-share pipeline

Hong Kong’s IPO pipeline has expanded meaningfully, supported by mainland A+H dual listings and the potential return of Chinese American Depositary Receipts (ADRs). Momentum is expected to continue into 2026, with fundraising potentially exceeding HKD 300 billion, or roughly USD 38–40 billion, signalling a return to globally significant issuance volumes.

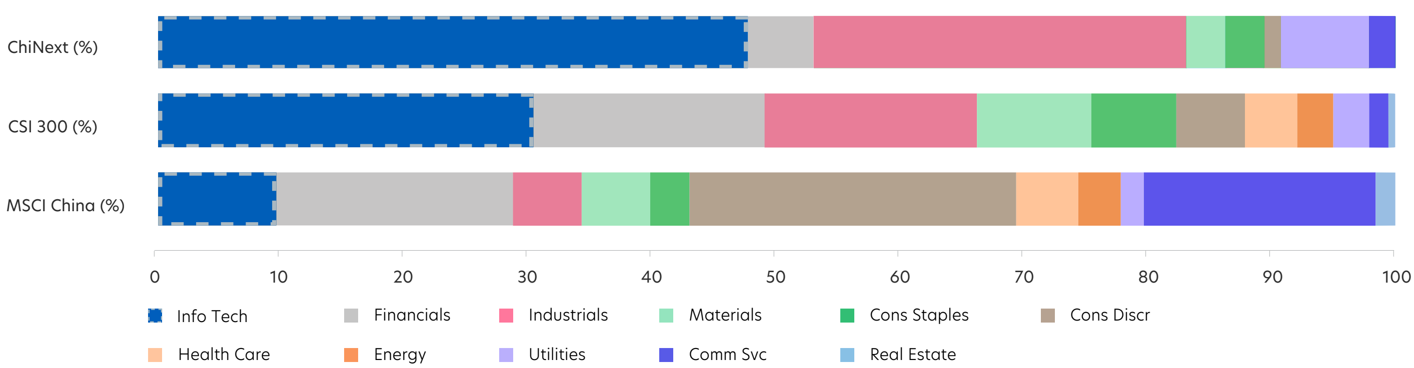
Investor demand remains robust. Large IPOs and high-growth technology listings continue to attract strong subscription levels, reflecting ample liquidity and sustained appetite for China growth exposure. The key question is whether this demand can remain deep enough to absorb a heavier issuance calendar without pressuring secondary-market performance.

A-share pipeline

Onshore markets are also reaccelerating following regulatory recalibration. Reforms across the STAR Market and ChiNext have explicitly targeted hard-tech and innovation sectors, reinforcing the role of domestic exchanges as funding channels for national industrial priorities.

A key development is the introduction of a “growth tier” on the STAR Market, designed to support pre-profit companies in semiconductors, AI and biotech. This effectively reopens IPO pathways for early-stage technology firms that may not yet meet traditional profitability thresholds but remain strategically important. These reforms mark a structural shift. China’s capital markets are becoming more directly aligned with Beijing’s industrial policy priorities, particularly technological self-sufficiency and domestic supply-chain resilience.

Chinese indices technology exposure



Source: Bloomberg, UOB Private Bank

A vs. H performance divergence

A- and H-shares have diverged this year because they are now pricing different China exposures. Onshore A-shares, especially growth indices such as ChiNext, are tilted towards hardware, industrial upgrading and "new quality productive forces": power equipment, communications, electronics, semiconductors and advanced manufacturing. These companies benefit directly from policy support, domestic liquidity and the market's willingness to pay for supply-chain localisation and AI infrastructure winners.

H-shares, by contrast, are dominated by large platform, financial, telecom and energy names. Tencent and Alibaba alone are major Hang Seng China Enterprises Index (HSCEI) weights, alongside banks, insurers, oil majors and telcos. The platform companies are no longer being valued simply as asset-light compounders. They are in a heavy investment cycle, spending aggressively on AI models, cloud infrastructure, chips and quick-commerce or consumer-service competition. Alibaba has committed large AI/cloud capex and quick-commerce investment, while Tencent has signalled substantially higher AI capex after 1Q 2026.

That matters because investors are questioning the payback period. H-share platforms are fighting for end-consumer wallets in e-commerce, gaming, advertising, cloud and local services, while margins are being diluted by capex and subsidies. A-shares, meanwhile, often house the upstream beneficiaries of that spend. That is the cleaner reason for the split.

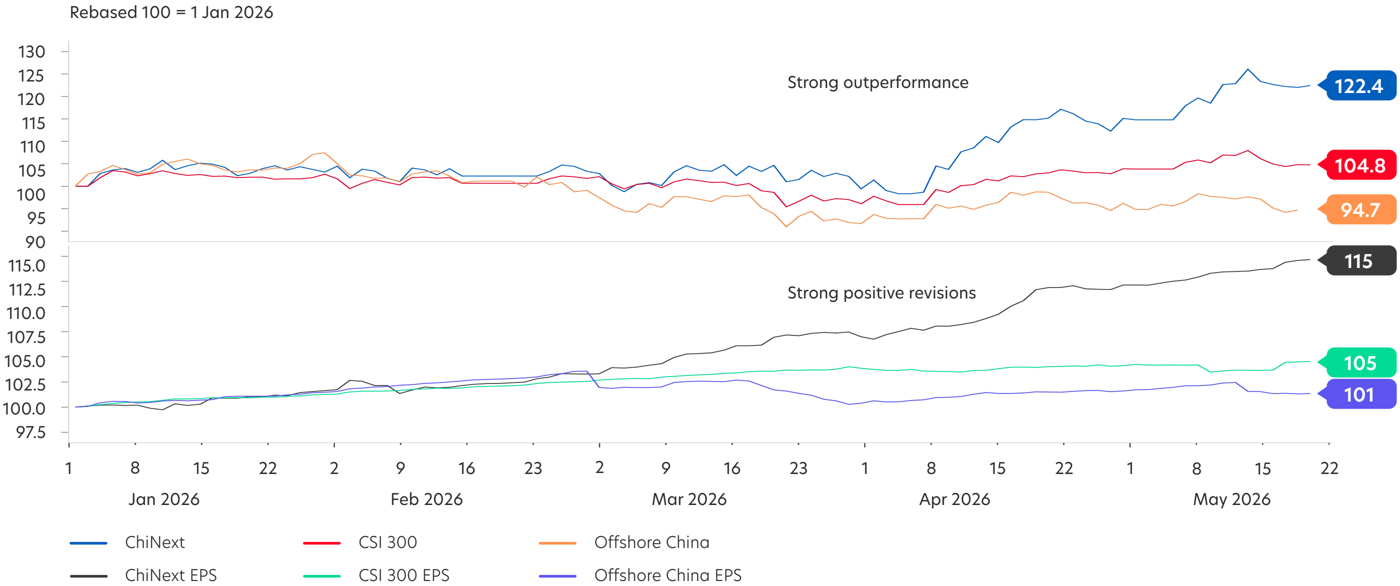
How to position for China equities?

The pipeline of AI and hard-tech listings on STAR and ChiNext is likely to sustain a structural premium for A-share growth sectors. However, HSCEI investors do not need to exit positions at current levels, given still-depressed valuations relative to global peers and visible earnings catch-up potential as policy support, capital flows, and margin normalisation gradually filter through. The index remains under-owned and cyclically geared, suggesting asymmetric upside if even modest improvements in growth, property stabilisation, and external demand materialise over the next 6–24 months; this underpins a hold stance rather than capitulation at trough-like multiples.

That said, incremental capital is better deployed selectively into ChiNext, where structural growth drivers such as advanced manufacturing, clean technology, and domestic innovation remain intact, earnings visibility is higher, and policy alignment is stronger, offering superior medium-term compounding potential despite higher volatility, thereby creating a barbell allocation between value recovery and growth leadership.

The key risk is supply absorption. If IPO issuance accelerates faster than investor demand, secondary-market liquidity could come under pressure, particularly in smaller-cap growth segments. That would challenge the valuation premium currently being assigned to A-share hard-tech and innovation names.

Chinese indices performance



Source: Bloomberg, UOB Private Bank

Portfolio Strategy

Asset Class Summary

Asset Classes	U/W	N	O/W	Comments
Equities			●	**Stay Overweight. Corporate earnings backdrop remains supportive. Buy quality stocks on dips.**
United States			●	Stay Overweight. Focus on the AI infrastructure stack. Diversification remains key.
Europe		●		Stay Neutral. See selective opportunities in areas like AI infrastructure and utilities amid modest growth.
Japan		●		Stay Neutral. See structural tailwinds but cyclical risks. Favour companies riding on fiscal-policy driven themes.
EM Asia			●	Stay Overweight. Tech-led earnings upgrades are expected to persist while valuations are undemanding relative to DM peers.
Fixed Income		●		**Stay Neutral. Stay opportunistic on recent credit spread widening. Prefer an average duration of 4-5 years.**
DM IG			●	Stay Overweight. Optimise for portfolio resilience amid recent bond sell-off while reinforcing quality in a repriced world.
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		●	← ○	Downgrade to Neutral. Beyond near-term inflation risks, Gold can thrive on safe-haven demand and continued central bank allocation.
Money Market		●		**Stay Neutral. 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 3Q 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			30.0		50.0		65.0		75.0		
Fixed Income	90.0		65.0		42.5		27.5		17.5		Avg. duration: 4 to 5 years
Money Market	10.0		5.0		7.5		7.5		7.5		

Notes:

- "Chg." means 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 might not add up due to rounding off to 1 decimal place.

Our View of the World

Economy

- Global economic growth is expected to slow modestly due to higher energy costs, but remains supported by resilient United States (US) demand and continued investment in artificial intelligence (AI).
- We expect US gross domestic product (GDP) growth at 1.7% in 2026. The US economic backdrop remains K-shaped. Higher-income households and corporates continue to benefit from supportive policies and AI-driven investment, while lower-income households face rising prices, softer labour market conditions, and limited wealth accumulation.
- For China, we maintain our 2026 GDP growth forecast at 4.7%. Industrial production and exports are expected to remain key growth drivers. Strong first-quarter growth of 5.0% year-on-year (YoY) provides a buffer against a likely moderation in the second quarter.

Monetary Policy

- We expect the Federal Reserve (Fed) to keep interest rates on hold through 2026. Monetary policy easing is projected to resume only in 2027, with two rate cuts anticipated in the second and fourth quarters of 2027, bringing the upper-bound policy rate down to 3.25% once inflationary pressures fade.
- The European Central Bank (ECB) has delivered a rate hike in June, driven by persistent inflation concerns. Beyond this, the policy path is likely to turn more cautious as tighter long-end financial conditions weigh on growth.
- China's monetary policy is expected to remain moderately accommodative, relying on small targeted easing measures rather than broad-based stimulus.
- In Japan, following a rate hike in June, we expect the Bank of Japan (BOJ) to keep policy unchanged in the near term before delivering another 25 basis points (bps) rate hike in the fourth quarter of 2026 and again in the second quarter of 2027, bringing the terminal rate to 1.50%.

Inflation

- Global inflation has picked up again in 2026, largely driven by higher energy prices and broader price pressures across goods, services and supply chains.
- We have revised our 2026 US inflation forecasts higher, with headline inflation projected at 3.7% and core inflation at 3.0%, reflecting persistent price pressures from energy and services. We expect a meaningful moderation only from 2027.
- China's inflation is likely to edge mildly higher as deflationary pressures gradually ease. Meanwhile, Southeast Asian economies may experience stronger price pass-through due to their sensitivity to energy costs and imported inflation.

Asset Allocation

- Stay Overweight on Equities, supported by resilient corporate earnings and continued investment in artificial intelligence. In particular, we maintain an Overweight view on US equities, with opportunities across the AI ecosystem such as data centres, chips, and related infrastructure. We also see value in sectors that benefit from economic activity and investment trends, including financials, industrials, and materials.
- Stay Overweight on Emerging Market Asia, especially North Asia. We are constructive on China's technology sector and high dividend stocks, while semiconductor leaders in Korea and Taiwan should benefit from ongoing AI demand. Within ASEAN, we prefer Singapore equities.
- We maintain a neutral view on Fixed Income. While yields are reasonably attractive, credit spreads are tight, limiting upside potential. We therefore suggest keeping duration moderate at around 4 to 5 years to manage interest rate risk.

Equities

United States

Earnings take the lead

Stance: We retain an overweight position on US equities heading into the second half of 2026, supported by resilient corporate earnings growth, steady macroeconomic momentum, and continued investment in AI infrastructure.

Strong corporate earnings in the first quarter have reinforced confidence in the market, while early signs of AI monetisation further strengthen the outlook for US corporate profits. Although AI-related capital expenditure remains a key driver, its benefits are increasingly spreading across a wider range of sectors.

However, with the Fed now expected to remain on hold through the rest of 2026, further upside in the US stock market is likely to depend less on valuation expansion and more on the delivery of earnings, margin discipline, and a broader participation across sectors. As a result, markets may become more sensitive to negative developments including geopolitical risks.

In this environment, investors should avoid chasing overbought names and instead keep capital ready to deploy during periods of market weakness. Key risks include rising bond yields, Middle East tensions, elevated oil prices, margin pressures, and a potential slowdown in AI hyperscaler spending.

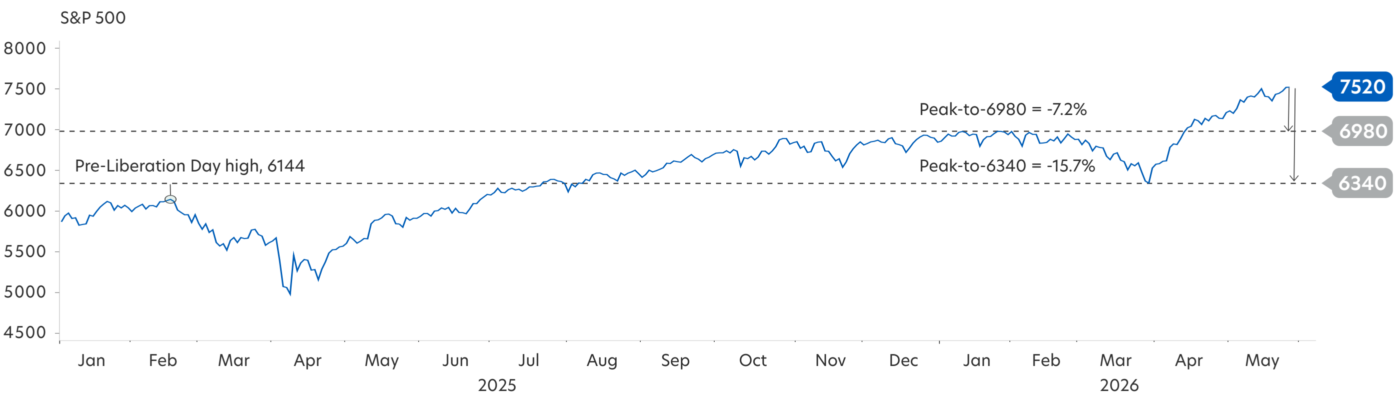
Macro and policy backdrop

Fed policy: We expect an extended interest rate pause through the remainder of 2026, with policy easing expected only in 2027 once inflationary pressures fade. The upper bound of the Fed Funds Target Rate (FFTR) is likely to remain at 3.75% through end-2026, before two potential rate cuts in 2027 bring it down to 3.25% by end-2027. At the June policy meeting, new Fed Chair Warsh signalled a cautious approach with a clear commitment to ensuring stable inflation, and Fed officials are now clearly split with 9 expecting at least one rate hike, 8 expecting no change, and one projecting rate cuts this year.

Inflation: Inflation remains a key concern. Price pressures have picked up more than expected, with May headline consumer price index (CPI) rising to 4.2% YoY and core CPI to 2.9% YoY. Our 2026 inflation forecasts have been revised higher to 3.7% for headline inflation and 3.0% for core inflation. Energy prices and geopolitical developments will dictate whether inflation rises more than we currently expect.

Growth: Despite these pressures, US economic growth is expected to remain resilient. Consensus forecasts point to GDP growth of 1.7% for 2026, supported by AI-driven investment and productivity gains. That said, higher energy costs may serve as potential headwinds.

Technical levels on S&P 500

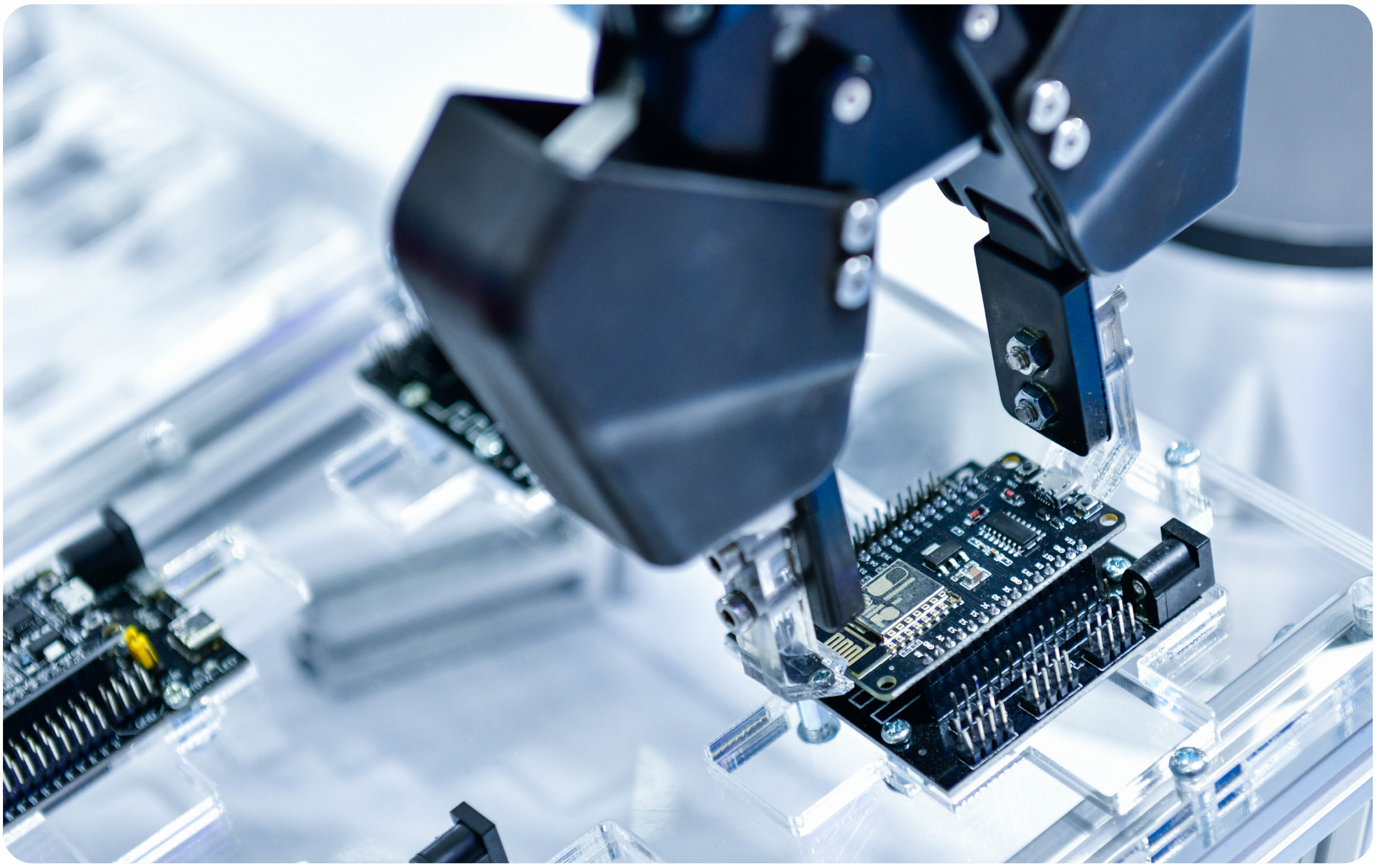


Source: Bloomberg, UOB Private Bank

Earnings and valuations: Tech and growth carry the earnings cycle

Earnings dynamics: Looking ahead, corporate earnings are expected to remain the primary driver of equity market performance. Consensus estimates point to low 20% growth in S&P 500 earnings per share (EPS) for 2026, supported by resilient revenue growth, improving earnings revisions, and ongoing cost discipline. Importantly, earnings growth is beginning to broaden beyond mega-cap technology names, as more companies benefit from operating leverage, cost control, and early AI-driven productivity gains. However, EPS growth is likely to moderate in 2027 due to the higher base set this year by leading technology and semiconductor companies.

Valuations: While valuations are elevated, it is not excessive and remains supported by strong earnings. As of late May 2026, the S&P 500 is trading at around 20.8x 12-month forward price-to-earnings (P/E), above its 10-year average of 19x. While this premium appears justified, further upside in valuations will depend heavily on continued robust earnings given a higher-for-longer interest rate environment.



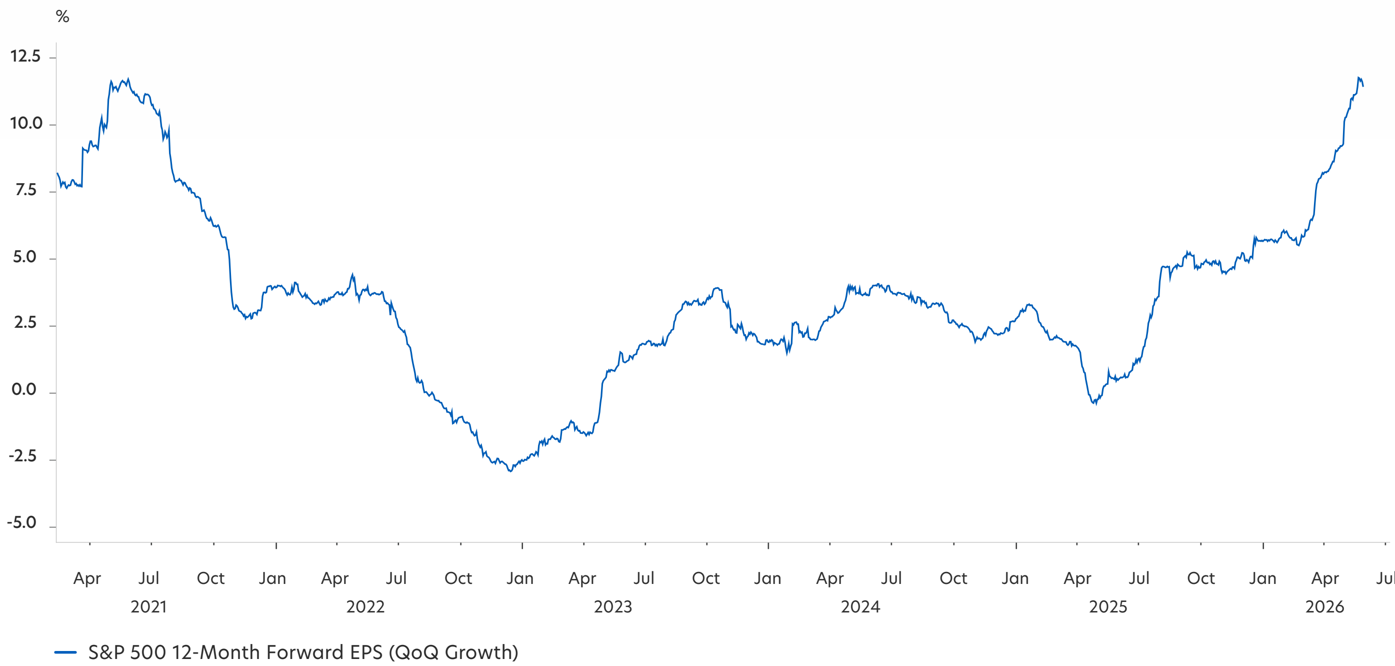
Investment strategy

The US equity outlook remains constructive, supported by strong earnings delivery and AI-related growth. Growth and technology sectors are expected to continue the positive momentum, particularly companies exposed to AI infrastructure, cloud computing, semiconductors, and data centre investment. However, elevated valuations leave these segments vulnerable to short-term corrections on disappointing news. Given the high concentration in the market, diversification remains critical.

The prudent strategy for the second-half of 2026 is to keep capital ready to deploy during market weakness. Investors who missed the rally since April should avoid chasing overbought stocks and instead adopt a more measured strategy by gradually building positions during periods of consolidation. While growth and technology stocks, like AI infrastructure, cloud, semiconductor, and data centre beneficiaries, should remain key holdings, portfolios should also broaden exposure to quality stocks in other sectors with supportive fundamentals. The industrials sector stands out given multi-year tailwinds from electrification, defence spending, and supply-chain reshoring. Financials, particularly investment banks, could benefit from improving capital markets activity and a potential rebound in large IPOs. Healthcare also offers attractive defensive characteristics, alongside potentially improved earnings.

Key risks: Rising bond yields could pressure stock valuations by tightening financial conditions. A prolonged Middle East conflict may keep oil prices elevated, adding to inflationary pressures and weighing on corporate profit margins. In addition, elevated leverage remains a point of vulnerability in a higher-for-longer interest rate environment. Finally, any slowdown in hyperscaler spending could disrupt the AI supply chain, potentially weakening a key driver of earnings.

S&P 500 companies have mostly been beating EPS expectations



Source: Bloomberg, UOB Private Bank

CIO's Recommendation

We retain an overweight position in US equities for the second half of 2026, supported by resilient earnings, AI capex and steady growth despite an extended Fed pause.

Europe

Neutral with targeted opportunities

Stance: We maintain a neutral view on European equities heading into the second-half of 2026. While the region continues to demonstrate resilient macroeconomic fundamentals and retains exposure to several attractive structural growth themes, the absence of a broad-based earnings recovery and persistently elevated core inflation will likely limit the upside for European stock markets.

The investment landscape in Europe remains highly unique and distinctive, with pronounced dispersion across sectors and companies. Structural growth areas such as AI infrastructure, energy transition, and defence modernisation continue to offer compelling opportunities. However, beyond these pockets of strength, broader market conditions face headwinds from lingering inflationary pressures, potentially higher interest rates, and structural strains in the manufacturing sector.

European equity market gains are concentrated in select sectors and companies, and this requires investors to adopt a selective approach rather than passive regional exposure.

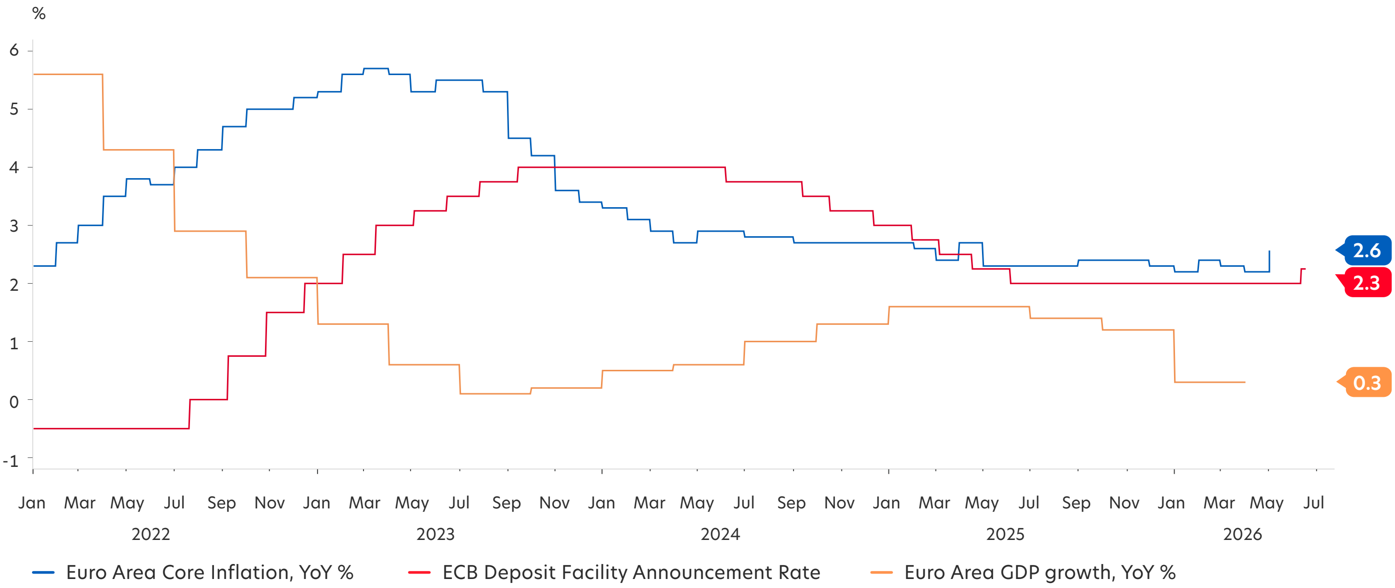
Macro and policy backdrop

ECB policy: Despite weak Eurozone economic growth, persistent inflation will likely trigger a measured response from the ECB. The ECB policy outlook for the second half of 2026 has shifted away from expectations of a prolonged pause to the likelihood of tighter monetary policy. The central bank delivered a 25 bps rate hike in June, lifting the deposit facility rate from 2.00% to 2.25%.

Inflation: Eurozone inflation is projected to rise towards 3.0% by the fourth quarter of 2026 before gradually moderating to 2.0% in 2027.

Growth: The European Commission has revised its 2026 Eurozone GDP growth forecast down to approximately 0.9%, reflecting the impact of renewed geopolitical tensions and elevated energy prices. While consumer spending continues to provide some support, structural challenges in Germany's industrial sector remain a drag on overall economic activity. This weakness is partly offset by relatively stronger, service-led growth in Southern European economies.

ECB needs to strike a delicate balance in its rates management amid lackluster Euro GDP growth



Source: Bloomberg, UOB Private Bank

Earnings and valuations: Stable growth but narrow leadership

Earnings dynamics: European corporate earnings have demonstrated resilience but limited momentum in the first quarter of 2026. The earnings divergence across sectors was pronounced. Companies with strong pricing power have been able to protect profit margins despite higher costs, while more cyclical and commoditised sectors continue to face pressure from elevated input costs and weaker pricing power.

Looking ahead, earnings growth is expected to remain stable but modest, with consensus forecasts pointing to 6% to 8% growth in 2026. However, this growth will likely be uneven across sectors, with leadership concentrated in key structural areas such as AI-related investment, electrification, and defence. Earnings growth for traditional cyclical sectors are expected to lag, particularly in an environment of subdued growth and persistent cost pressures.

Valuations: The Stoxx Europe 600 trades around 15x 12-month forward P/E, which is near the 10-year average. This represents a valuation discount to US peers due to weaker structural growth and limited tech exposure. We view current valuations as fair, but the absence of a clear catalyst for earnings acceleration may limit the upside for European equities.

Investment views

We favour AI infrastructure opportunities, alongside structural growth areas such as the clean energy transition and defence, where enduring themes like digitalisation, decarbonisation, and national security, continue to underpin demand and support sustained corporate earnings.

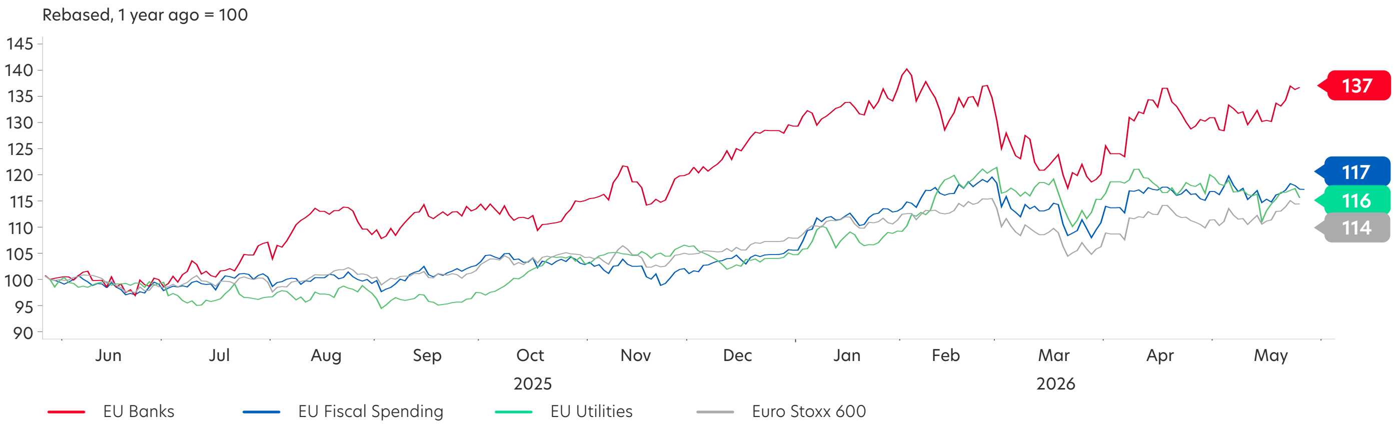
The AI infrastructure segment continues to stand out, supported by Europe's leadership in semiconductor equipment, advanced lithography, and data-related technologies.

The utilities and power infrastructure sector also offers an attractive combination of defensive characteristics and structural growth. Ongoing investments in renewable energy, grid modernisation, and power generation is supporting long-term earnings visibility, while relatively stable cash flows and attractive dividend yields enhance the sector's appeal in a higher interest rate environment.

In addition, the defence sector is benefiting from a structural increase in government defence spending driven by ongoing geopolitical uncertainty and a shift towards a multipolar world. Within this backdrop, defence companies are well positioned to capture sustained demand and earnings growth.

Overall, we hold a neutral view on European equities given persistent macro headwinds and a narrow participation in the market rally. Outperformance is increasingly driven by selective exposure to structural areas, and investors should prioritise defensive value names that offer strong and consistent dividends and earnings resilience, while selectively increasing exposure to high-quality structural growth companies that can deliver sustained earnings expansion. Geographically, we favour peripheral markets like Italy and Spain over Germany where structural challenges in the industrial sector will weigh on growth and earnings.

Stick to the winning themes



Source: Bloomberg, UOB Private Bank

CIO's Recommendation

We maintain a neutral outlook on European equities heading into the second half of 2026, as improving macro conditions are offset by persistent structural constraints.

Japan

Supportive structural reforms but selective approach is warranted

Stance: We maintain a neutral outlook on Japanese equities heading into the second half of 2026. While ongoing structural reforms continue to underpin the medium-term investment case, elevated valuations and high energy prices warrant a more selective approach.

Following strong year-to-date performance, stock valuations have risen to multi-decade highs, excluding the pandemic period. This reflects improvements in earnings quality, enhanced corporate governance, and sustained reform momentum. However, the higher valuation base leaves the Japanese equity market more vulnerable to potential monetary policy tightening and external shocks, particularly amid an uncertain geopolitical backdrop and uneven global growth.

Japan's investment narrative is increasingly evolving beyond a cyclical recovery towards structural transformation. Key drivers include continued progress in corporate governance reform, a stronger focus on economic security, efforts to enhance supply-chain resilience, and ongoing technological innovation. These structural tailwinds are supporting more durable earnings growth and companies are now more effective in using shareholder capital to generate net income. While this reinforces the attractiveness of Japanese equities, we feel that stock selection will become increasingly important in the months ahead.

Macro and policy backdrop

The Japanese government's economic strategy is firmly focused on strengthening national resilience and supporting strategic industries. Core priorities include economic security, supply-chain resilience, and the development of AI-related infrastructure. These initiatives are expected to drive sustained investment across key sectors, including semiconductors, advanced manufacturing, and communications infrastructure.

BOJ policy: The BOJ raised its policy rate by 25 bps to 1.00% in June, the highest in 31 years. The BOJ warned that the impact of higher oil prices is accelerating and could broaden into consumer inflation, while medium- and long-term inflation expectations continue to rise. The BOJ signalled it will keep raising interest rates ahead although the path will be contingent on inflation and Middle East developments. We expect the BOJ to keep policy on hold in the interim before delivering another 25 bps rate hike in the fourth quarter of 2026 and a final 25 bps hike in the second quarter of 2027 to 1.50%, which we expect to mark the end of the current tightening cycle.

Inflation: Inflation is expected to average around 2.0% for the year, though it could trend higher if geopolitical tensions, particularly in the Middle East, continue to push up energy prices.

Growth: Japan's real GDP growth is projected at 1.0% for 2026, with risks tilted to the downside due to weak private consumption and elevated energy prices.

Prefer sectors with structural tailwinds (semiconductors, governance winners and reflation beneficiaries)

Source: Goldman Sachs, Bloomberg, UOB Private Bank

Earnings and valuations: Resilient profits despite external shocks

Earnings dynamics: On the earnings front, corporate profitability remains resilient despite a more challenging external environment. Consensus expectations point to low-teens EPS growth for the TOPIX in 2026, supported by stronger pricing power, continued wage growth, and ongoing corporate restructuring and productivity gains. However, rising input costs and geopolitical uncertainty could weigh on profit margins.

Valuations: The TOPIX is currently trading at around 17.2x 12-month forward P/E, above its 10-year average of 14.9x. As the BOJ gradually normalises interest rates, there is a potential scenario where corporate earnings grow but stock prices stay flat or drop. That said, fiscal policy remains supportive. Prime Minister Takaichi's expansionary policy stance, reinforced by her strong electoral mandate, is expected to provide continued support to both corporates and consumers, helping to underpin stock valuations.

Investment strategy

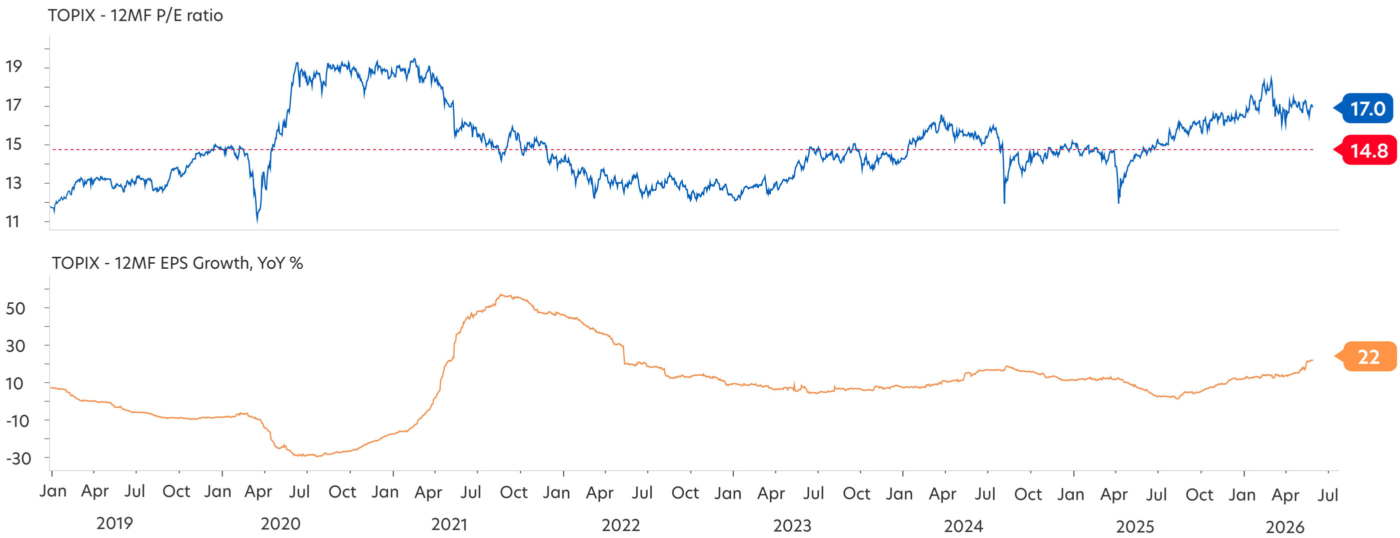
Japanese equities continue to benefit from structural reforms, strategic industrial investment and improving corporate profitability. However, persistent volatility in energy prices and the Japanese Yen, and moderate economic growth may limit the upside for stocks. Hence, we retain a neutral outlook on Japanese equities, taking a selective approach that focuses on companies aligned with Japan's fiscal policy priorities, improved corporate governance and shareholder returns, as well as critical components of global AI infrastructure.

Companies aligned with the global AI and semiconductor cycle remain well positioned, particularly those involved in semiconductor equipment and advanced manufacturing.

In addition, Japan is entering a significant infrastructure renewal phase, as ageing assets from previous decades require replacement. This is supported by a sizeable national resilience budget exceeding JPY 5 trillion, providing a strong pipeline of infrastructure spending and investment opportunities.

Finally, the government's focus on economic security and strategic industries is expected to sustain investment across sectors such as aerospace, telecommunications, and cybersecurity. These areas are likely to benefit from long-term policy support and increasing capital allocation.

Elevated equity valuations relative to the 10-year average; selective approach is warranted



Source: Bloomberg, UOB Private Bank

CIO's Recommendation

We maintain a neutral outlook on Japanese equities heading into the second half of 2026. Ongoing structural reforms continue to offer support, but a selective approach is warranted.

Emerging Asia

Tech leadership to solidify gains

Stance: We retain an overweight stance on Emerging Market Asia (EM Asia) equities heading into the second half of 2026. This is due to a combination of structural resilience and improving corporate fundamentals. In contrast to developed markets where valuations are higher, EM Asia offers a more compelling risk-reward profile. The region benefits from self-sustaining domestic growth, supportive monetary policy settings, and relatively attractive valuations.

The growth outlook for EM Asia remains one of the most dynamic globally. This is driven by a combination of rising domestic consumption and ongoing structural transformation across key economies. In ASEAN, rising middle-class income levels continue to support consumption, while sustained foreign direct investment reinforces growth momentum. At the same time, China is undergoing an economic transition away from property-driven growth towards higher-value sectors such as advanced manufacturing, technology, and consumer services. Across North Asia, South Korea and Taiwan continue to benefit from strong demand linked to AI and semiconductors, which is driving earnings momentum and industrial activity.

Singapore continues to stand out as a defensive and high-quality market within the region, serving as a gateway to ASEAN growth. Its strong financial sector, consistent capital inflows, and expanding role in digital and infrastructure investment provides stability while still offering exposure to regional upside.

Taken together, these dynamics support a constructive outlook for EM Asia equities, particularly in sectors aligned with structural growth trends such as technology and innovation.

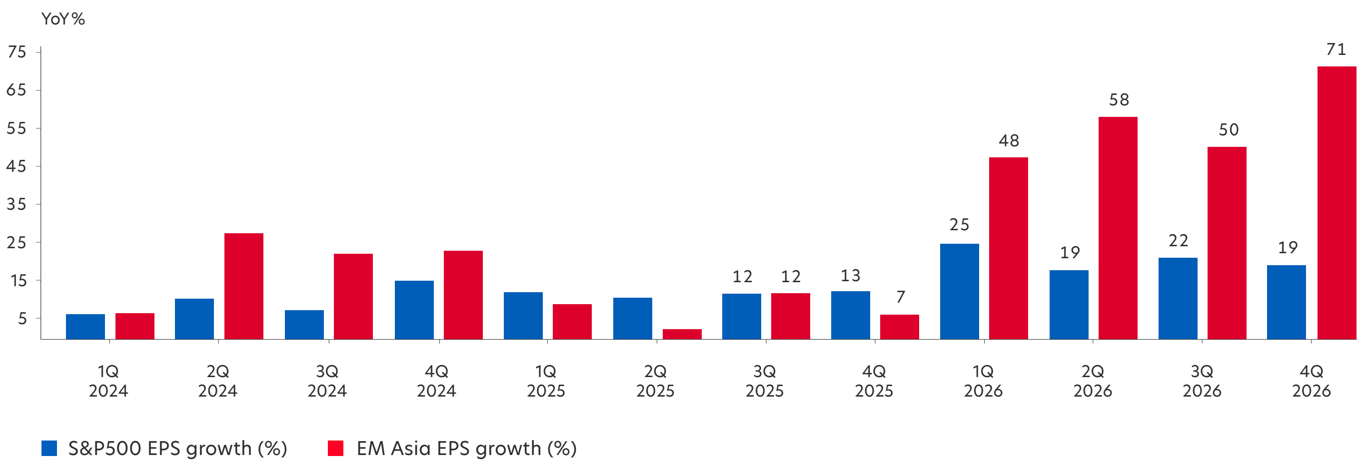
Macro and policy backdrop (China)

Growth: China's economy delivered stronger-than-expected growth of 5.0% YoY in the first quarter of 2026, providing a buffer against a likely moderation in subsequent quarters. Full-year growth is expected to ease to around 4.7%, reflecting a deliberate shift towards a more sustainable and higher-quality growth model. While high-tech manufacturing continues to benefit from strong global demand, particularly in AI-related sectors, broader industrial activity has softened, and the property market remains under pressure with clear divergence between stronger top-tier cities and weaker lower-tier markets.

China's realignment: China's policymakers are actively redirecting capital away from property speculation towards advanced manufacturing, digital infrastructure, and green technologies, the "New Productive Forces". This transition reflects a strategic move away from highly leveraged, investment-heavy growth towards more sustainable and higher-margin economic activity.

China's monetary policy: China's central bank (PBOC) is expected to maintain a moderately accommodative stance to support the recovery in consumption. While earlier expectations were of potential rate cuts, we no longer expect the PBOC to cut interest rates this year. The current view is that policymakers will rely more on fiscal measures to cushion the impact of the Middle East conflict on the Chinese economy.

EM Asia poised for outperformance on strong earnings growth and undemanding valuations



Source: Bloomberg, UOB Private Bank

Earnings and valuations: Tech-led earnings growth

Earnings dynamics: Consensus estimates point to strong earnings growth for EM Asia over the next twelve months, although the pace of upgrades is expected to moderate. Technology-related sectors continue to be the primary drivers of earnings growth, underpinned by sustained demand for AI and high-performance computing. Within this, the memory chip cycle remains a critical theme. Tight supply conditions in high-end memory chips, combined with strong demand from hyperscalers, have led to rising prices and significant earnings growth for producers.

At the country level, South Korea and Taiwan are leading the earnings upgrade cycle, supported by strong semiconductor exports, improving manufacturing activity, and rising memory prices. In comparison, China's earnings outlook is more moderate but remains supported by its structural transition. The shift towards higher-quality sectors is expected to provide a more stable and resilient earnings base over time, even as overall growth moderates.

Valuations: EM Asia equities remain attractive relative to developed market peers. The MSCI EM Asia Index is trading at approximately 12.1x 12-month forward P/E, while the HSCEI is around 9.4x (as of 26 May 2026). These levels represent a meaningful discount to developed markets despite the region's strong growth prospects. While the recovery path may be gradual and uneven, particularly given external uncertainties, current valuations provide attractive entry opportunities for investors with a medium-term horizon.

Investment strategy

We favour an approach that combines exposure to structural growth themes like high-quality AI/tech leaders and sectors with sustainable dividends.

High-quality technology and semiconductor leaders, particularly in Taiwan and South Korea, remain well positioned to benefit from sustained AI demand and improving earnings outlook, supported by a shift towards longer-term contracts.

In China, opportunities are centred on sectors aligned with policy priorities like AI, semiconductor capabilities, advanced manufacturing, technological self-sufficiency, industrial automation, and electric vehicles. At the same time, incorporating high-quality companies with stable dividend profiles can help provide income and mitigate volatility.

Singapore stands out as a stable and high-quality market within the region. Its strong financial system, steady inflow of foreign capital, and growing wealth management sector continues to support economic resilience. At the same time, ongoing investments in digital infrastructure further strengthens its role as a regional hub. Together, these factors make Singapore a reliable gateway for investors seeking exposure to ASEAN's growth opportunities.

Key risks: Geopolitical tensions and higher energy prices could lead to periods of market volatility. There is also a risk that global demand for technology could slow once the current investment cycle matures, which may temper earnings growth in key sectors such as semiconductors.

CIO's Recommendation

We retain an overweight stance on EM Asia equities, supported by strong earnings growth, structural leadership in technology, and attractive valuations compared to developed markets. Within ASEAN, we favour Singapore equities.

Fixed Income

Developed Markets Investment-Grade

Reducing duration, reinforcing quality in a repriced world

Developed Markets Investment Grade (DM IG) bonds entered 2026 on a solid footing. Although valuations were relatively high, they were supported by strong corporate earnings, healthy balance sheets, and expectations that major central banks would ease policy gradually in accordance with incoming data.

However, this favourable backdrop shifted following the escalation of the US-Iran conflict, which disrupted energy flows through the Strait of Hormuz. Oil prices rose sharply, with Brent crude surging above USD 100 per barrel, triggering a renewed wave of inflationary pressure across global markets for a period of time. What began as an energy shock has since broadened to affect goods, services, and supply chains. In the US, May headline inflation rose to 4.2% YoY, its highest reading since May 2023.

Inflation trends have played a key role in shaping market expectations. US government bond yields have risen meaningfully, with the 10-year yield briefly moving above 4.5% and the 30-year yield briefly exceeding 5%. Inflation expectations have also increased, and markets are now pricing in the possibility of rate hikes before the end of the year. This reflects both the impact of higher energy prices and uncertainty around future policy direction under new Fed Chair Warsh.

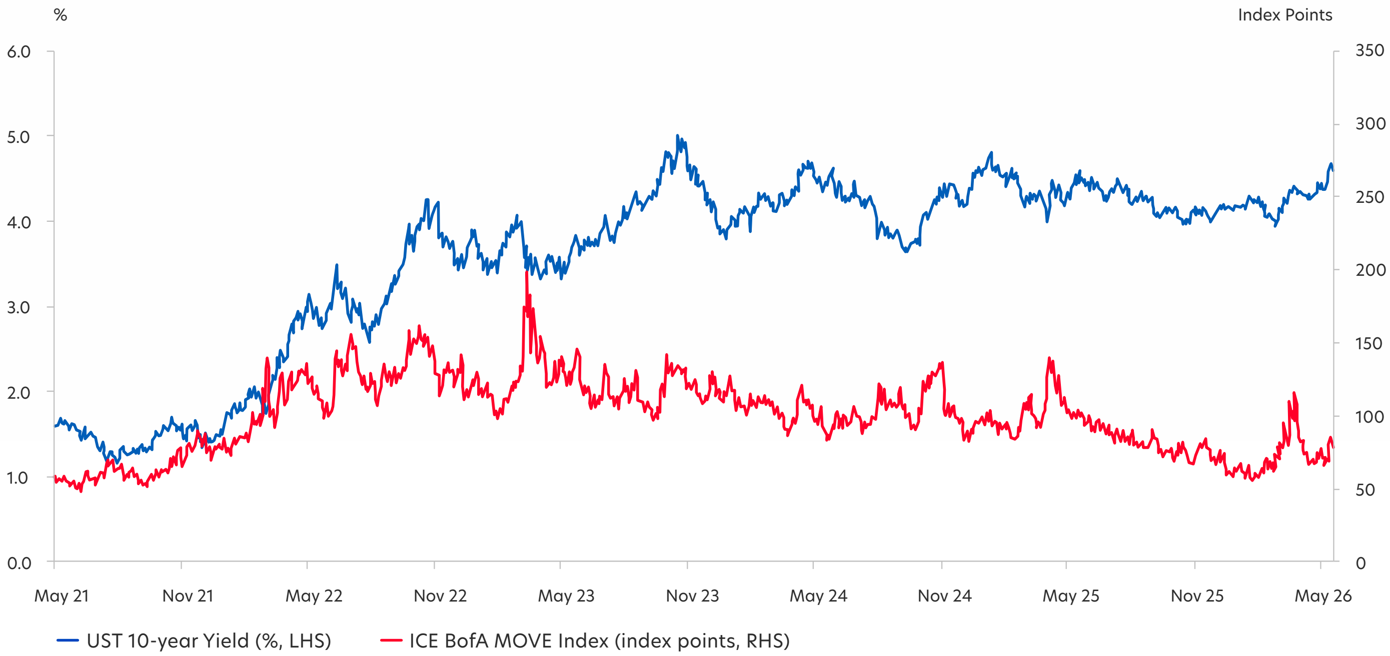
As a result, bond markets have adjusted to the prospect of a high for longer interest rate environment. Yields on 10-year US government bonds are likely to hover around 4.65% by the end of 2026. We now expect the Fed to keep interest rates on hold for the rest of the year, with potential rate cuts only resuming in 2027. In response to this shift in outlook, we are shortening our target portfolio duration to around 4 to 5 years, down from the previous 5 to 7 years, to better manage interest rate risk.

In the current environment, DM IG bonds offer an interesting balance. While there is limited room for further price gains given already rich valuations, overall yields remain attractive and will likely draw investor demand. However, we are cautious about taking on lower-quality credit risk in search of higher yields. Risks linked to lower-quality issuers may rise, and these may not be fully reflected in current market pricing.

Our strategy remains focused on quality and disciplined credit selection. We prefer companies with strong fundamentals and resilient business models, and we look to add exposure selectively during periods of market weakness.

From a sector perspective, we prefer a mix of defensive and structural growth opportunities. Areas we find attractive include companies benefiting from the growth of AI and increased electricity demand, defence-related firms, regulated and integrated utilities, infrastructure providers, financial institutions, insurers, telecommunications companies, selected energy producers, and leading US technology firms involved in AI.

Subdued rates volatility despite higher US Treasury yields



Source: Bloomberg, UOB Private Bank

CIO's Recommendation

Focus on high-quality bonds, maintain discipline in credit selection, and take advantage of market volatility to build exposure to long-term structural winners.

Developed Markets
US High Yield

High yield gains mask rising risks

Developed Market US High Yield (DM HY) bonds have delivered modest returns so far in 2026, with gains largely driven by income rather than price appreciation. As of 25 May 2026, the asset class returned about 1.13% year-to-date. This performance was mainly supported by coupon income and tighter credit spreads, but these gains were partly offset by concerns of rising interest rates which weighed on bond prices.

The ongoing Middle East conflict has had a mixed impact on the US HY market. On one hand, the Energy sector, which represents a sizeable portion of the HY index, has benefited from the rise in oil prices. This has supported stronger returns for energy-related HY bonds. However, if oil prices stabilise or decline, some of these gains could be reversed. At the same time, higher energy costs have started to filter through to other parts of the economy, particularly consumer-related sectors, where rising costs weigh on demand and profitability. In addition, ongoing technological disruption, especially from AI, is creating uncertainty in sectors such as software, raising concerns about long-term business models and credit quality of software companies.

From a fundamental perspective, the overall quality of the US HY market has improved. Companies, on average, are carrying less debt, with leverage declining meaningfully over recent months. The composition of the market has also shifted towards higher-quality issuers, with a larger share of BB-rated companies and fewer lower-rated bonds. This suggests a stronger starting point for the asset class. However, there are early signs of stress emerging. Default rates have been gradually rising from very low levels and are now approaching historical averages, indicating that weaker companies are beginning to face challenges in a more difficult economic environment.

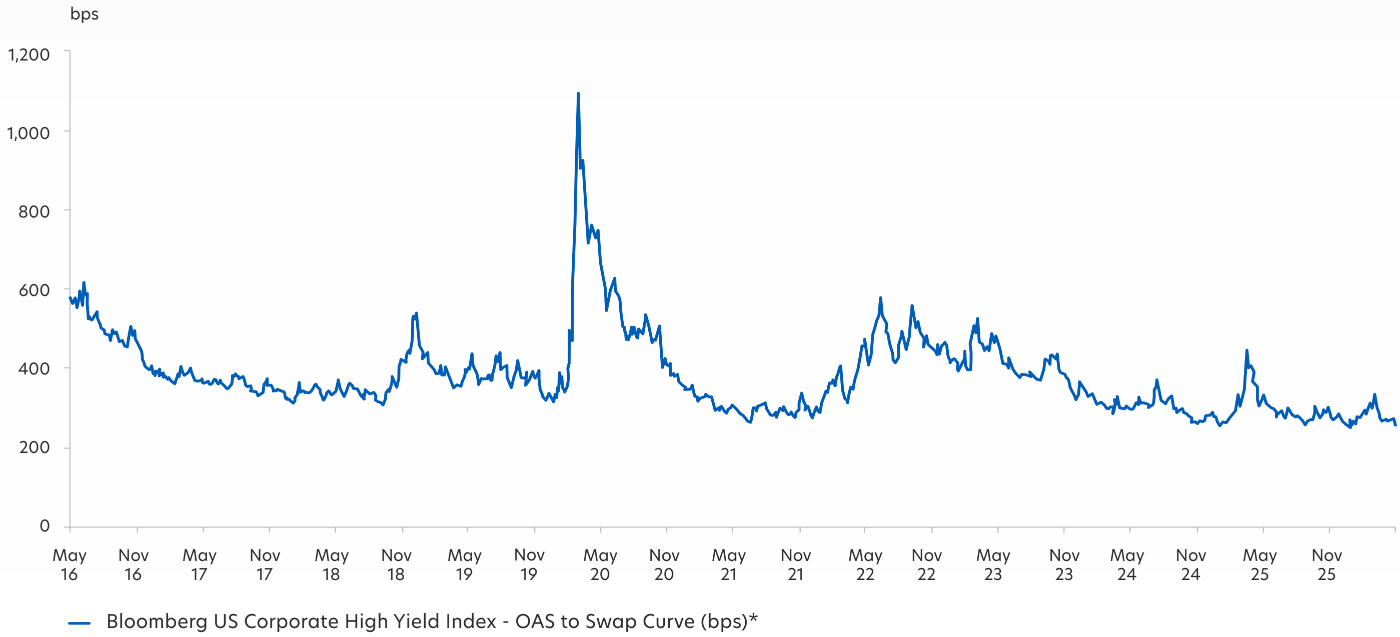
Strong investor demand for higher-yielding assets has kept credit spreads tight and led to strong participation in new HY bond issuances. However, this strong demand may also be masking underlying risks, as investors continue to accept relatively low compensation for taking on higher credit risk.

Given this backdrop, we remain cautious on DM US High Yield and maintain an underweight outlook. Current valuations do not fully compensate investors for the risks, particularly in an environment of elevated geopolitical uncertainty and rising volatility. Concerns around the Middle East conflict, potential liquidity pressures in parts of the credit market, and structural challenges in sectors such as software are not yet fully reflected in the HY market.

While income remains attractive, the potential for capital gains is constrained, while downside risks can increase if conditions deteriorate.

Overall, we believe the risk-reward profile for US High Yield is less compelling compared to higher-quality bonds. As a result, investors should remain selective, prioritise quality, and consider focusing more on investment-grade opportunities where income remains attractive with lower risk.

US HY credit spreads near historical low, leaving limited room to further tighten



Source: Bloomberg, UOB Private Bank
*Note: OAS to swap curve refers to the extra yield investors earn over a relatively "risk-free" interest rate (swap rate), reflecting the additional risk of lending to companies.

CIO's Recommendation

Underweight. Careful bottom-up credit selection is essential to avoid company-specific risks that may not be immediately visible at the broader market level.

Emerging Markets Asia Investment-Grade

Higher yields, stable spreads, and selective risks

Emerging Market Asia investment grade (EM IG) bonds delivered strong performance in 2025, with returns supported by falling US Treasury bond yields and tightening credit spreads. However, this momentum has not carried into 2026. Year-to-date, returns have been broadly flat, as price declines have offset the income generated from these bonds.

Despite this, IG credit spreads in Asia have remained relatively stable even amid a more cautious global market environment. This resilience reflects two key factors. First, overall yields remain attractive, which continues to draw investor demand. Second, corporate fundamentals in the region remain sound. Companies are generally carrying low levels of debt relative to earnings, providing a solid cushion against economic uncertainty.

On the geopolitical front, the recent high-level discussions between the US and China have offered some encouragement. Both sides have signalled a willingness to cooperate on key issues, including reducing tensions in the Middle East and maintaining regional stability. There are also early indications of improved trade relations, though details remain limited. If these developments lead to a sustained easing in US-China tensions, it would be supportive for Asian IG credits.

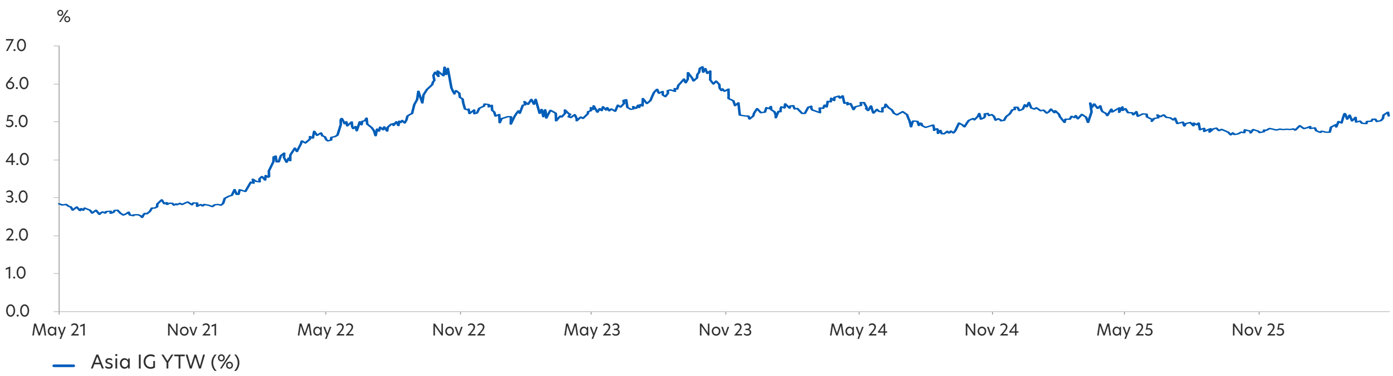
That said, valuations in EM Asia IG are becoming less attractive. Credit spreads are currently trading near historically tight levels, suggesting that much of the positive outlook is already priced in. This means there is limited room for further price gains. In addition, bond issuance has picked up after several years of decline, as companies take advantage of relatively favourable US dollar funding conditions. This increase in supply could also limit further tightening in spreads.

Nonetheless, bond market volatility could create attractive entry points for investors to lock in high overall yields. As of late May 2026, yields in the asset class are above 5%, which is appealing compared to historical levels.

Given this environment, a disciplined and selective approach remains essential. Careful credit selection and diversification across countries and sectors can help reduce exposure to company-specific risks. At the same time, maintaining a balanced portfolio with a target portfolio duration of around 4 to 5 years can help manage interest rate risk while preserving income. A barbell approach, combining shorter- and longer-duration bonds, may also allow investors to benefit if the US Treasury yield curve steepens.

From a sector perspective, we prefer leading financial institutions in ASEAN, selected insurers, state-linked companies with strong strategic importance, as well as defensive sectors such as consumer staples and utilities.

Attractive risk-to-reward ratio and appealing all-in yield level



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.

CIO's Recommendation

EM Asia IG continues to offer a combination of stability and diversification. Supported by strong fundamentals, a broad investor base, and relatively attractive yields.

Emerging Markets Asia High Yield

Stay selective in HY credit

Emerging Markets Asia High Yield (EM Asia HY) bonds have staged a strong recovery following the peak in US-Iran tensions in March 2026. As of 25 May 2026, the asset class has delivered a year-to-date return of about 2.25%, outperforming its developed market counterpart. This performance has been supported by tightening credit spreads, which have narrowed by around 10 bps, driven by continued investor demand for higher yields, limited new bond supply, and relatively stable default rates. With yields around 8%, EM Asia HY offers attractive income for investors.

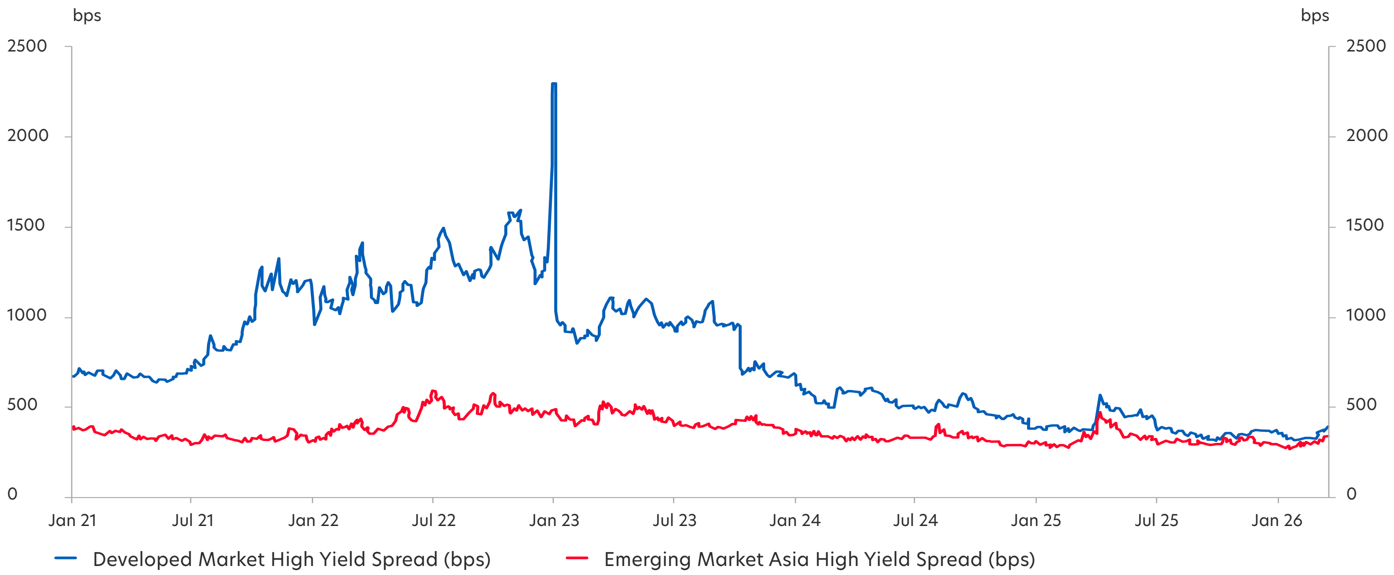
Our preference for EM Asia HY over DM HY remains intact. The gap in credit spreads between the two markets has narrowed further this year, reflecting stronger relative performance in Asia. In addition, many EM Asia HY companies tend to have business models backed by tangible assets and lower exposure to rapid technological disruption. This makes them relatively more resilient, particularly in an environment where AI is reshaping industries and creating uncertainty for certain sectors in developed markets.

The structure of the EM Asia HY market has also improved over time. It has become less dependent on the property sector and is now more diversified, with a greater presence of domestically focused companies across industries. While higher oil prices remain a potential concern, particularly because many Asian economies are net energy importers, companies are generally entering this period from a stronger financial position. Earnings performance in 2025 was solid, and forward guidance suggests that default rates are likely to remain manageable.

Near-term refinancing risks also appear contained. A significant portion of upcoming bond maturities in 2026 is concentrated in sectors such as infrastructure, Indian renewable energy, and Macau gaming operators. These sectors continue to enjoy relatively good access to funding markets, which reduces the risk of repayment stress. In addition, recent investor participation indicates strong demand and ample liquidity in the market.

From a technical perspective, supply conditions remain supportive. Net new issuance of US dollar high yield bonds in Asia is expected to remain limited this year, as many companies are increasingly turning to local currency funding instead. This reduces the availability of US dollar bonds and supports prices through a scarcity effect.

Emphasise selectivity amid tight credit spreads*



Source: Bloomberg, UOB Private Bank

*Note: Credit spread refers to the difference in yield between two bonds with similar maturities but differing credit quality, reflecting the additional compensation investors require for taking on higher credit risk.

CIO's Recommendation

We hold a neutral outlook on EM HY. Rigorous bottom-up credit selection is essential, but investors should focus on high-quality issuers.

AUD Bond Market

Elevated carry, enduring quality: The AUD credit opportunity

The Reserve Bank of Australia (RBA) has shifted its policy stance in 2026, moving back towards tightening. It has delivered three rate hikes so far, effectively reversing the easing measures implemented in 2025. This change reflects rising inflation pressures, partly driven by higher energy prices linked to ongoing tensions in the Middle East.

We expect the RBA to keep interest rates on hold for now as recent geopolitical shocks and elevated energy costs are likely to weigh on both household consumption and business spending. At the same time, these pressures may gradually push unemployment higher, reducing the need for additional tightening.

In the bond market, the yield differential between Australia and the US has widened notably. The spread between Australian and US 10-year government bond yields, which typically stays within a narrow range, has increased significantly since August 2025. This reflects differing central bank responses, with Australia having delivered three rate hikes, while the US path remains more uncertain.

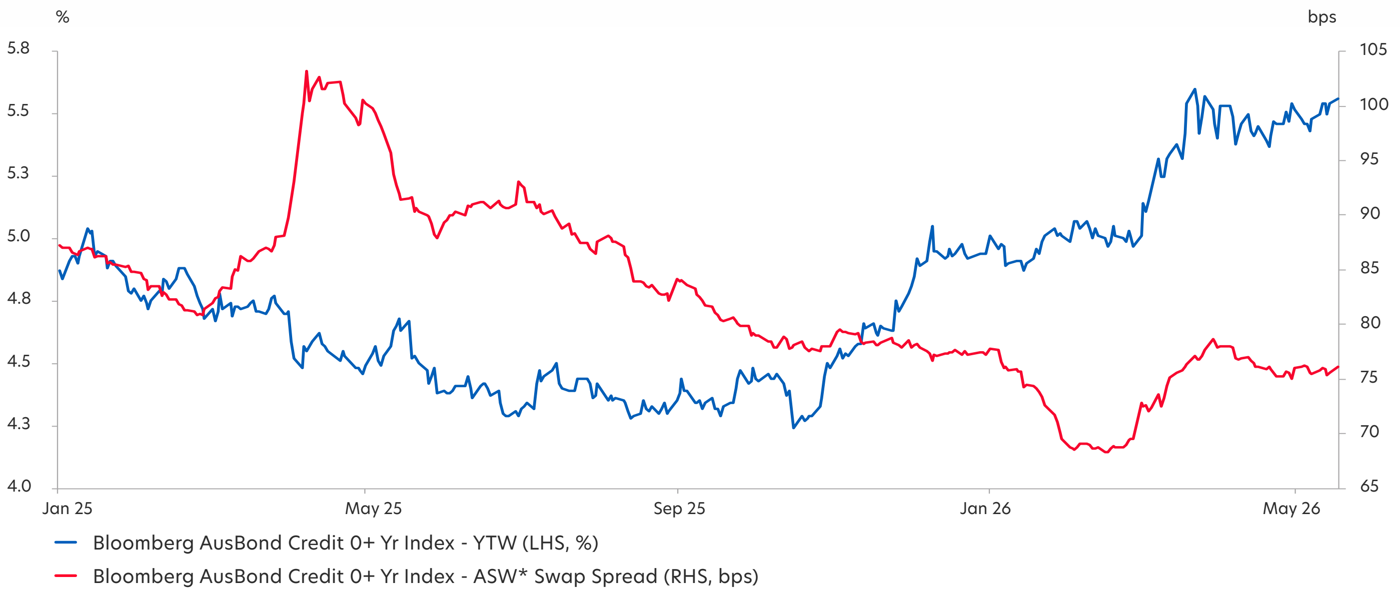
Despite the potential for short-term price volatility, current Australian dollar (AUD) bond yields appear attractive.

From a credit perspective, AUD-denominated corporate bonds have delivered modest returns so far this year. Higher yields have been partly offset by rising interest rates and wider credit spreads, particularly following the escalation of geopolitical tensions. In addition, increased bond issuance has added some pressure on spreads, as more supply enters the market.

That said, AUD credit continues to offer meaningful diversification benefits, especially for investors who are heavily exposed to US dollar (USD) or Singapore dollar assets. The asset class combines relatively attractive yields with a stable market structure, supported by a strong base of domestic investors who typically adopt a long-term, buy-and-hold approach. Credit quality also remains high, with a significant portion of the market rated A or above.

Overall, AUD credit provides a compelling mix of income, quality, and diversification, making it a valuable addition to a well-balanced fixed income portfolio.

AUD credit yields near year-to-date peak amid RBA policy normalisation



Source: Macrobond, UOB Private Bank
*Note: An Asset Swap (ASW) spread is the premium or discount an investor earns over the risk-free rate when converting a fixed-rate bond into a floating-rate instrument. It is mainly used to isolate credit risk from interest rate risk.

CIO's Recommendation

We see attractive opportunities in selected areas of the AUD credit market, particularly in Tier 2 bonds issued by major Australian banks, global systemically important banks (G-SIBs), and insurers. We also see value in utility and infrastructure bonds, and foreign issuer corporate bonds.

Commodities

Precious Metals (Gold)

Safe-haven demand to drive gold higher

In the near-term, investors must contend with high energy prices stemming from the Middle East conflict and its potential inflationary impact. Reflecting this, the financial market has begun pricing in the possibility of rate hikes by certain major central banks.

Gold faces near-term headwinds as it is typically sensitive to interest rates and the USD. Higher interest rates and a stronger USD tend to weigh on gold prices by increasing the opportunity cost of holding non-interest-bearing assets. At the onset of the US/Israel-Iran conflict, we initially expected heightened safe-haven demand to support gold. However, market dynamics have shifted, with investors now more focused on the risk of higher interest rates, which is exerting downward pressure on gold prices.

Given the near-term risks of potential interest rate hikes, we have revised our gold price forecasts lower. We now expect gold to only rise to USD 4,800 per ounce in the fourth quarter of 2026 and USD 5,000 per ounce in the first quarter of 2027.

Despite these short-term challenges, we remain constructive on gold's long-term outlook. Continued geopolitical tensions will reinforce gold's role as a strategic safe-haven asset. Demand from both retail investors and central banks is likely to strengthen further, supported by ongoing uncertainty and a more volatile global landscape.

CIO's Recommendation

We turn Neutral on Gold as further consolidation may be expected in the near-term in a higher yield environment.

Brent Crude Oil

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

Despite the interim peace deal between the US and Iran, geopolitical risk across the Middle East remains elevated.

The United Arab Emirates' (UAE) decision to exit the Organization of the Petroleum Exporting Countries (OPEC), effective 1 May 2026, adds another layer of complexity. While this could weigh on oil prices over the longer-term, near-term implications point to rising strategic divergence between the UAE and Saudi Arabia.

Supply disruptions are being felt across the broader energy complex, extending beyond crude oil to jet fuel, gasoline, and downstream products such as naphtha, polyethylene, urea, helium, and sulphur. Due to Middle East tensions, these disruptions have begun to spill over into other commodity markets, including industrial metals like aluminum and nickel in particular, as well as agriculture and grains.

The dual blockade of the Strait of Hormuz by both the US and Iran has materially tightened supply conditions. This is reflected in heightened volatility in crude oil markets, with Brent crude surging above USD 120 per barrel at end-April before retreating below USD 90 per barrel on hopes of a peace deal. Notably, current crude oil prices are higher than future delivery prices, signalling that supply is especially tight right now.

Looking ahead, we expect Brent crude prices to decline further in anticipation of a formal US-Iran peace deal. As the Strait of Hormuz reopens, oil prices are expected to ease further, with forecasts of USD 85 per barrel in 3Q 2026, USD 80 in 4Q 2026, and USD 70 through 1Q 2027.

USD

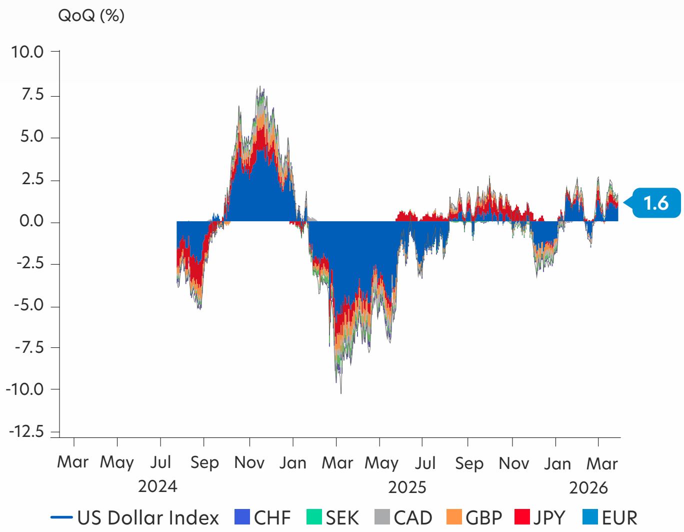
USD to stay elevated through 2Q 2026, renewed weakening thereafter

The USD's safe-haven characteristic has recently strengthened its correlation with oil, with the greenback moving in tandem with swings in oil prices. In March, both rose during the escalating US-Iran conflict, before easing together in early April following the ceasefire announcement. However, as peace talks stalled and the Strait of Hormuz remained shut, oil rebounded and lifted the USD, though intervention by Japan's Ministry of Finance to weaken the Japanese Yen briefly weighed on the USD. In the near-term, elevated geopolitical risks and constrained oil supply should keep the USD supported. However, over the medium-term, we hold the view that the USD will gradually weaken due to narrowing interest rate differentials, as we expect the Fed will eventually cut interest rates in 2027 while other G10 central banks maintain relatively tighter monetary policy.

Accordingly, our updated USD projections are at 97.9 in the third quarter of 2026, 97.0 in the fourth quarter of 2026, and 95.7 in the first quarter of 2027.

FX	3Q26F	4Q26F	1Q27F	2Q27F
DXY	97.9	97.0	95.7	94.9

Contributions to the US Dollar Index (DXY)



Source: Macrobond, UOB Private Bank
Note: The US dollar Index measures the value of the US dollar against a basket of major foreign currencies.

EUR

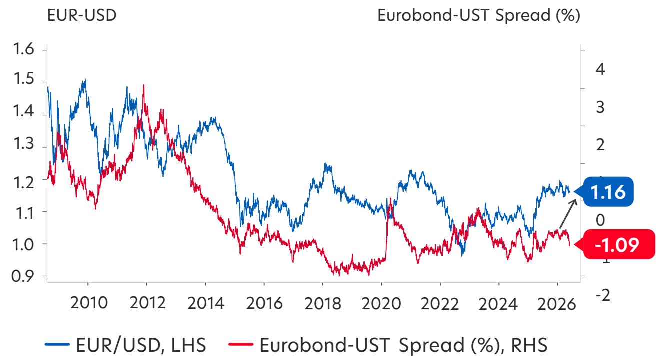
EUR expected to gradually appreciate through 2026

The EUR has stabilised against the USD across the second quarter of 2026, supported by diverging monetary policy outlooks, with the ECB delivering a rate hike in June while the Fed kept rates unchanged. Near-term, lingering USD safe-haven demand amid geopolitical tensions may cap EUR gains. However, as interest rate differentials narrow, the EUR is expected to bottom out against the USD before gradually recovering into the end of 2026.

We expect the EUR to strengthen against the USD to 1.19 in the fourth quarter of 2026 and 1.21 in the first quarter of 2027.

FX	3Q26F	4Q26F	1Q27F	2Q27F
EUR/USD	1.18	1.19	1.21	1.22

Compression of EUR-USD rate differentials to be supportive



Source: Macrobond, UOB Private Bank
Note: Eurobond-UST spread refers to the yield difference between a Eurobond (typically USD-denominated bonds issued outside the US) and a US Treasury (UST) bond of similar maturity.

CNY

CNY has been the most resilient Asian currency, further reinforced by policy stability

FX	3Q26F	4Q26F	1Q27F	2Q27F
USD/CNY	6.80	6.76	6.73	6.70

The onshore Chinese Yuan (CNY) has been Asia's most resilient currency, strengthening against the USD since the US-Iran conflict while peers weakened. This reflects China's insulation from oil shocks, supported by a diversified mix of energy supply and large foreign exchange reserves. China's policy signals have reinforced currency stability, with daily currency fixings indicating official guidance of a stronger CNY while the offshore Yuan (CNH) has seen subdued volatility. Looking ahead, the CNY is expected to appreciate gradually as risks ease, though gains should remain controlled. Policymakers have emphasised maintaining a "reasonable" currency level, while moderately accommodative monetary policy will likely limit sharp CNY appreciation.

We expect the CNY to gradually strengthen against the USD to 6.76 by the fourth quarter of 2026 and 6.73 by the first quarter of 2027.

Expect CNY to resume a measured appreciation trend

Source: Bloomberg, UOB Private Bank

JPY

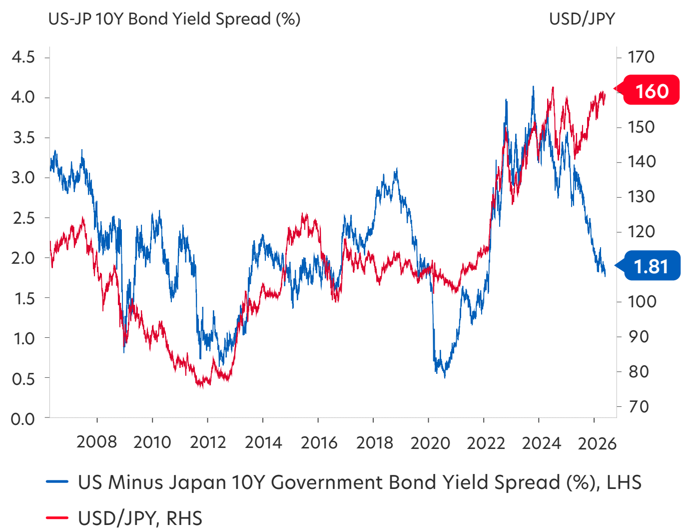
JPY to remain on the backfoot in the near-term

FX	3Q26F	4Q26F	1Q27F	2Q27F
USD/JPY	157	155	153	151

At the end of April, Japanese authorities intervened in the JPY for the first time since 2024, deploying JPY 5.4 trillion (USD34.5 billion) to support the Yen and triggering a sharp decline in USD/JPY. The move signals Japan is seeking to prevent USD/JPY from sustainably rising above 160 since a weak JPY stokes inflationary pressures for Japan. However, history suggests that one-off currency interventions rarely leads to a sustainable reversal in trend. Elevated oil prices and USD safe-haven demand should keep USD/JPY supported in the near-term, though a sustained push above 160 is unlikely. Over time, easing geopolitical risks and narrowing US-Japan interest rate differentials, via expected Fed rate cuts and BOJ rate hikes, should lead to a gradual JPY recovery.

We expect USD/JPY to decline to 155 by the fourth quarter of 2026 and 153 by the first quarter of 2027.

Expect USD/JPY to gradually ease as geopolitical worries fade in the medium-term



Source: Bloomberg, UOB Private Bank

AUD

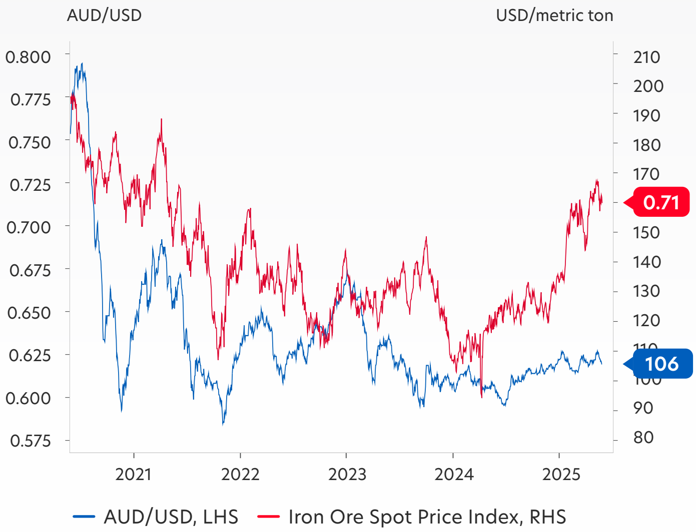
AUD likely to see two-way volatility in the near-term

The AUD outperformed G10 peers across the second quarter of 2026 and has been generally resilient against the USD since late February. This strength has been driven by three consecutive interest rate hikes by the RBA across February, March and May, with potentially more policy tightening to come if inflation continues to re-accelerate. Near-term, AUD/USD faces two-way volatility given geopolitical uncertainty and elevated oil prices. However, the medium-term outlook remains constructive, supported by easing global risks and a potential Fed easing cycle, which should reinforce the AUD's advantage of higher interest rates relative to G10 peers.

We expect AUD/USD to rise to 0.73 by the fourth quarter of 2026 and 0.74 by the first quarter of 2027.

FX	3Q26F	4Q26F	1Q27F	2Q27F
AUD/USD	0.72	0.73	0.74	0.75

Retain constructive medium-term outlook on an eventual easing of geopolitical risks



Source: Bloomberg, UOB Private Bank

SGD

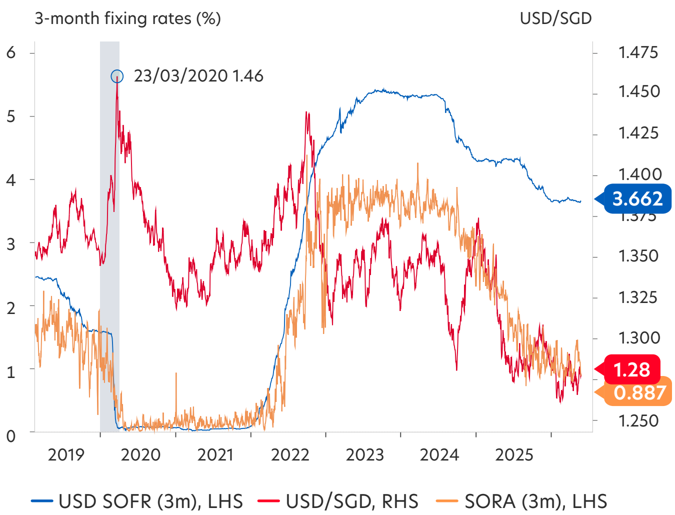
SGD to be supported by safe-haven status and MAS policy tightening expectations

Singapore's central bank (MAS) tightened monetary policy in April 2026, steepening the S$NEER slope by around 50 bps to 1.0% p.a., with another increase expected later this year with the likelihood that this will be brought forward. The SGD is supported by both safe-haven inflows and Singapore's proactive approach to stem imported inflation. This positions the SGD to outperform regional peers, with modest gains expected in SGD/CNY and SGD/MYR. Meanwhile, USD/SGD should resume its downtrend over time, as geopolitical risks ease and markets refocus on eventual Fed rate cuts and broader USD weakness.

Factoring the SGD's resilience during the US-Iran conflict, we expect USD/SGD to edge down towards 1.27 in the fourth quarter of 2026 and 1.26 in the first quarter of 2027.

FX	3Q26F	4Q26F	1Q27F	2Q27F
USD/SGD	1.28	1.27	1.26	1.25

Combination of hawkish policy stance and safe-haven status positions SGD favourably to outperform regional peers



Source: Bloomberg, UOB Private Bank
Note: SOFR (Secured Overnight Financing Rate): A US benchmark interest rate based on overnight borrowing costs secured by US Treasuries. SORA (Singapore Overnight Rate Average): Singapore's benchmark interest rate based on the average overnight interbank lending rates.

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