Strategic Asset Allocation - Update

18 September

Updates on UOB Views

- We expect the Federal Reserve (Fed) to deliver two more rate hikes, in December 2026 and 1Q 2027, before staying on hold for the rest of 2027.
- We have revised and downgraded our Equity asset outlook from Overweight to Neutral. Our position is to be tactically cautious in the short term but strategically positive in the medium term.
- Keep capital ready to deploy when oil prices ease and bond yields stabilise and look to accumulate quality assets and quality dividend-paying stocks on dips.
- Be selective in artificial intelligence (AI), and diversify into financials, defence, and healthcare.

UOB's View on Fed Policy

Fed raised rates, potentially more tightening to come

- The Fed raised interest rates by 25 basis points (bps) to 3.75% - 4.00%, its first rate hike since 2023.
- The Fed is firmly focused on inflation, which has remained "too high for too long".
- This potentially marks the beginning of a renewed monetary policy tightening phase, as the Fed historically does not stop after one hike once it begins tightening policy.
- UOB View: We now expect two additional rate hikes, one in December 2026 and another in 1Q 2027, followed by rates remaining on hold for the rest of 2027.

CIO Strategic Asset Allocation (SAA) – Turning more cautious

- Our view has been downgraded to be more cautious due to uncertainty over:
  - Interest rate policy, oil prices, inflation concerns, and elevated investor expectations.

Equity Outlook

Asset Class Outlook	Changes in View	Rationale
Equities	From Overweight to **Neutral**	While corporate earnings should stay strong, near-term risks have increased due to oil prices, inflation, Fed tightening, and crowded investor positioning
		History shows growth and momentum stocks may come under pressure after Fed rate hikes begin.
		History shows a trend of market volatility leading up to US mid-term elections on 3 November 2026.
		With the S&P 500 already posting a solid 9.6% year-to-date gain, and other stock markets delivering even stronger returns, the short-term risk reward for investors has become less attractive.

Regional Outlook	Changes in View	Investment Considerations
United States	From Overweight to **Neutral**	Strong year-to-date gains, higher bond yields, renewed Fed tightening and elevated positioning have weakened the near-term risk-reward.
Europe	Remain **Neutral**	Focus on structural beneficiaries of increased fiscal spending like defence.
Japan	Remain **Neutral**	Selective approach, focusing on companies aligned with Japan's priorities on fiscal policy, economic security, structural reform, and strategic industries.
Emerging Asia	From Overweight to **Neutral**	**South Korea and Taiwan:** High concentration in AI hardware companies may lead to greater market volatility. **China:** Maintain diversification across quality dividend stocks, domestic stocks (A-shares) and innovation companies aligned with China's strategic priorities.

Sectorial Outlook	Strategy	Rationale
Artificial Intelligence (AI)	Selective exposure: prefer AI beneficiaries and adopters rather than hardware suppliers.	Companies that successfully deploy AI to enhance productivity and profit margins can participate in the AI structural cycle without committing high investments.
Dividend Stocks	Accumulate quality dividend-paying stocks on market weakness.	Any weakness may be short-lived, as a prolonged rate hike cycle appears unlikely. Offers sustainable income backed by resilient earnings and cash flows.
Financials	Build exposure to diversify the portfolio.	Higher interest rates may support net interest income, while strong capital levels provide scope for dividends and share buybacks.
Defence	Build exposure to diversify the portfolio.	Governments are increasingly prioritising strategic autonomy and defence spending.
Healthcare	Build exposure to diversify the portfolio.	Earnings are less closely tied to the technology cycle, providing diversification benefits for investors with heavy AI exposure.

Investment Strategy

- Tactically **cautious in the short term** due to the confluence of headwinds like:
    - USD100+ oil prices, above 5% US 10-year Treasury bond yields, and renewed Fed rate hikes.
- But **strategically positive in the medium term**:
    - Economic fundamentals and corporate earnings remain solid.
    - Historically positive performance post-US mid-term elections offers buy-on-dips opportunity.
    - The oil shock typically reverses within 12-18 months following major geopolitical conflicts.
- Keep capital ready to deploy when oil prices ease and bond yields stabilise.
- In the event of market corrections, accumulate quality assets and quality dividend-paying stocks.
- Diversify portfolios while being selective in investment opportunities.
    - Investors seeking AI opportunities should favour AI beneficiaries and adopters.
    - For those with heavy AI exposure, look to diversify into financials, defence, and healthcare.

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