Monthly CIO Signals

By Chief Investment Office, UOB Private Bank

UOB

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INTRODUCING CIO SIGNALS

Not every signal is a call to action · The investment industry has a peculiar habit. Give it a monthly publication deadline, and it will produce a monthly change of mind.

This publication (CIO Signals) aims not to do that.

Markets are noisy, uncertainty is permanent and the evidence is often less conclusive than confident commentary suggests. Our purpose is to identify what genuinely matters for long-term investors, explain why it matters and assess whether it changes anything.

Sometimes the conclusion will be actionable. Sometimes it will challenge a popular narrative. At other times, the intellectually honest answer will be that the signal is interesting, but not yet investable. Patience is not an absence of judgement. Often, it is the result of judgement.

We begin from a constructive long-term position. Markets tend to rise because economies grow, businesses adapt and earnings compound. That does not make every market attractive or every risk harmless. Our responsibility is to monitor the risks to our views without confusing vigilance with constant activity.

CIO Signals is therefore neither a prediction sheet nor a catalogue of monthly trades. It is a record of what we believe deserves attention, what remains noise and what, if anything, investors should do about it.

CIO FOREWORD

After four years of double-digit equity returns, we moved from overweight to neutral equities the day after the Fed hiked. This is not a bearish call. The global economy remains resilient, earnings continue to grow, and the AI investment cycle still has room to run. However, expectations are exceptionally high. When investors treat a 20% gain in Nvidia as mildly disappointing, it is often a sign that optimism is becoming fully priced in.

The S&P 500 has doubled since the start of 2023, making this one of the strongest rallies in decades. Markets rarely fall because they have risen for too long. They fall when expectations collide with reality. Our concern today is not recession, but complacency. A 5% to 7% correction driven by profit-taking or shifting sentiment would be entirely normal and could create opportunities if earnings, policy and economic fundamentals remain supportive.

At the same time, investors are being paid to be patient again. Investment-grade corporate bonds now offer yields that, not long ago, were associated with riskier borrowers. For the first time in years, income is once again a meaningful contributor to total returns.

Our Chart of the Month highlights an underappreciated reality of the AI race: capital is not priced equally. Microsoft can borrow at rates that remain the envy of corporate borrowers, while Oracle and especially CoreWeave face materially higher funding costs. As AI investment moves into the trillions, the cost of financing may matter as much as the technology itself.

This reinforces the importance of diversification. While concerns about concentration risk in Big Tech are understandable, the largest Hyperscalers may prove more resilient than many expect. With more than USD1 trillion of AI-related capital expenditure projected by 2027, the companies funding this buildout could ultimately be better positioned than many hoping to benefit from it. In investing, the most attractive opportunities are not always found among those selling the picks and shovels. Sometimes they belong to those who own the mine.

The Cost of Borrowing for AI: The bond market is charging some 3x more than others

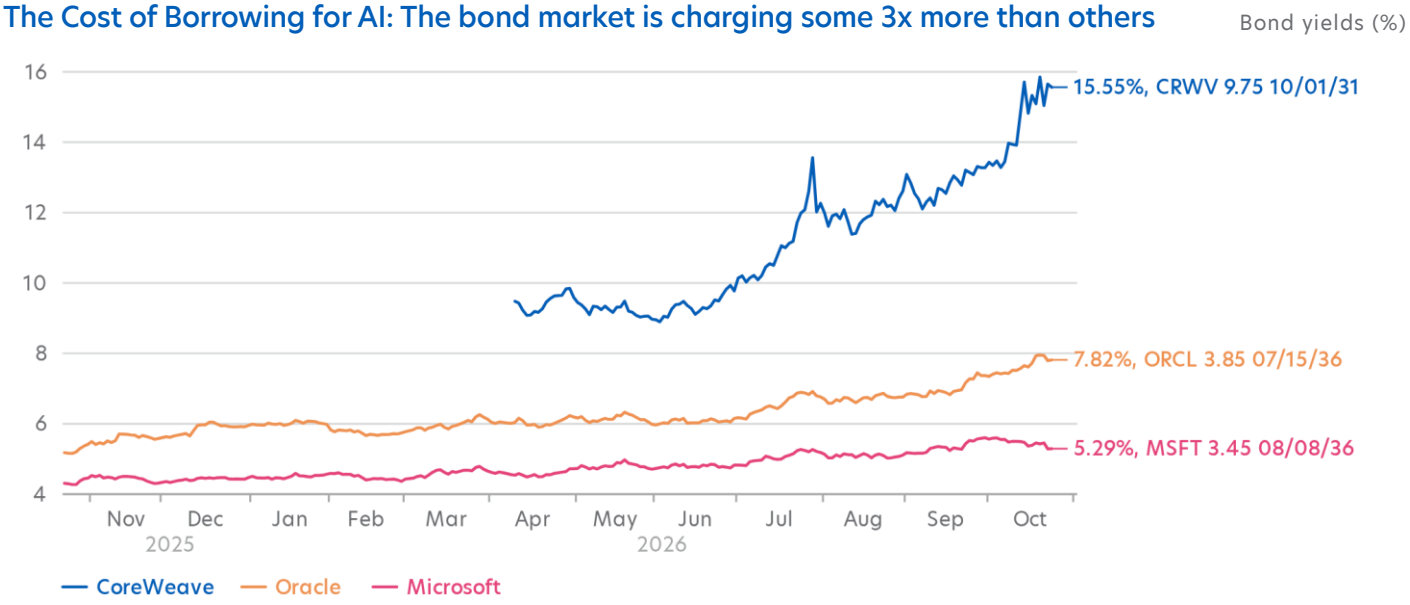


Figure 01 · Source: Bloomberg. Data on 22 October 2026

NUMBER OF THE MONTH

5.5 %

It is what high-quality hyperscaler bonds now yield, backed by strong balance sheets, substantial cash flows and solid financial strength. A year ago, this combination of quality and income was largely unavailable. Investors can now earn attractive returns from higher-quality bonds, without having to take on significantly more credit risk. Longer-duration bonds remain vulnerable if bond yields rise, but investors able to tolerate volatility and hold to maturity are well paid to wait. Boring debt no longer means boring returns.

Rates are rising, earnings are growing but peaking. However, wider yield differentiation between corporate bonds and government bonds could create attractive buying opportunities.

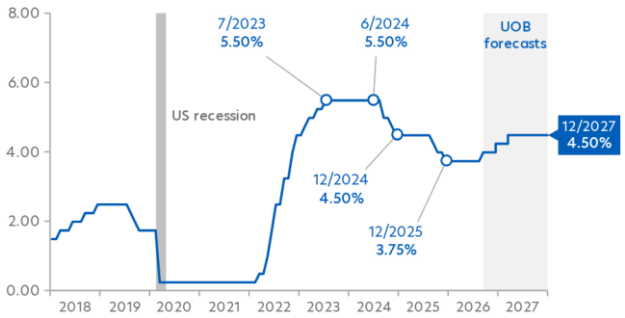


Figure 02 · Source: Bloomberg, UOB Private Bank

ECONOMY

We are in a small interest rate hike cycle

Markets have entered a mini rate hike cycle. Since the first Federal Reserve (Fed) rate increase on 16 September, equities have moved broadly sideways. We expect two further Fed rate hikes: one in December 2026, after the United States (US) midterm elections, and another in the first quarter of 2027. History offers a warning: across the past eight hiking cycles, growth stocks performed worst, falling by an average of 8% in the following three months. Investors should favour quality companies with strong cash flow and attractive valuations over expensive growth names.

MARKETS

S&P 500 earnings are strong but may have peaked

The earnings engine is still running strongly, but it may have passed its peak. Earnings growth surged from 12.5% in the fourth quarter of 2025 to 35.1% by the second quarter of 2026, before an expected moderation to 26.3% in the third quarter of 2026. Final growth could reach 30%, but the direction is clear: earnings remain solid but acceleration is slowing. With expectations already elevated, future market gains will increasingly depend on companies beating forecasts and expressing future confidence that their artificial intelligence (AI) investments will generate strong returns.

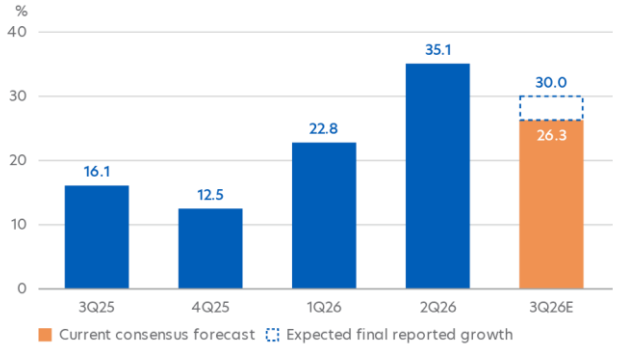


Figure 03 · Source: Bloomberg, UBS, UOB Private Bank

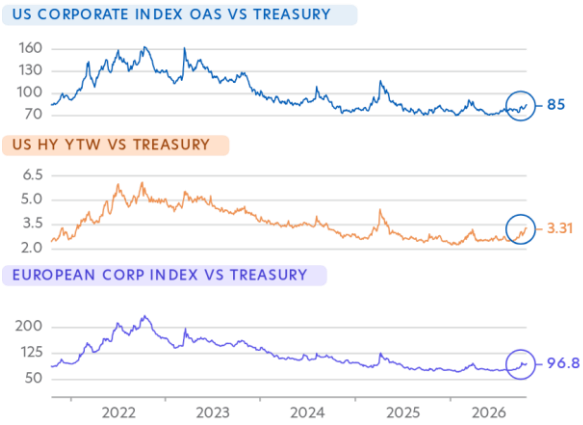


Figure 04 · Source: Bloomberg, UOB Private Bank

RISK WE ARE MONITORING

Credit spreads are not yet at panic levels

Yields differentiation between government and corporate bonds are widening, but markets are not panicking yet. Early cracks are appearing in high yield bonds, with warning signs flashing as a key neocloud company's bond yields reaching credit distress levels in mid-October. Another Fed rate hike in December could create better buying opportunities for bond investors, though the outlook for the first quarter of 2027 remains uncertain. Risk-tolerant investors should keep cash ready: the next four months may offer rare chances to buy bonds issued by high-quality companies at yields previously reserved for riskier companies. Focus on companies' durability, not bond yield alone.

Note: **Option-adjusted spread (OAS) vs Treasury** measures the extra yield that a bond offers over a comparable Treasury bond after accounting for any embedded options such as the issuer's ability to redeem the bond early at a set price or the holder's ability to sell the bond on specific dates.
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.

The recent Hypertext Preprocessor (PHP) vulnerability and signs of slowing AI spending are worth watching, as semiconductor stocks could be signalling a possible peak.

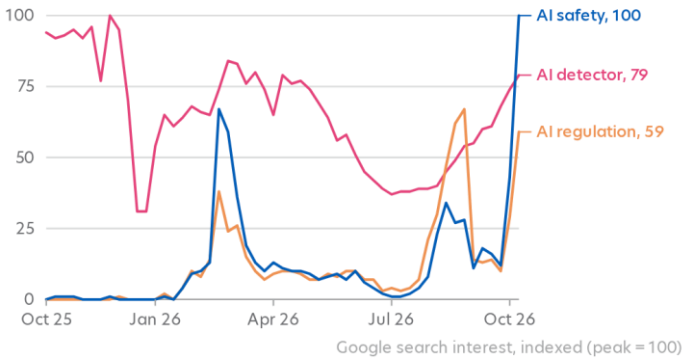


Figure 05 · Source: Google Trends, UOB Private Bank

AI TREND

Worries about AI are growing

AI is no longer just a growth story. Concerns around safety, regulation and AI-generated content are rising alongside adoption. The latest surge in media coverage suggests investors, policymakers and consumers are increasingly asking not whether AI will change the world, but what safeguards are needed when it does. We believe hard enforced regulation is unlikely until a catastrophic event happens. The opportunity remains enormous, but so too is the scrutiny.

AI USAGE

Moderating costs helping boost usage

AI demand is accelerating. Token volumes rose 52% over the latest monthly comparison, comfortably outpacing the 23% increase in token spending. Therefore, businesses are using substantially more AI while paying less per token. This is the adoption cycle investors want to see: falling prices stimulate usage and broaden applications. The winners, however, will be providers that turn explosive consumption into sustainable revenue, profits and cash flow.

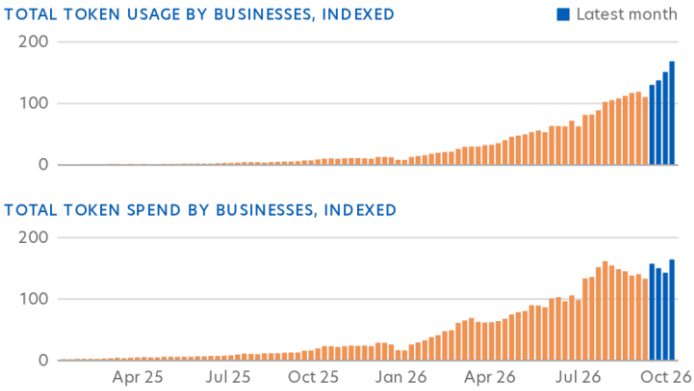


Figure 06 · Source: Ramp AI, UOB Private Bank

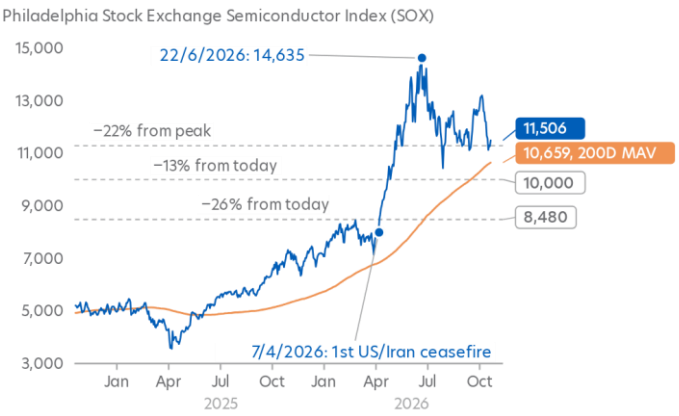


Figure 07 · Source: Bloomberg, UOB Private Bank

SEMICONDUCTORS

AI hardware/infrastructure at critical juncture

Semiconductors face a defining test. We do not expect prices to revisit pre-Iran conflict levels, which would imply the AI story has effectively broken down. However, strong third quarter beat-and-raise corporate results must drive the Philadelphia Stock Exchange Semiconductor Index (SOX) above previous highs. Failure to break higher would signal that optimism is already priced in. Investors should use sharp rallies to rebalance exposure towards companies adopting AI to optimise costs and raise revenues.

Summary

Optimism remains remarkably difficult to kill, but the market is beginning to ask harder questions. In early October, the Philadelphia Stock Exchange Semiconductor Index fell 16% across eight consecutive sessions, its longest losing streak since October 2008. Despite the sharp decline, strong inflows into a key leveraged semiconductor exchange-traded fund (ETF) suggest that retail investors remain willing to buy on weakness, even through leveraged investments.

Monetary policy also remains a concern. With one Fed interest rate increase already delivered in September, we expect another in December. Tighter financial conditions rarely aid expensive equities. Our analysis of the Federal Open Market Committee's (FOMC) communications continues to point to a preference for keeping interest rates higher to manage inflation.

While investors have become less optimistic on the market, it remains far from the point of panic selling. Mega-cap stocks continue to hold up the S&P 500, while only about 56% of its constituents trade above their 200-day moving averages. The headline index looks broadly healthy, but upon closer inspection, many individual stocks are not doing as well.

Earnings remain the strongest defence. Third-quarter S&P 500 earnings are expected to grow about 26%, potentially reaching 30% after the usual earnings beats and expectation upgrades. However, strong earnings delivery alone may no longer be enough to lead stock prices to rise. If strong results and higher guidance fail to lift share prices, investors' elevated expectations may need to reset to more realistic levels.

The pressure is clearest in AI infrastructure. Several planned listings and fundraising deals have been delayed or have performed poorly after debut. Capital is still available for AI-related projects, but investors have become much more selective about valuation.

We remain neutral on equities and favour gradual accumulation of high-quality bonds for risk-tolerant, hold-to-maturity investors. Yields differentiation between government and corporate bonds have widened, but do not yet signal panic. In China, our diversified approach remains tilted towards safety and alignment with government priorities rather than chasing aggressive growth. Finally, US mid-term elections may move markets temporarily, but interest rate policy, investor positioning and company earnings will determine what lasts.

PORTFOLIO STRATEGY

AI is not collapsing, but the bar is rising. Safety and regulation may restrain frontier-model revenues, although guardrails are more palatable than an agent-driven catastrophe. Usage continues to grow as costs remain contained. Semiconductors are already down over 20%, yet the S&P 500 remains near record highs. Where investors are positioned matters most.

We favour quality, cash-generative companies and AI adopters over expensive growth names, while wider yield differentiation between corporate bonds and government bonds could create opportunities to gradually add high-quality corporate bonds.

Asset class views

ASSET CLASSES	U/W	N	O/W
Equities		■	
United States		■	
Europe		■	
Japan		■	
EM Asia		■	
Fixed Income		■	
DM IG			▲
DM HY	▼		
EM IG			▲
EM HY		■	
Commodities			
Precious Metals		■	
Money Market			▲

▼ Underweight ■ Neutral ▲ Overweight

Figure 08 · Source: UOB Private Bank



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