UOB

Weekly Investment Insights

7 September

Key Market Highlights

- The global government bond sell-off pushed yields to multi-year highs as investors weighed persistent inflation risks, rising government debt levels and elevated bond issuance tied to Artificial Intelligence (AI)-related infrastructure investment.
- The bond market sell-off briefly abated after Federal Reserve (Fed) Governor Waller signalled a preference to keep interest rates unchanged in September if inflation continues to ease.
- Nonetheless, 2/10-year United States (US) Treasury bond yields rose at the end of the week after US non-farm payrolls surged by 162,000, beating consensus by almost three times, raising investors' rate hike expectations.
- Global composite Purchasing Managers' Index (PMI) readings remained in expansionary territory, suggesting that economic activity continues to hold up.

Topics of the Week:

Financials: Lower Sensitivity to Interest Rates

- US equity performance remains closely tied to interest rate expectations, with rising Treasury bond yields initially weighing on stocks.
- While sentiment briefly improved as bond yields retreated following Fed Governor Waller's comments, stock markets ended the week on a soft note following the unexpectedly strong US jobs report.
- Equity markets have become increasingly sensitive to changes in interest rates since the 2010s, driven by the growing weight of technology and other growth-oriented sectors whose valuations depend more heavily on future earnings.
- However, not all sectors respond equally to changes in interest rates, with some sectors more affected by rising bond yields than others.
    - Companies that generate a larger share of their earnings today tend to be less affected by higher interest rates, such as financials and utilities.
    - Companies that rely more on future growth expectations and debt financing tend to be more sensitive to higher interest rates, such as software and semiconductor companies.
- Financials are among the sectors that tend to be less sensitive to interest rate movements, helping them hold up relatively better when bond yields rise.
- **Key Takeaway:** Financials can help diversify portfolios in a high-interest rate environment, while providing exposure to companies with strong earnings and cash flow generation.

Onshore China: Strong Fundamentals, Cautious Positioning

- Onshore China equities have consistently received positive earnings revision through 2026, but their stock performance has remained muted.

- While China's official PMI data remained mixed, private-sector PMI surveys improved in August, pointing to resilient business activity that supports the outlook for corporate earnings.
    - Signs of stabilising economic activity may help shift investor focus from growth concerns towards improving corporate fundamentals.
- Net exposure to China among global portfolio managers remains near post-pandemic lows, reflecting cautious investor sentiment and positioning.
    - The cautious positioning leaves room for investor allocations into Chinese equities to recover, potentially supporting future market performance.
- **Key Takeaway:** Investors should maintain exposure to quality dividend stocks and sectors supported by government policies to capture a selective range of opportunities in onshore China.

Investment Strategy

- The path of inflation and interest rates remain top of investors' minds, and concerns of high-for-longer interest rates could contribute to periods of heightened market volatility.
- Nonetheless, higher bond yields have improved income opportunities in fixed income markets.
    - We favour high-quality investment grade bonds with an average duration of 4 to 5 years, as they offer attractive yields while limiting sensitivity to interest rate movements.
- Within equities, we favour sectors that are better positioned to navigate a high-rate environment. The financials sector stands out for its relatively low sensitivity to interest rates, supported by strong near-term earnings and cash flow generation.
- In onshore China, improving earnings expectations and cautious investor positioning create opportunities for selective exposure to quality dividend stocks and sectors benefiting from supportive government policies.

Asset Class Performance

Equities	Current	Performance (%)			
		1 Week	1 Month	3 Months	Year-To-Date
S&P 500 (USD)	7718.6	0.09	-0.06	4.54	12.75
Dow Jones (USD)	53414.25	-0.27	-1.72	5.01	11.13
NASDAQ 100 (USD)	29544.15	0.38	0.19	2.03	17.01
FTSE 100 (GBP)	10831.09	0.06	-0.53	4.47	9.06
S&P/ASX 200 (AUD)	9005.889	-0.95	-2.41	4.41	3.35
DAX (EUR)	26046.4	-1.97	-0.31	5.20	6.35
Swiss Market Index (CHF)	14395.94	-0.03	-1.07	7.53	8.51
HSCEI Index (HKD)	8555.03	0.76	-0.57	1.40	-4.02
Hang Seng Index (HKD)	25650.87	0.26	-1.02	2.76	0.08
Nikkei 225 (JPY)	65020.94	-2.09	-1.93	-2.35	29.16
Commodities & Currencies	**Current**	**1 Week**	**1 Month**	**3 Months**	**Year-To-Date**
Brent Crude (USD)	96.28	9.28	23.66	10.90	59.96
Gold (USD)	4429.98	-0.56	4.31	2.35	2.56
EURUSD	1.1614	0.25	0.53	0.80	-1.12
GBPUSD	1.3519	-0.14	0.38	1.33	0.33
USDJPY	156.26	-2.39	-0.94	-2.51	-0.29
Bonds	**Current (%)**	**Basis points Change**			
		1 Week	**1 Month**	**3 Months**	**Year-To-Date**
US 10-year Treasury yield	4.782	0.064	0.169	0.252	0.615
German 10-year Bund yield	3.339	0.060	0.228	0.301	0.484
UK 10-year Gilts yield	5.133	0.070	0.243	0.230	0.654
Japan 10-year bond yield	2.918	-0.013	0.089	0.246	0.852

1 week for the period 28-Aug-2026 to 04-Sep-2026
1 month for the period 05-Aug-2026 to 04-Sep-2026
3 months for the period 05-Jun-2026 to 04-Sep-2026
Year-to-date for the period 31-Dec-2025 to 04-Sep-2026
Source: Bloomberg (last update: Sat, 05 September 2026 1:29 PM SGT)

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