UOB PRIVATE BANK

2H 2026 Investment Outlook

Resilience over perfection

Contents

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

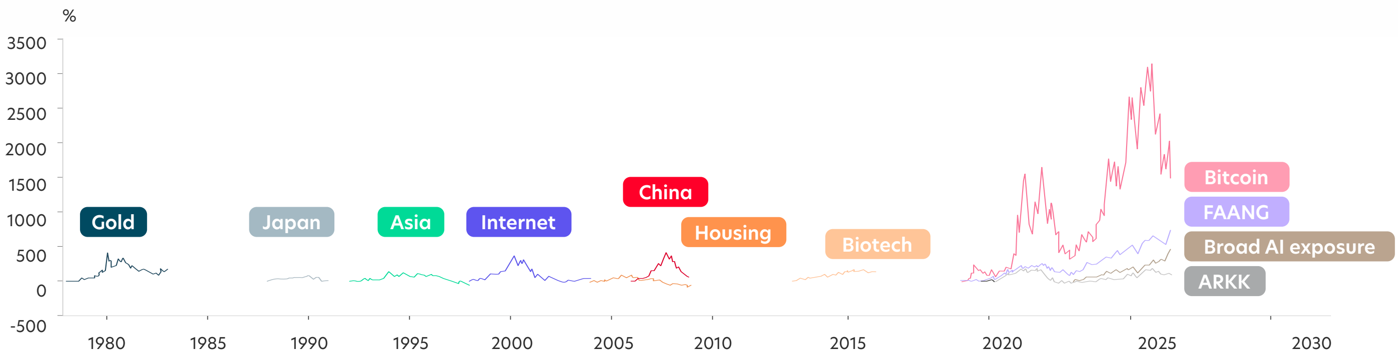
Of course, there are risks. If hyperscalers scale back capital expenditure, the AI infrastructure stack could take a hit. If oil spikes above USD 130 and stays there, central banks could turn hawkish again. That would be a problem. Markets dislike inflation. They dislike policy tightening even more.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

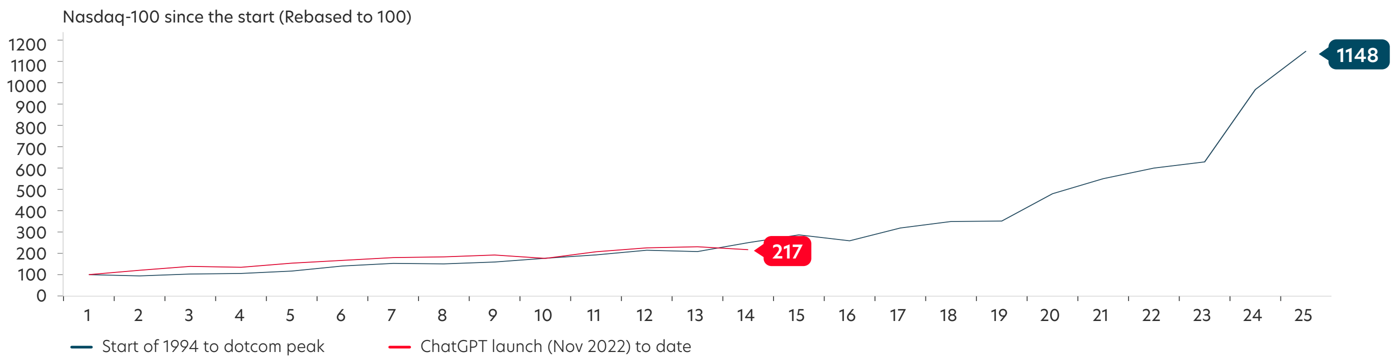
The old world rewarded the leanest system. The new world may reward the one that still works when something breaks. Less elegant. Far more investable. In this cycle, portfolios should be less like sports cars on a perfect highway, and more like off-road SUVs with a full tank and a spare tyre.

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

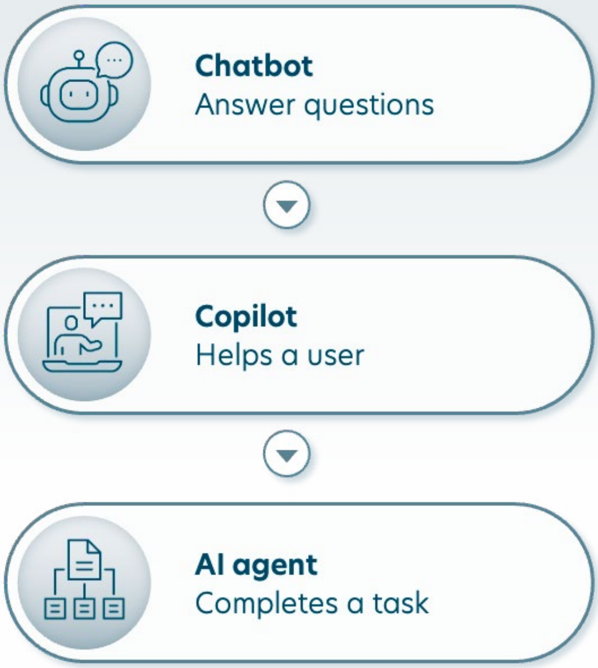
Agentic AI is the next step beyond chatbots

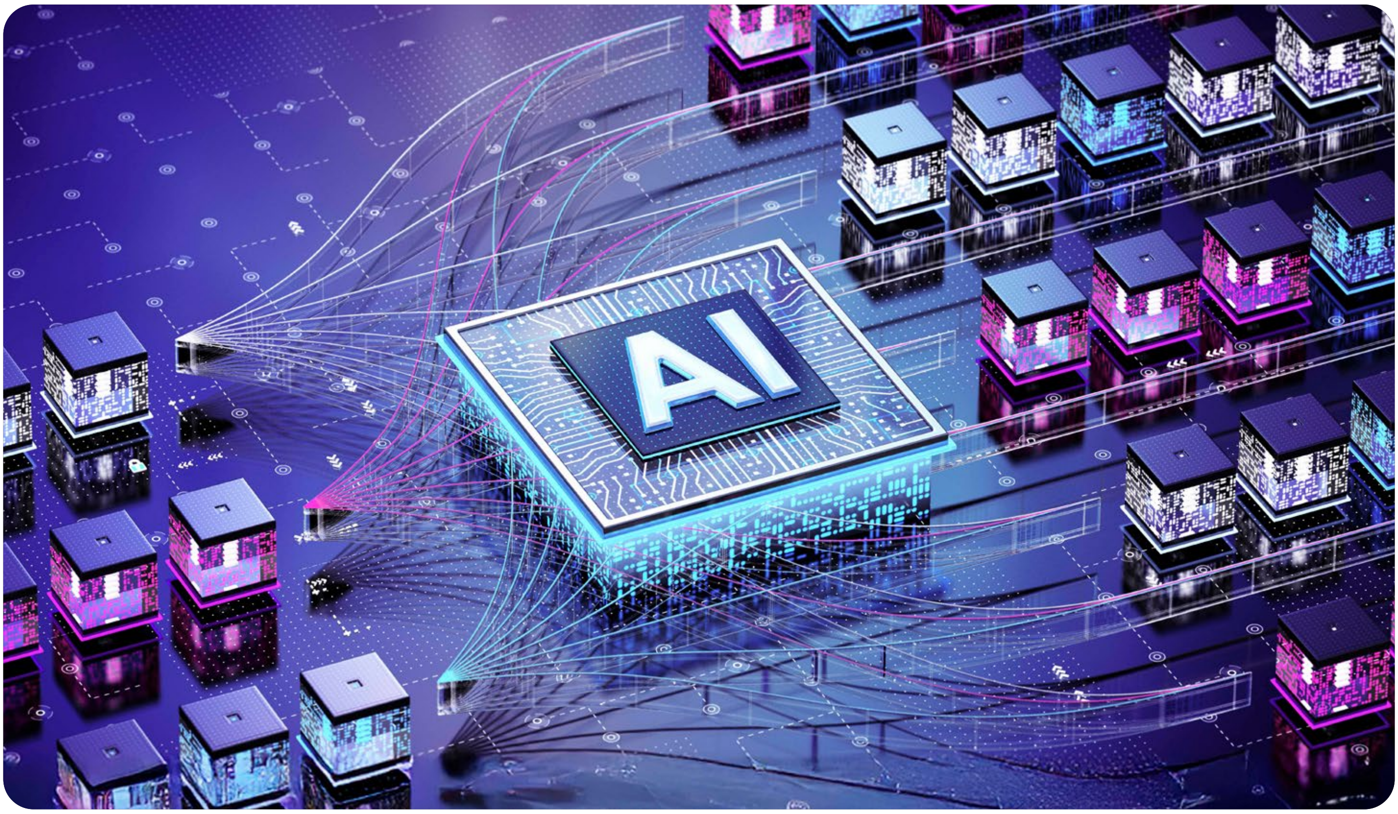
The first phase of generative AI was about content creation, search, summarisation and coding assistance. The next phase is about execution.

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.

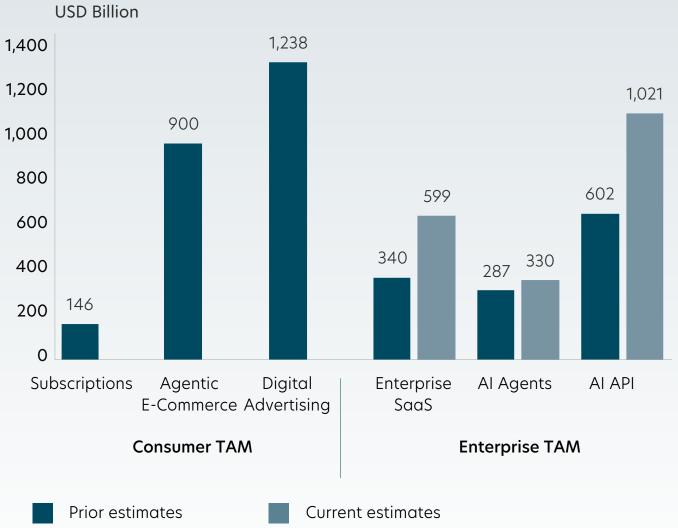
This distinction matters because enterprises do not only need better answers. They need lower operating costs and faster workflows. The pivot to agentic AI therefore moves AI from a productivity tool (chatbot) to a potential digital worker that is automated. If successful, this is essentially a shift 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.



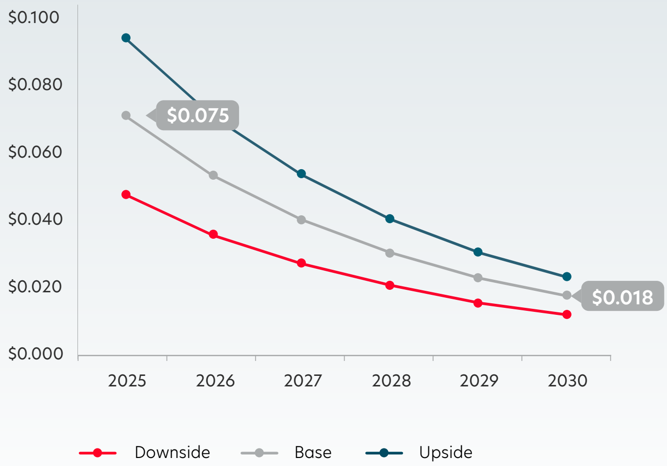


+4.2 Trillion AI TAM in 2030



Source: Citibank, UOB Private Bank

As compute costs/pricing dynamics scale, 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

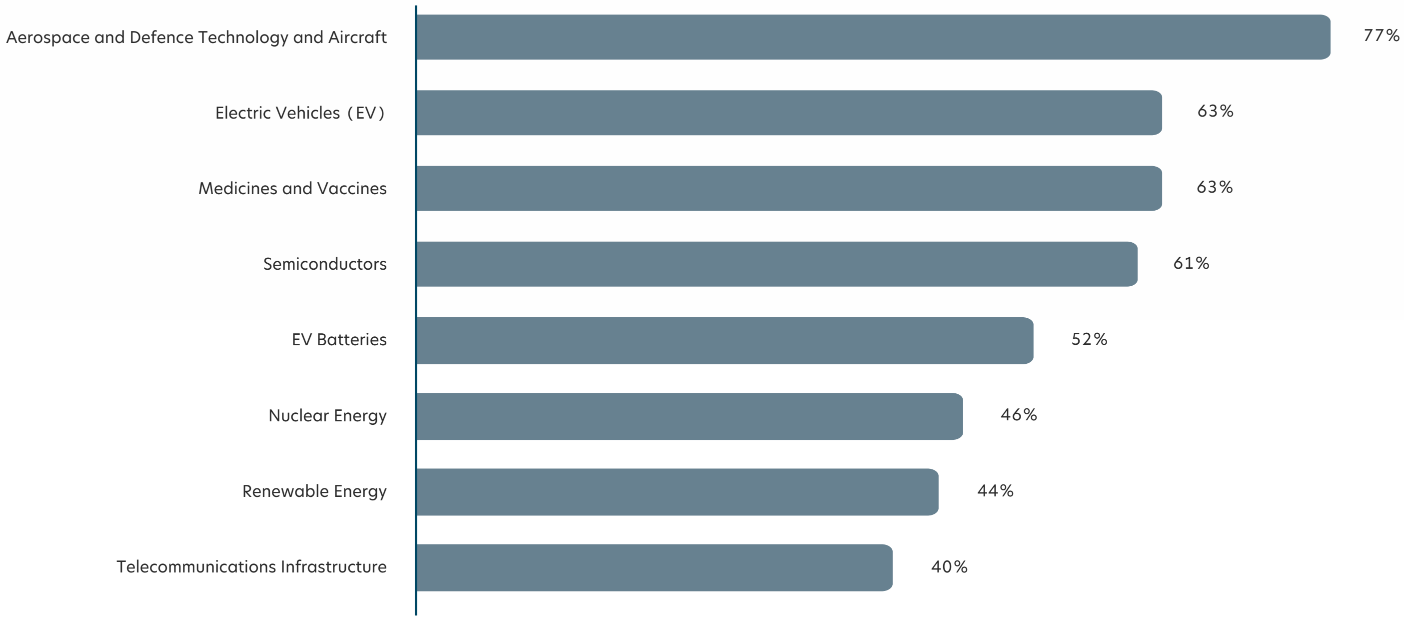
1) Geopolitical fragmentation is becoming structural
Global trade is increasingly shaped by national security considerations rather than pure economic efficiency. Export controls, trade restrictions and regional alliances are pushing supply chains towards multi-country and "friend-shored" models rather 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 (LNG), 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.

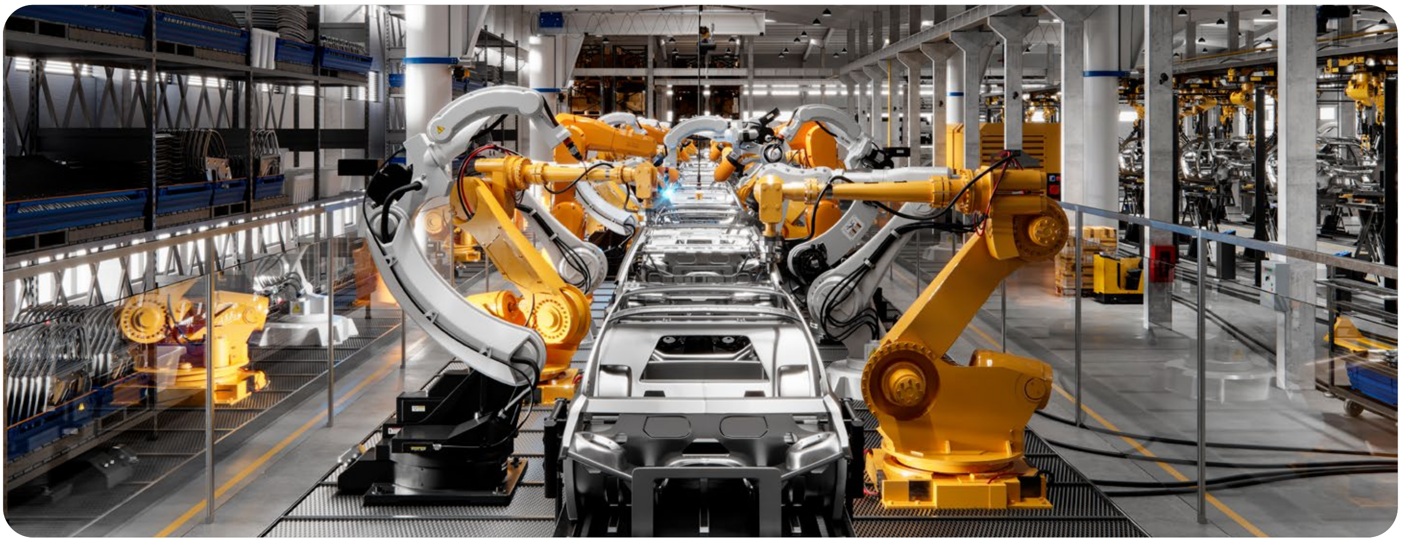
Risks and constraints

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, artificial intelligence, 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.

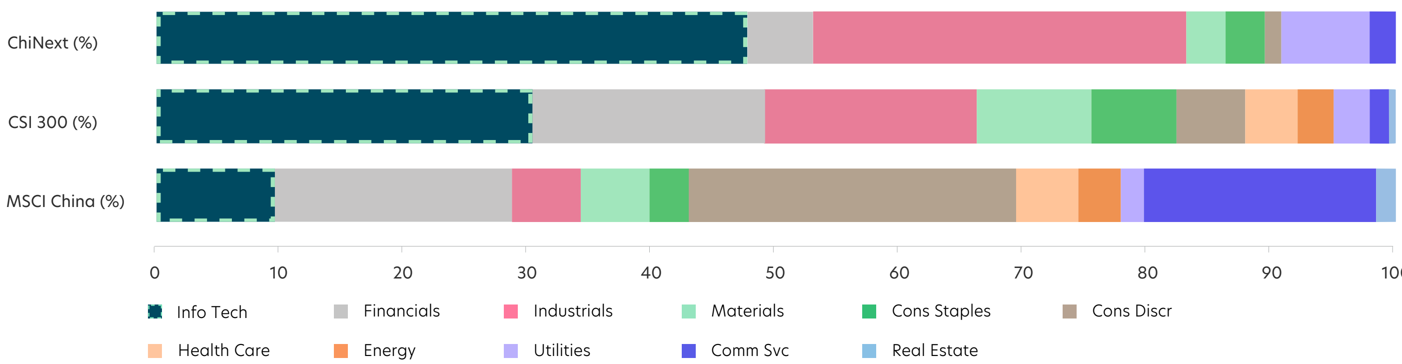
Investor demand remains robust. Large IPOs and high-growth technology listings continue to attract strong subscription levels, reflecting ample liquidity and sustained appetite for China growth exposure. The key question is whether this demand can remain deep enough to absorb a heavier issuance calendar 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, artificial intelligence 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.

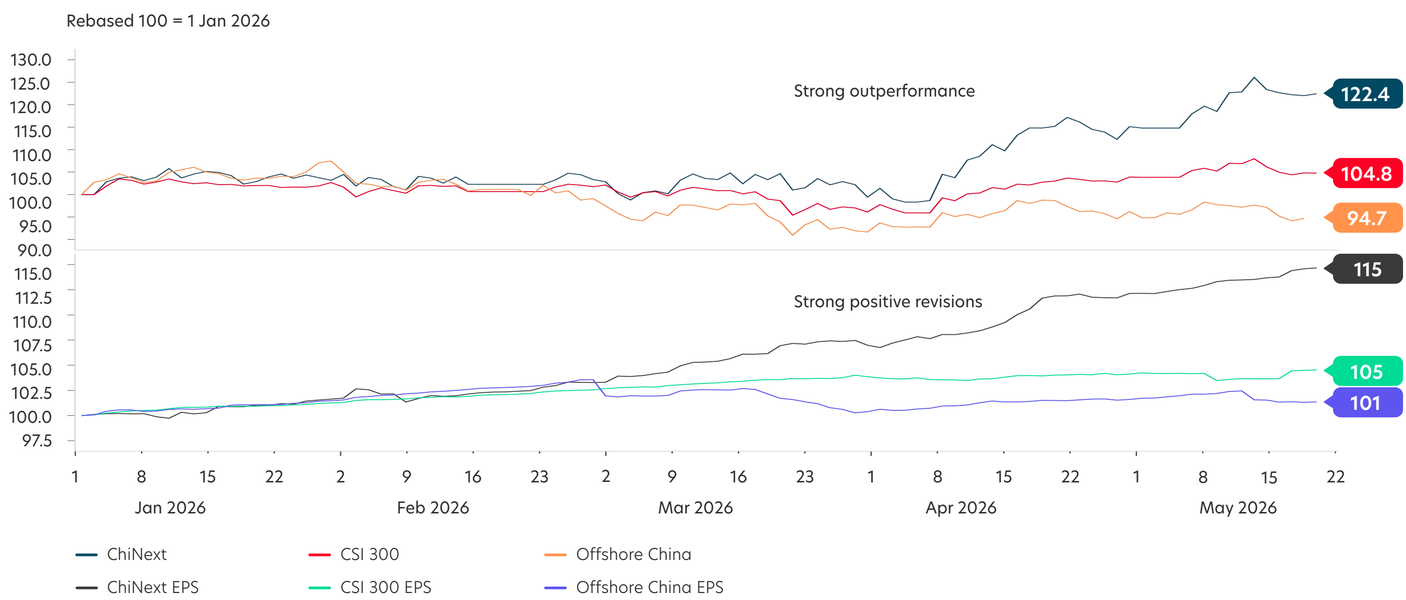
How to position for China equities?

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.
Alternatives		●		**Stay Neutral. Hold off on further allocation to private equity and credit until risk-reward improves.**
Hedge Funds		●		Stay Neutral. Favour long-short equity strategies amid a volatile market environment.
Private Markets		●		Stay Neutral. Constructive on private real estate and infrastructure. Maintain prudence in private equity and credit.
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

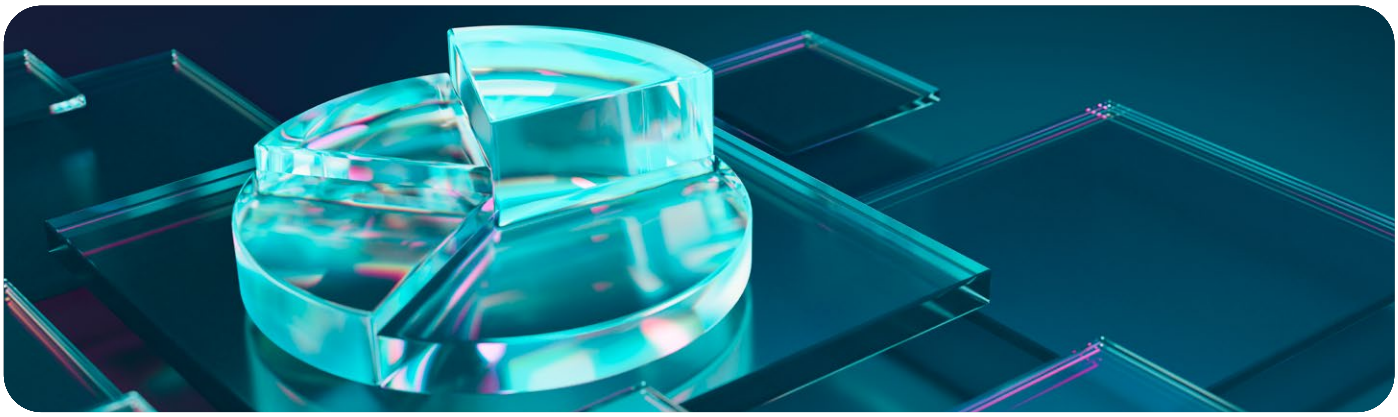
Notes:

- 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 clear dot indicates previous quarter's position.

Asset Allocation for 3Q 2026

Asset Classes	Very Conservative (%)		Conservative (%)		Balanced (%)		Growth (%)		Aggressive (%)		Comments
	Now	Chg.	Now	Chg.	Now	Chg.	Now	Chg.	Now	Chg.	
Equities			**30.0**		**50.0**		**65.0**		**75.0**		
United States			18.9		31.5		41.0		47.3		
Europe			4.2		7.0		9.1		10.5		
Japan			1.8		3.0		3.9		4.5		
EM Asia			5.1		8.5		11.1		12.8		
Fixed Income	**90.0**		**65.0**		**32.5**		**12.5**				
DM IG	45.0		29.2	▲ 1.6	14.6	▲ 0.8	5.6	▲ 0.3			
DM HY			3.3	▼ -1.6	1.6	▼ -0.8	0.6	▼ -0.3			Avg. duration: 4 to 5 years
EM IG	45.0		26.0		13.0		5.0				
EM HY			6.5		3.3		1.3				
Alternatives					**10.0**		**15.0**		**17.5**		
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 growth is expected to slow modestly due to higher energy costs, but remains supported by resilient US demand and ongoing investment in artificial intelligence.
- We expect US economic growth at 1.7% in 2026. The outlook remains K-shaped, with higher-income groups and corporates supported by policy and AI investment, while lower-income households face rising costs, weaker labour markets and limited wealth gains.
- We maintain our forecast for China economic growth at 4.7% in 2026, with industrial production and exports to remain key growth drivers in coming years. Strong growth in 1Q 2026 at 5.0% YoY provides some buffer against a deeper slowdown in 2Q 2026.

Monetary policies

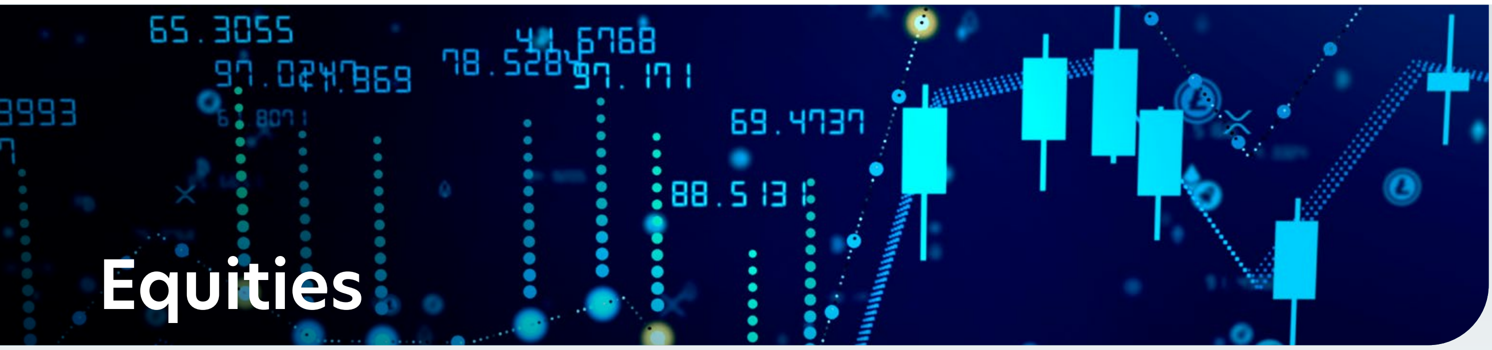
- We expect the Federal Reserve to stay on hold through 2026, before resuming easing with two cuts in late-2Q and 4Q 2027, bringing the policy rate to 3.25% as labour market softness emerges.
- The ECB has delivered a rate hike in June, driven by persistent inflation concerns. Beyond that, the path is likely to turn more cautious as long-end financial conditions tighten.
- China's monetary policy will stay moderately loose, relying on small-targeted easing rather than broad stimulus. Meanwhile, we maintain our expectation of one final 25bps Bank of Japan (BoJ) hike in 3Q 2026 to 1.00% terminal rate, supported by wage momentum but tempered by energy-related risks.

Prices

- Global inflation has picked up again in 2026, driven largely by higher energy prices and broader pressures across goods, services and supply chains.
- We have revised our US 2026 inflation forecasts higher (headline: 3.7%, core: 3.0%) to reflect persistent energy and services inflation. We expect meaningful easing only from next year.
- China's inflation is set to turn mildly higher as deflationary pressures ease, while Southeast Asian economies may see strong price pass-through, reflecting higher sensitivity to energy costs and imported inflation.

Asset allocation

- Stay Overweight on Equities on resilient earnings and continued AI build-out. Maintain Overweight on US with a focus on AI infrastructure stack, and retain a preference for Financials, Industrials and Materials. Stay Overweight on EM Asia; constructive on China tech and dividend plays as well as Korean/Taiwan semis. Prefer Singapore within ASEAN.
- Stay Neutral on Fixed Income given reasonable all-in yields but tight spreads. Reduce duration to 4-5 years. Overweight on DM IG and EM IG.
- Stay Neutral on the less correlated Alternatives. Defer further allocation to private equity and credit until the risk-reward outlook improves.



Equities

United States

Earnings delivery takes the lead

Stance: We maintain an overweight stance on US equities entering 2H 2026, supported by resilient earnings growth, steady US macro momentum and continued AI infrastructure investment.

Market valuations are supported by upbeat 1Q 2026 corporate earnings, with early AI monetisation trends reinforcing confidence in the US corporate profit outlook. While AI capex remains a key investment focus, its impact is broadening into other areas.

That said, with the Fed now expected to remain on hold for the remainder of 2026, further upside should depend more on earnings delivery, margin discipline and market broadening than valuation expansion. Stocks may be vulnerable to pullbacks on negative headlines, including geopolitical events.

Overall, investors should avoid chasing overbought names and keep capital ready for market dips. Key risks include higher bond yields, Middle East tensions, elevated oil prices, margin pressure and slower hyperscaler spending.

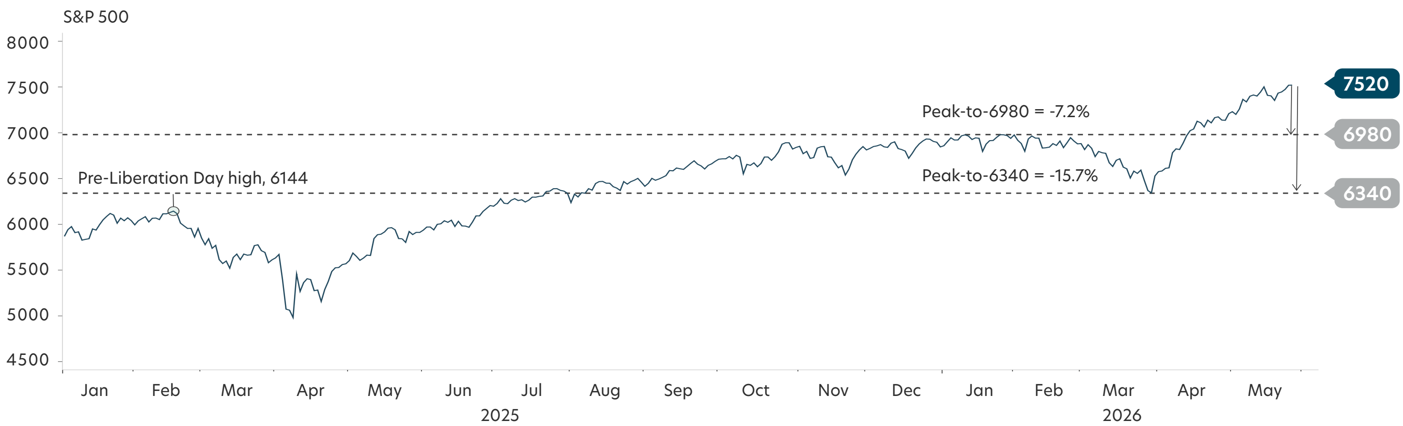
Macro and rates backdrop

Fed path: Our house view is now for an extended Fed pause through the remainder of 2026, with easing expected to resume only in 2027. The Fed Funds Target Rate upper bound is expected to remain at 3.75% through end-2026, before two 25bps cuts in 2027 bring it to 3.25% by end-2027. The April Federal Open Market Committee (FOMC) minutes reinforced the case for patience, as policymakers highlighted both upside inflation risks and downside employment risks.

Inflation: Inflation risks have risen. May headline Consumer Price Index (CPI) rose to 4.2% YoY, while core CPI increased to 2.9% YoY. Our 2026 forecasts have been revised higher to 3.7% for headline inflation and around 3.0% for core, with upside risks primarily driven by energy prices and evolving geopolitical developments.

Growth: For 2026, we continue to expect positive but moderating US GDP growth of around 1.7% (2025: 2.1%). This reflects continued support from AI-driven investment and associated productivity gains, even as fiscal impulse fades and consumer spending becomes more constrained. Elevated energy costs may also persist into 2H, posing an additional headwind to growth.

Technical levels on S&P 500



Source: Bloomberg, UOB Private Bank

Earnings and valuations: Tech/Growth carries the earnings cycle

Earnings dynamics: Looking into 2H 2026, US corporate earnings are expected to remain the key driver, with consensus expecting low-20s S&P 500 Earnings Per Share (EPS) growth for 2026. Earnings momentum should be supported by resilient sales growth, improving earnings revisions and margin discipline, while broadening beyond mega-cap technology as more companies benefit from operating leverage, cost control and early AI-driven productivity gains. That said, EPS growth is expected to moderate in 2027, as the 2026 base was lifted by selected technology and semiconductor leaders.

Valuations: Following the Middle East ceasefire-driven rally, US equity valuations look rich but not excessive, with the S&P 500 trading at 20.8x twelve-month forward Price-to-Earnings (P/E) (as of 26 May 2026), above its 10-year average of 19.0x. The strong earnings profile help justify the valuation premium, though further upside is likely to depend more on earnings delivery than multiple expansion under the current monetary policy narrative.

Market positioning: Growth and technology-related stocks are expected to maintain positive momentum, especially those supported by AI infrastructure and large data centre capital expenditures. However, lofty valuations make them vulnerable to sharp technical pullbacks on any disappointing news. As a result, portfolio diversification remains an important risk management tool, particularly given record market concentration. Investors should also remain mindful of potential sector rotation, which may make reallocating capital toward cyclicals and other laggard sectors a more balanced approach.

Investment strategy: Buy pullbacks, broaden exposure

Strategy: A more prudent 2H 2026 strategy is to keep capital ready for market dips. Investors who missed the rally since April should avoid chasing overbought stocks. Instead, they should prepare a buy list, set entry levels and scale in during consolidation. Growth and technology-related stocks should remain core holdings, especially AI infrastructure, cloud, semiconductor and data centre beneficiaries. Portfolios should also diversify into selected quality stocks. Industrials have multi-year tailwinds from electrification, defense spending and reshoring. Investment banks may benefit from mega IPO optimism and stronger deal activity, while healthcare offers catch-up potential and defensive earnings.

Risk flag: Key risks include rising bond yields, which could compress valuations, and a prolonged Middle East conflict that keeps oil prices elevated, adding inflation pressure and eroding margins. Leverage remains a fragility, while slower hyperscaler spending could disrupt the AI supply chain.

Key takeaways

The US equity outlook remains constructive, supported by strong earnings delivery and AI-related growth. However, rich valuations and elevated market concentration call for disciplined buying on dips rather than chasing overbought names. Portfolios should remain diversified across AI beneficiaries and selected quality names in sectors such as industrials, investment banks and healthcare, while investors monitor risks from higher bond yields, oil shocks, leverage, geopolitical tensions and slower hyperscaler spending.

S&P 500 companies have mostly been beating EPS expectations

Source: Bloomberg, UOB Private Bank

CIO's View

We remain overweight US equities for 2H 2026, supported by resilient earnings, AI capex and steady growth despite an extended Fed pause.

Europe

Neutral with targeted opportunities

Stance: We maintain neutral on European equities heading into 2H 2026. While the region continues to demonstrate resilient macro fundamentals and exposure to attractive structural themes, the absence of a broad-based earnings recovery and sticky core inflation limit the potential for index-level outperformance.

The investment landscape remains highly idiosyncratic, with notable dispersion across sectors. Select themes—particularly AI infrastructure, energy transition, and defense modernisation—continue to offer compelling alpha. However, a hawkish policy backdrop, persistent inflation, and structural strains in manufacturing are tempering broader market conditions.

Valuations for the Stoxx Europe 600 appear broadly fair, near historical averages, with the persistent discount to the US reflecting weaker structural growth and limited tech exposure. Market breadth remains narrow, with gains concentrated in select sectors and names, reinforcing a preference for active stock selection over passive regional exposure.

In this environment, we recommend a balanced approach: anchoring portfolios in defensive value with high dividend visibility while selectively adding exposure to structural growth seculars.

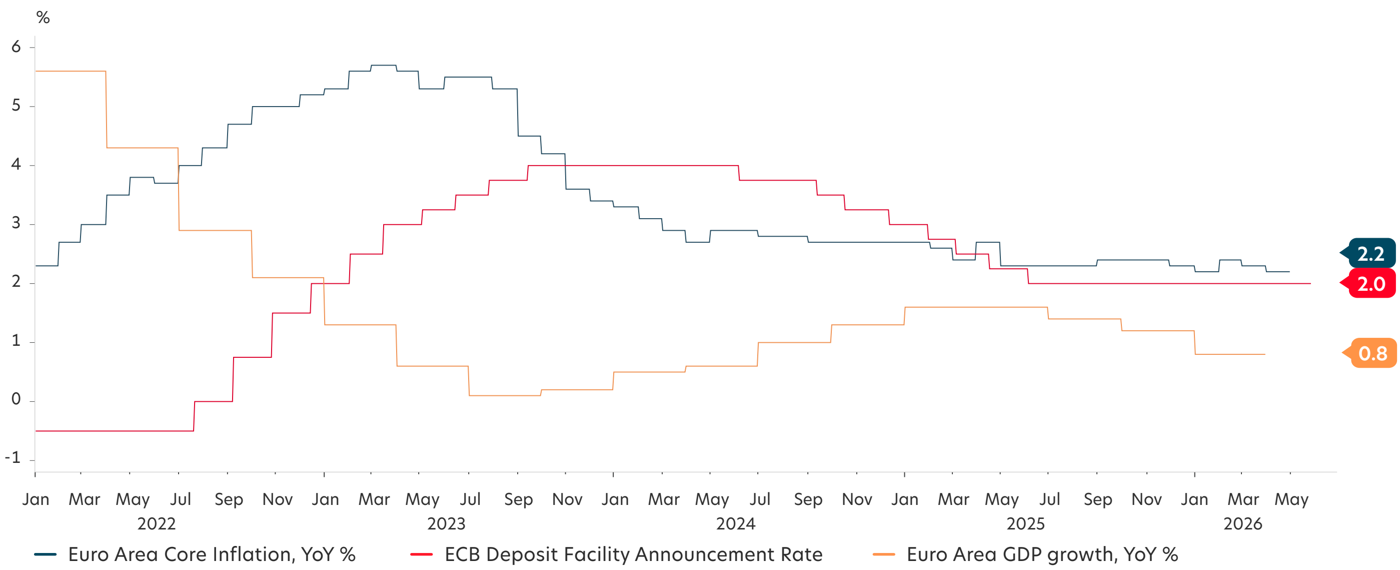
Macro and policy backdrop: ECB turns hawkish amid energy-driven shock

ECB path: The ECB's expected policy path for 2H 2026 has shifted from a prolonged pause to a more hawkish stance, driven by an energy-induced stagflation shock. Despite weak Eurozone growth, persistent inflation—projected to reach 3.0% in 4Q before easing below 2.0% in 2027—will likely prompt a measured response. The central bank delivered a rate hike in June, lifting the deposit facility rate from 2.00% to 2.25%, versus ~75bps of tightening priced by markets.

Eurozone growth: The European Commission has revised its 2026 Eurozone GDP growth down to ~0.9%, reflecting the impact of renewed energy and geopolitical shocks. While private consumption remains relatively resilient, structural weakness in Germany's industrial sector continues to weigh on overall activity, partly offset by more robust, service-led growth across Southern Europe.

EUR consolidation: EUR/USD is currently consolidating as the pace of rate differential narrowing slows, with the Fed approaching the end of its tightening cycle while the European Central Bank (ECB) remains relatively hawkish. Looking ahead, further compression—alongside easing geopolitical risks—should provide support. We expect EUR/USD to remain range-bound near term before gradually appreciating toward 1.19 by 4Q 2026.

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: Corporate earnings in 1Q 2026 demonstrated resilience but limited momentum. Results in line with expectations with downside surprises, positive revisions were scarce and concentrated. Sector dispersion remained pronounced: industries with structural pricing power protected margins, whereas more cyclical, commoditised segments faced pressure from high input costs and weak pricing flexibility.

Looking ahead, the outlook is stable but lacks catalysts for acceleration. Consensus 2026 EPS growth remains around 6–8%, though outcomes will be uneven and sector-dependent. Earnings leadership will stay structurally driven, with growth concentrated in areas such as AI-related capex, electrification, and defense, while traditional cyclicals continue to lag.

Valuations: The Stoxx Europe 600 trades at 15.0x twelve-month forward P/E (as of 26 May 2026), near its 10-year mean. This represents a discount to the US, driven by a lack of mega-cap secular growth drivers. We view current levels as fair, offering a margin of safety with minimal expansion catalyst.

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

Investment strategy: Targeted opportunities, not market beta

AI infrastructure: AI infrastructure is a key opportunity, supported by leadership in semiconductor equipment, advanced lithography, and data-centric memory.

Utilities and power infrastructure: European utilities are well-positioned for continued investments in power generation, grid infrastructure and renewable energy projects, while also offering relatively attractive dividend yields and defensive earnings characteristics.

Defence and strategic autonomy: Geopolitical uncertainty and emergence of a more multipolar world are driving increased defence spending across Europe.

Risk flags: Policy disappointments related to European defence spending initiatives may hit sentiment. Meanwhile, a sustained increase in natural gas prices due to supply disruptions could raise input costs.

Investment takeaways

European equities are likely to remain a stock-picker's market into 3Q 2026. We maintain a neutral stance, reflecting persistent macro headwinds and constrained market breadth. Alpha is increasingly driven by selective exposure to structural spend, such as AI infrastructure, clean energy, and defence—rather than broad beta. Geographically, we favour peripheral markets such as Italy and Spain over Germany, where ongoing structural adjustments in its industrial base continue to weigh on growth and earnings visibility.

Stick to the winning themes

Source: Bloomberg, UOB Private Bank

CIO's View

We maintain neutral on European equities going into 2H 2026 as improving macro conditions are juxtaposed with lingering structural constraints.

Japan

Supportive structural reforms but selective stance is warranted

Stance: We maintain a neutral stance on Japanese equities into 2H 2026. While structural reform momentum continues to underpin the medium-term investment case, elevated valuations and higher energy prices warrant a more selective approach.

Following the strong year-to-date performance, valuations have reached multi-decade highs (excluding the Covid period). While this reflects improving earnings quality and corporate reforms, it leaves the market more vulnerable to policy tightening and external shocks, particularly amid evolving geopolitical dynamics and global growth uncertainties.

Japan's investment case continues to evolve beyond cyclical recovery toward structural transformation, driven by themes such as corporate governance reform, economic security, supply-chain resilience and technological innovation. These structural tailwinds continue to support earnings durability and Return on Equity (ROE) expansion, reinforcing Japan's attractiveness within global portfolios, though stock selection will be increasingly important in 2H 2026.

We prefer companies which benefit from policy themes including defence infrastructure buildout and energy self-sufficiency under the Takaichi administration. Companies demonstrating meaningful improvements in corporate governance and shareholder returns remain favoured. Finally, we like firms which are positioned as critical AI infrastructure buildout.

Macro and policy backdrop: Risks dominated by the Middle East implies cautious path to further hikes

The government's economic strategy focuses on strengthening national resilience and strategic industries. Key priorities include economic security, supply-chain resilience and AI infrastructure. These initiatives are expected to drive increased investment across sectors, from semiconductors and advanced manufacturing to communications infrastructure.

BoJ path: Persistent high oil prices pose downside risks to growth but upside risks to inflation, especially as firms are now more willing to pass costs through and inflation expectations rise. While a June hike cannot be ruled out, BoJ policy will likely remain cautious amid geopolitical uncertainty. For now, we still expect BoJ to remain in a period of pause (including June) before the subsequent hike to 1.00% in 3Q 2026 which we believe will be the terminal rate.

Japan growth: Japan's real GDP growth is expected to be 1.3% in 2026, with risks biased to downside from weak private consumption and elevated crude prices. CPI inflation is expected to be 2.0% on average in 2026, with potential to be higher on Middle East-related risks.

JPY trajectory: We anticipate a gradual moderation in USD/JPY toward levels more consistent with narrowing US-Japan interest rate differentials.

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: Consensus projects low-teens EPS growth for Tokyo Price Index (TOPIX) in 2026, underpinned by a more durable earnings profile with key drivers being stronger pricing power, sustained wage growth and continued corporate restructuring and productivity gains. However, elevated energy prices and geopolitical tensions could pressure margin.

Valuations: TOPIX trades at 17.2x twelve-month forward P/E (as of 26 May 2026), which is above its 10-year average of 14.9x. We see potential for multiple compression as the BoJ looks to normalise policy rates. Having said that, Prime Minister (PM) Takaichi has greater latitude to pursue her fiscally expansionist economic agenda following her historic snap election victory. Fiscal stimulus support for the corporates and consumers at large could help put a floor to valuations.

Market positioning: Following the recent market outperformance, we expect corporate earnings to remain resilient but with greater dispersion. We prefer large-cap quality names with strong pricing power and structural tailwinds.

In terms of portfolio positioning, sector selection and thematic exposure matter. We favour companies aligned with fiscal policy priorities, improved corporate governance and shareholder returns, as well as critical positions with the global AI infrastructure stack.

Structural growth themes: AI, infrastructure and economic security

AI and semiconductor ecosystem: Companies exposed to semiconductor equipment and advanced manufacturing remain core beneficiaries of the ongoing global AI and technology capex cycle.

Infrastructure renewal: Japan is entering a major infrastructure renewal cycle as ageing infrastructure from the 1980s reaches replacement age. These projects are supported by a national resilience budget exceeding JPY 5 trillion, highlighting the scale of planned infrastructure spending.

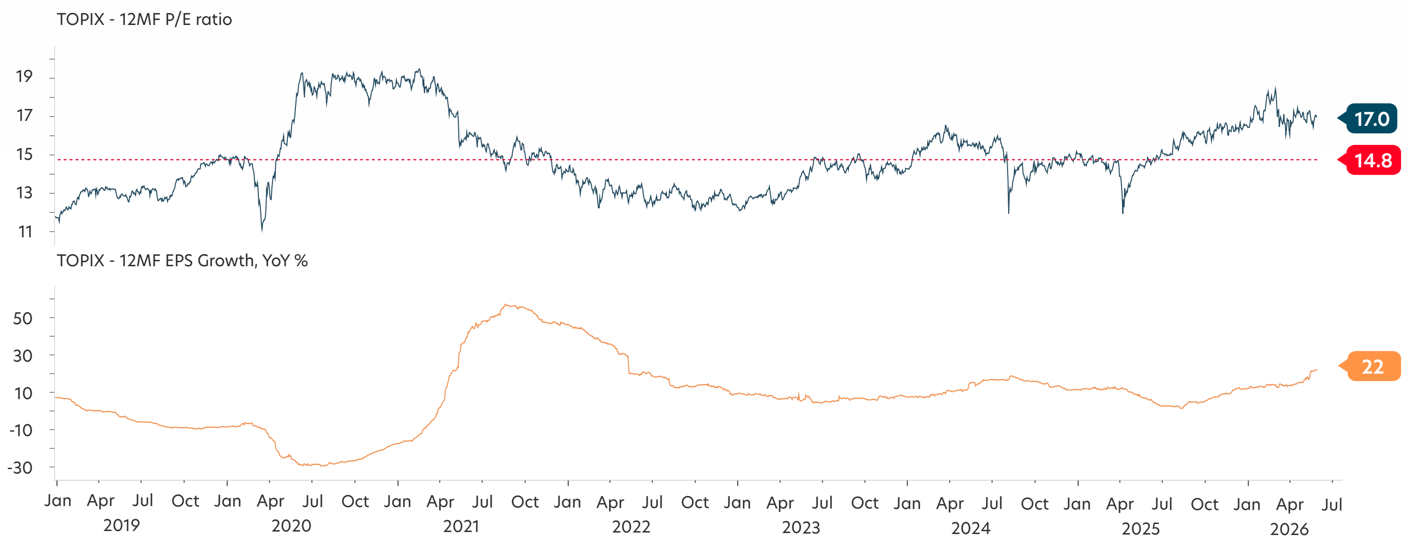
Economic security: Japan's policy focus on strategic industries, energy security and advanced technology is expected to support investment in sectors such as aerospace, communications and cybersecurity.

Risk flags: Sustained increases in energy prices, stronger-than-expected JPY appreciation, policy execution risks and global economic slowdown could hit investor sentiment.

Investment takeaways

Japanese equities continue to benefit from structural reforms, strategic industrial investment and improving corporate profitability. However, the persistent energy price volatility, currency dynamics and moderate economic growth may limit broad-based multiple expansion. Thus, we remain neutral on Japanese equities, taking a selective approach that focuses on companies aligned with structural growth themes such as AI infrastructure, national resilience and supply-chain security.

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



Source: Bloomberg, UOB Private Bank

CIO's View

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

Emerging Asia

Tech leadership to solidify gains

Stance: We maintain overweight on EM Asia equities entering 2H 2026. Our constructive stance is anchored by regional structural resilience and improving corporate fundamentals. While broader global markets grapple with extended valuations, EM Asia presents a compelling combination of self-sustaining domestic growth, defensive monetary policy setups, and discounted valuations.

The growth narrative for EM Asia remains the most dynamic globally, fueled by a powerful mix of domestic consumption and structural economic re-engineering. ASEAN economies are benefiting from rising middle-class disposable incomes and sustained foreign direct investment. China is shifting away from real-estate-reliant growth toward high-value manufacturing and consumer services. Several regional markets stand out for their structural strengths. Korea and Taiwan are benefiting from strong AI and semiconductor tailwinds, driving continued momentum, while China is showing early signs of stabilisation.

Meanwhile, Singapore offers a defensive, high-quality gateway to ASEAN growth, supported by strong financial institutions, capital flows and rising demand for digital and infrastructure investment. Overall, these trends support a constructive outlook on EM Asia equities, with selective opportunities in technology and structural growth sectors.

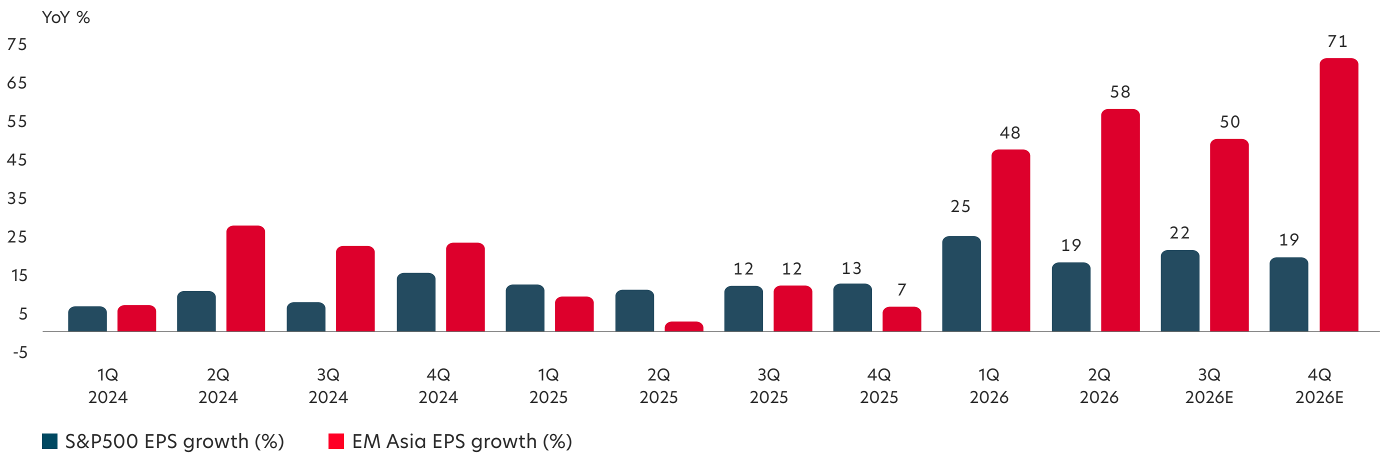
Macro backdrop: Structural upgrade remains a bright spot

China growth: China's strong 1Q 2026 GDP growth of 5.0% YoY provides a buffer against a likely slowdown from 2Q 2026, with full-year growth expected to moderate to around 4.7%. The upcycle in global AI demand continues to support high-tech manufacturing even as broader industrial activity softens, while the property market remains in decline with only modest easing in price pressures and persistent divergence between stronger top-tier cities and weaker lower-tier markets. Overall, headline growth is moderating toward a more sustainable, higher-quality pace.

China's realignment: Beijing's regulatory policy is intentionally shifting capital allocation away from property speculation and redirecting it toward 'New Productive Forces'. Policy frameworks emphasise advanced manufacturing, digital infrastructure, and green technologies. This structural upgrade sacrifices highly leveraged headline growth for sustainable, higher-margin economic outputs.

Monetary policy: The People's Bank of China (PBOC) remains oncourse to keep its monetary policy "moderately loose" to support the consumption recovery. Our economics team no longer expect the PBOC to cut interest rates this year vs. the previous forecast of a modest 10bps cut in 3Q 2026. Policymakers are expected to lean on fiscal measures to cushion the impact of Middle East conflicts on the broader 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 trajectory: Consensus projects ~54% EPS growth for Morgan Stanley Capital International (MSCI) EM Asia over the next 12 months. While we expect the regional earnings upgrade cycle to continue, the pace is likely to moderate going forward.

Technology-related sectors remain the primary drivers of earnings growth. The memory supercycle is a widely recognised but still debated theme. Strong hyperscaler demand has created supply tightness in high-end memory chips, driving sharp price increases and outsized earnings gains due to high operating leverage.

At the country level, South Korea and Taiwan are leading earnings upgrades amid accelerating manufacturing activity, rising memory prices and strong semiconductor exports. China's earnings outlook remains more moderate, but it offers a structural transition story—moderating yet resilient growth supported by policy-driven capital reallocation into high-tech, higher-quality sectors.

Valuations: MSCI EM Asia trades at 12.1x twelve-month forward P/E while HSCEI trades at 9.4x twelve-month forward P/E (as of 26 May 2026); the valuations are at a discount relative to developed markets despite strong growth potential. We see attractive entry points, but expect a gradual and uneven recovery, warranting selective positioning.

Market positioning and strategy: We favour a barbell strategy for EM Asia/China equities, focusing on sectors with sustainable dividends and high-quality AI/tech leaders.

Structural growth themes: AI, advanced manufacturing and economic resilience

Semiconductor value chain: Taiwan and South Korea are home to leading semiconductor manufacturers, putting them in a solid position to benefit from growing demand in AI, high-performance computing, and memory chips. AI-driven compute demand is accelerating, and a shift toward long-term contracts is supporting a more durable earnings outlook.

China tech and industrial transformation: China continues to prioritise technological self-sufficiency and advanced manufacturing as part of its long-term economic strategy. Key focus areas include AI, semiconductor localisation, advanced industrial automation, as well as Electric Vehicles (EVs).

ASEAN growth and financial hub expansion: Singapore stands out as a regional financial and tech hub, benefitting from strong capital inflows, wealth management growth and expanding digital infrastructure.

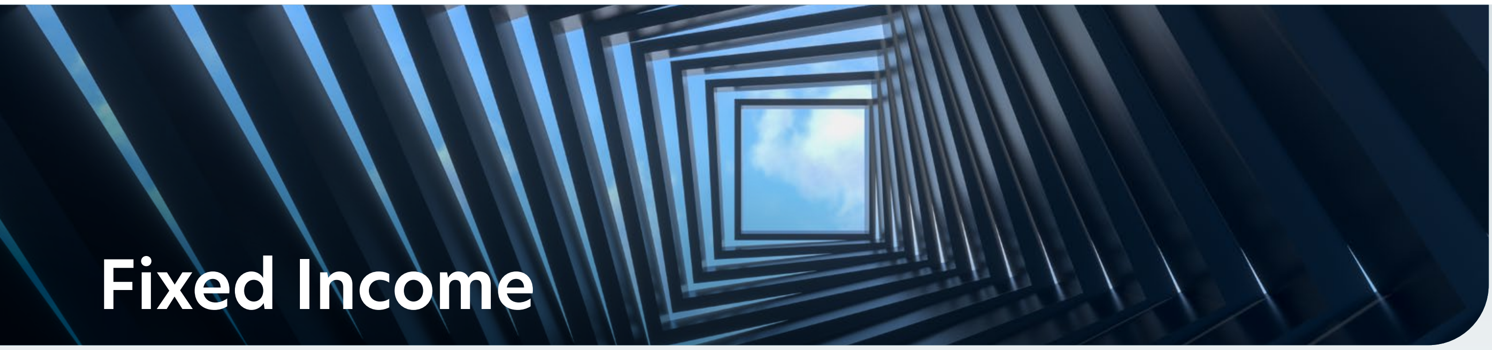
Risk flags: Geopolitical tensions and higher energy prices may drive volatility. Global tech demand could slow after the current investment cycle.

Investment takeaways

Overall, EM Asia remains supported by strong earnings growth, tech leadership and structural economic transformation. Beyond dividend stocks, we remain focused on China's New-Economy themes such as AI, advanced manufacturing and EVs, while within ASEAN we favour Singapore equities for their resilience and defensive characteristics.

CIO's View

We maintain overweight on EM Asia equities entering 2H 2026, supported by earnings growth, structural technology leadership and attractive valuations relative to developed markets.



Fixed Income

Developed Markets Investment-Grade

Reducing duration, reinforcing quality in a repriced world

Developed Markets Investment Grade (DM IG) credits entered 2026 on a solid footing. Valuations were rich but supported by strong corporate earnings, resilient balance sheets, and expectations that major central banks would normalise policy gradually, and in a data-dependent manner. In that environment, carry-oriented strategies remained attractive, and the strategic allocation case for DM IG remained intact.

That backdrop was upended following the escalation of the US-Iran conflict and the disruption of energy flows through the Strait of Hormuz. The shock pushed Brent crude above USD 100/bbl and introduced a renewed inflation impulse into global markets. While the initial impact was concentrated in energy prices, it has since broadened across goods, services, and supply chains. In the US, May headline CPI print rose to its highest reading since May 2023, at +4.2% YoY.

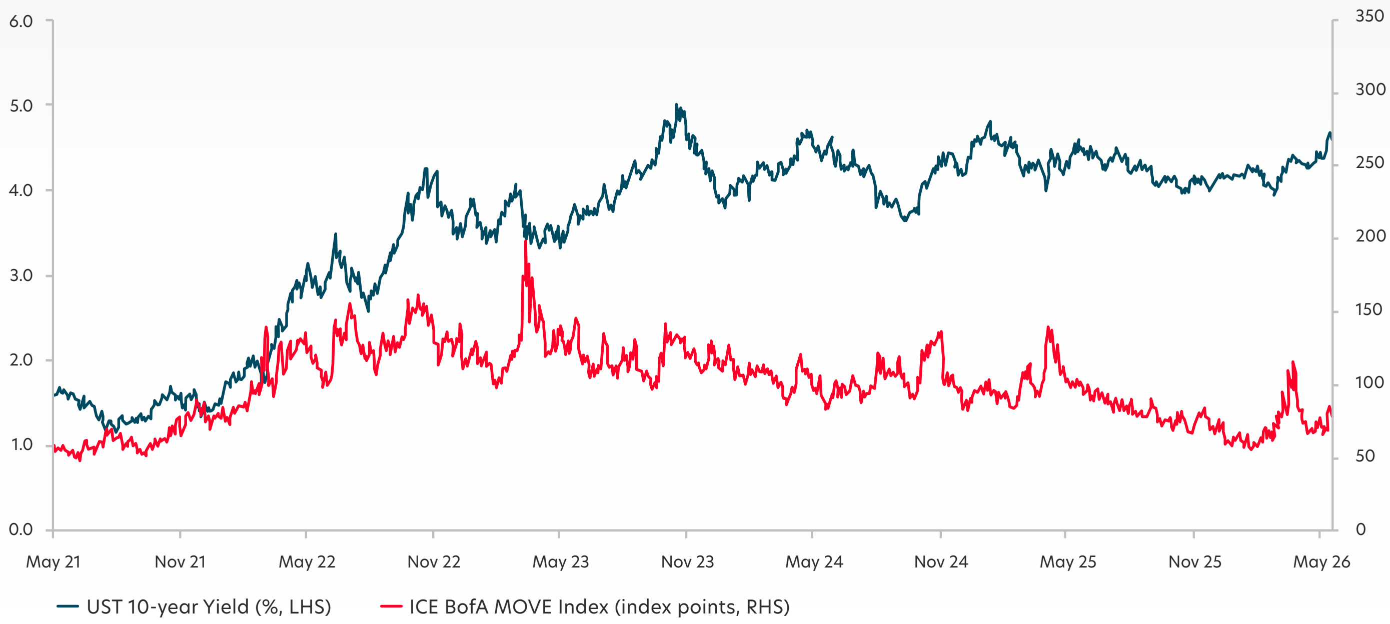
The inflation data has fed directly into a decisive repricing across the US rates complex. US Treasury 10-Year Yield (UST10Y) yields rose past 4.5%, while UST30Y yields climbed above 5%. US 10-year inflation breakeven rates have also moved higher, reaching 2.41% as of 25 May 2026. More importantly, Fed funds futures are now assigning a material probability to rate hikes before year-end. This reflects both the energy price shock and uncertainty around the policy posture of incoming Fed Chair Kevin Warsh.

UOB Global Economics and Markets Research has pencilled in a UST10Y yield forecast of 4.45% by year-end and expects the Fed to remain on hold for the remainder of 2026 before the Fed resumes easing in 2027. Accordingly, we are reducing our target portfolio duration to 4–5 years, from 5–7 years previously.

DM IG sits in an uneasy equilibrium: upside from further spread compression is limited given already-rich valuations, yet elevated all-in yields continue to incentivise demand. We are not inclined to move down the credit quality spectrum in pursuit of incremental yield pickup. In our view, idiosyncratic credit events represent a widening tail risk that the broader market is under-pricing. Our approach is deliberate: favour quality, remain disciplined on credit selection, and selectively add exposure to structural winners during elevated selloffs.

Our sector preferences reflect durable and secular conviction. We pair defensive anchors with structural growth in our credit selection. We are most constructive on AI electrification beneficiaries, defence primes, regulated and integrated utilities, infrastructure, financials, insurers, telecommunications, select upstream Oil and Gas credits, and select US AI hyperscalers.

Subdued rates volatility despite higher UST yields



Source: Bloomberg, UOB Private Bank

CIO's View

Favour quality, remain disciplined on credit selection, and selectively add exposure to structural winner during elevated selloffs.

Developed Markets US High Yield

High yield gains mask rising risks

Developed Market US High Yield (DM HY) index delivered a year-to-date return of +1.13% (as of 25 May 2026), driven by coupon income (+2.59%) and spread compression (+1.2%) but significantly weighed down by rates selloff (-2.67%). Carry return has been the main driver for HY index but was offset by rates selloff triggered by elevated geopolitical risk and energy prices.

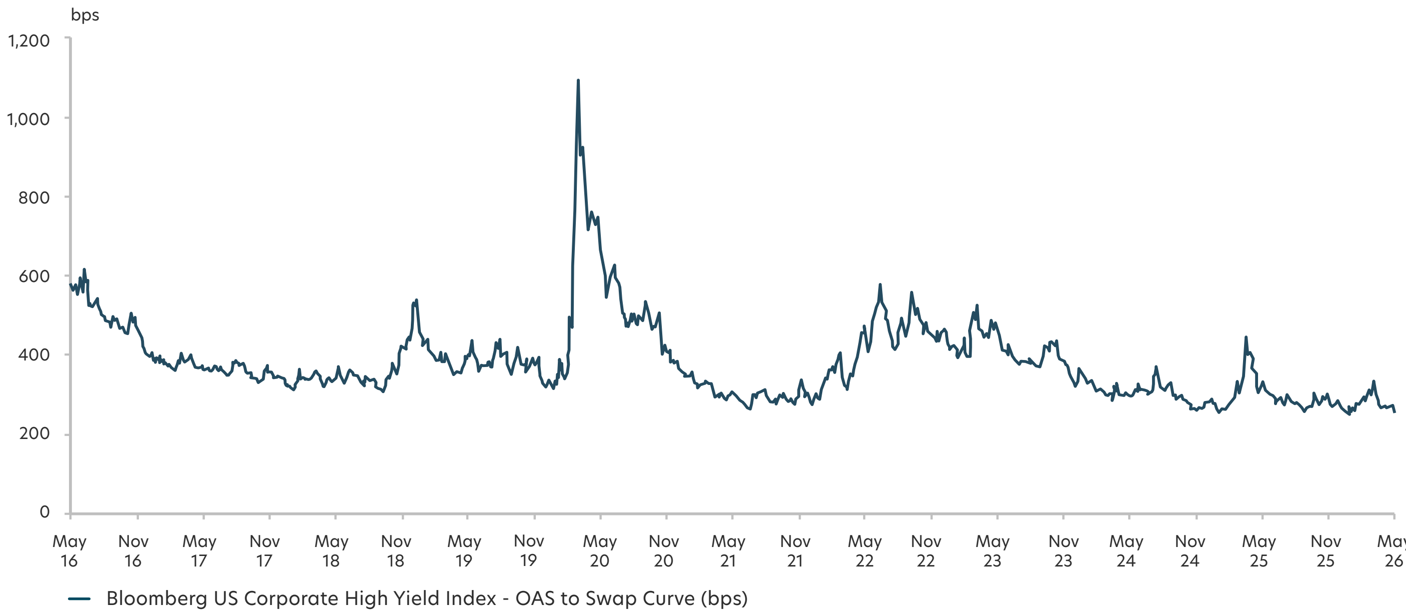
US HY has not been spared from the impact of Middle East conflict. The Energy sector which has a relatively large weighting in US HY index, benefited from the conflict as Brent crude rose above USD 100/bbl. The sector delivered a year-to-date total return of +3.98%. If energy prices normalise, Energy sector credit spreads could have room to widen. However, the second-order effect of elevated energy prices has spread to consumer discretionary, while the AI-driven disruption has raised questions about the long-term viability of the software sector.

The fundamentals of US High Yield market have improved, with the net leverage at the index level falling to 3.9x on 22 May 2026, from 4.85x in December 2025. BB-rated credits as a share of the index have reached an all-time high of 56%, while single-B credits have reached 9%, the lowest level since 2002. However, company default rate has been rising steadily, from a recent low of 0.78% in October 2025 to 2.01% in April 2026, just below the 10-year-average of 2.31%.

From a technical perspective, strong demand for higher-yielding bonds has pushed credit spreads tighter. This strong demand has also translated to oversubscriptions in the HY primary market.

We remain underweight on DM US High Yield as we believe tight spreads in HY names do not adequately compensate investors for elevated volatility and tail risks. In our view, overhanging issues from the Middle East conflict, Business Development Companies (BDCs) liquidity concern, and stress in the software sector are underpriced by the market. Also, the deeply negative convexity profile of HY bonds limits price upside. Therefore, we believe the risk-to-reward ratio in the HY space is less attractive than in DM IG.

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



Source: Bloomberg, UOB Private Bank

CIO's View

Rigorous bottom-up credit selection remains essential to avoid exposure to idiosyncratic credit stress.

Emerging Markets Asia Investment-Grade

Higher yields, stable spreads, and selective risks

2025 proved to be a strong vintage for EM Asia credits, with JACI IG delivering a full year total return of 7.8%, supported by c. 65bps rally in both spreads and UST. However, this constructive backdrop has not carried into 2026. Year-to-date, the JACI IG index total return stands at c. -0.03%, as higher UST yields eroded carry gains. Asian IG credit spreads, on the other hand, have remained relatively stable, tightening by -4bps year-to-date despite the broader risk-off environment. This resilience is underpinned by supportive all-in yields and resilient corporate fundamentals with net leverage, measured by net debt-to-Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), for the MSCI AC Asia Pacific remaining near cyclical lows at 1.47x as of April 2026.

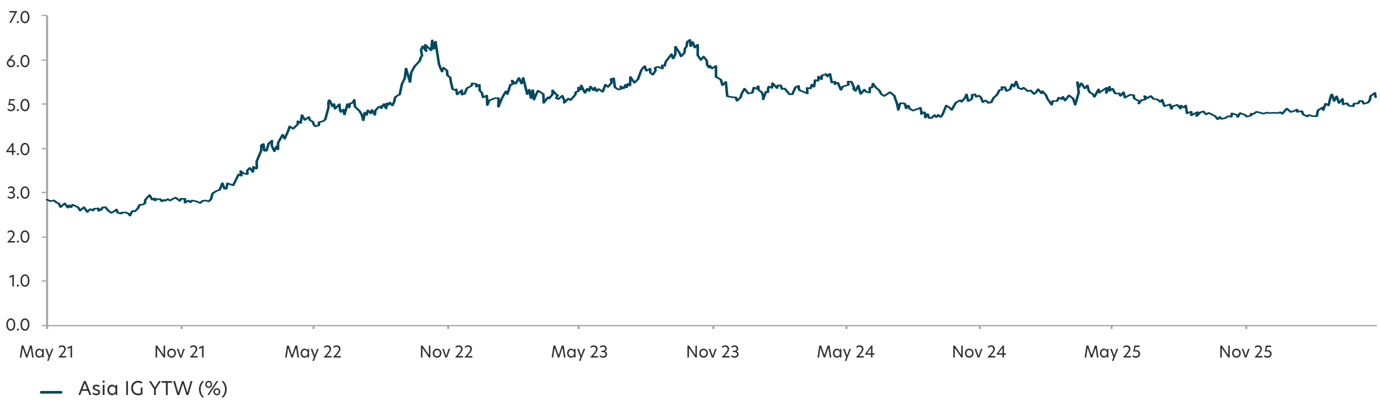
The Trump-Xi summit yielded commitments to cooperate on Middle East de-escalation and cross-strait stability, alongside China's pledge to increase purchases of US goods—though sectoral detail remains scant. US officials, for their part, signalled willingness to roll back tariffs and receptivity to greater Chinese investment flows. Working-level negotiations continue, with tariff timelines and investment framework specifics likely to serve as near-term catalysts. For Asian IG credits, a sustained de-escalation in trade tensions would be supportive of spread stability and could improve the odds of extending the US-China trade truce beyond its November 2026 expiry.

JACI IG credit spreads are trading near historical lows—as if the Middle East conflict is resolved—and further tightening, in our view, faces a high bar. In addition, primary issuance has turned net positive for the first time in four years, driven by cheaper USD funding relative to local-currency alternatives and Asia's industrial super-cycle—a shift that may cap further spread compression.

That said, the rates backdrop offers a different story. We believe episodic rates volatility is likely to present attractive entry windows for locking in elevated all-in yields; while resilient corporate fundamentals should provide a strong backstop against spread widening. JACI IG YTW stands above 5% as of 25 May 2026, a level that screens attractively against historical ranges. Disciplined credit selection and geographical diversification across Asia would help mitigate idiosyncratic risk, while targeting a portfolio duration of c. 4–5 years through barbell strategies could capture upside if the UST yield curve bull steepens.

From a sector perspective, we favour ASEAN regional champion financials, selected Asia-focused insurers, quasi-sovereign, strategic state-owned enterprises, as well as defensive consumer and utilities credits.

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



Source: Bloomberg, UOB Private Bank

CIO's View

We believe EM Asia quality IG offers both stability and diversification, supported by a broad investor base, a stable credit environment and attractive valuation.

Emerging Markets Asia High Yield

Stay selective in HY credit

EM Asia HY has rebounded strongly from peak US-Iran tensions in March 2026, delivering a year-to-date return of +2.25% as of 25 May 2026, outperforming its DM HY counterpart. EM Asia HY credit spreads have tightened c. 10bps to 363bps supported by yield-seeking demand, supply scarcity, and benign default rates. With the Bloomberg EM Asia USD Credit High Yield Index yielding 7.93%, the absolute carry profile looks compelling. However, we note HY's pick-up over IG could narrow, as the latter has been more affected by recent Treasury softness.

Our preference for EM Asia HY over DM HY remains well-founded with the credit spread differential between the two compressing to 72bps, from 88bps at the start of 2026. On average, EM Asia HY issuers tend to exhibit HALO—High Asset, Low Obsolescence—type of characteristics, which leave them better placed to withstand significant disruptions from AI.

From a market structure perspective, EM Asia HY has transitioned from a market that was highly concentrated in property to one that is more diversified with a greater share of domestically oriented borrowers.

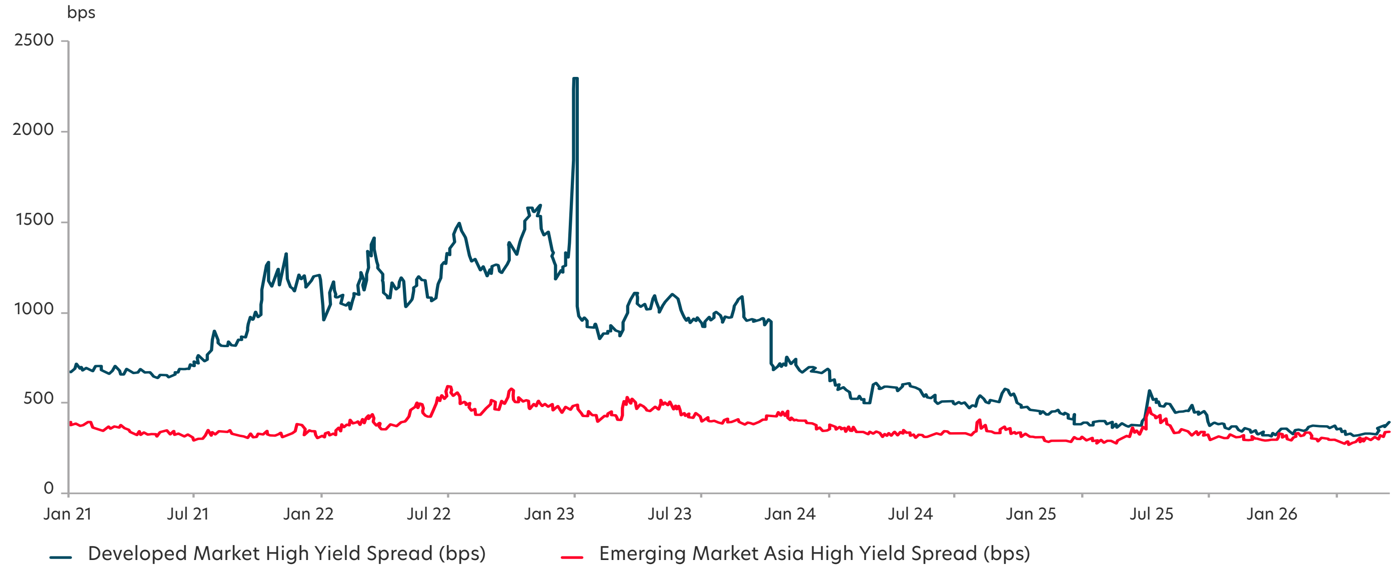
Oil prices and their residual impact on inflation could have a dispersive effect, particularly for EM Asia which is a net energy importer. That said, issuers are starting from a stronger fundamental position, and we expect EM Asia HY default rates to remain manageable given 2025 earnings and promising outlook guidance.

Near-term refinancing risks in EM Asia HY are likely to be limited, in our view. 2026 bond maturities are concentrated in infrastructure credits, Indian renewables, and Macau gaming operators which retain strong access to funding markets. We have also observed decent investor take up rates on tender and exchange offers, reflecting healthy investor appetite and pent-up demand.

We expect favourable technicals for EM Asia HY as net supply for 2026 is likely to remain negative. Local currency funding (i.e. CNH, IDR etc.) has been a viable alternative channel for issuers which in turn increases the scarcity value of USD bonds.

Although we do not anticipate a broad and abrupt deterioration in EM Asia HY credit fundamentals, rigorous bottom-up credit selection remains essential to avoid exposure to idiosyncratic credit stress.

Emphasise selectivity amid tight credit spreads



Source: Bloomberg, UOB Private Bank

CIO's View

Rigorous bottom-up credit selection remains essential to avoid exposure to idiosyncratic credit stress

AUD Bond Market

Elevated carry, enduring quality: The AUD credit opportunity

The Reserve Bank of Australia (RBA) has shifted toward tightening in 2026 and delivered three rate hikes to date and the cash rate to, fully reversing the rate cuts delivered in 2025. This policy pivot reflects an upward revision to inflation expectations, driven partly by energy price pressures stemming from the Middle East crisis.

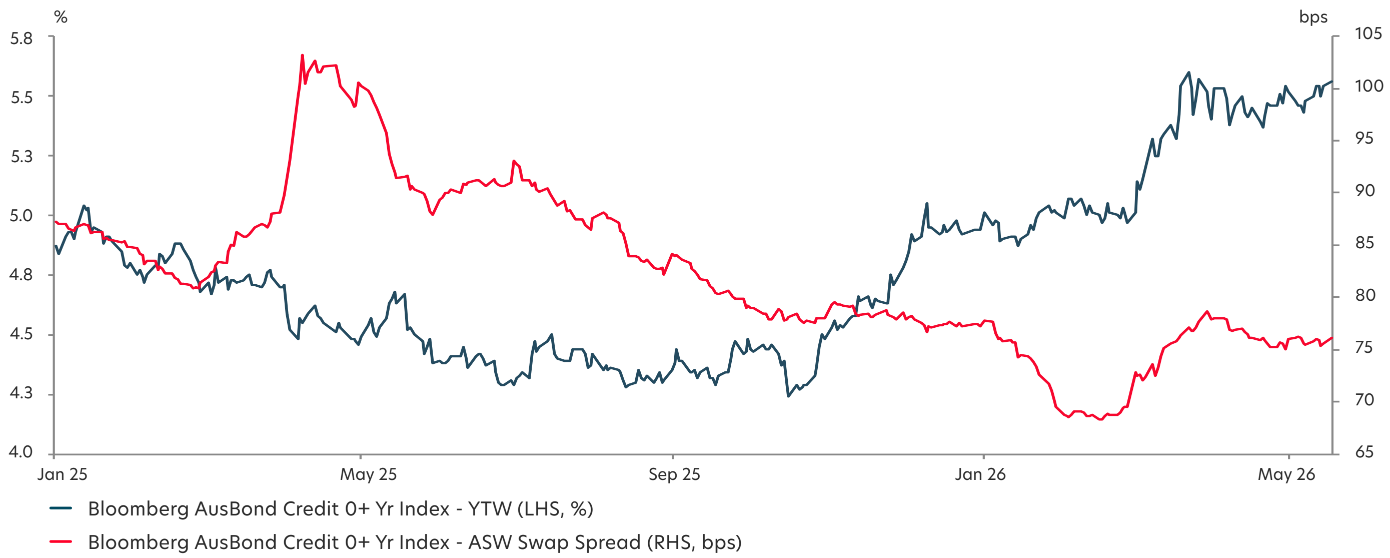
UOB Global Economics and Markets Research expects the RBA to keep the cash rate on hold, on the view that recent geopolitical shocks and elevated energy prices will weigh on household and business spending while contributing to a gradual rise in unemployment. The AU-US 10-year spread traditionally sits at +/-20bps but has widened to c. 50–80bps since August 2025. The diverging yield differential indicates a markedly different tolerance level to inflation pressure and differing central bank responses to geopolitical risks.

While we acknowledge the potential for near-term mark-to-market volatility, we view current AUD yield levels as attractive, as more than one additional rate hike has been priced in for the remainder of 2026.

From a credit perspective, AUD credit, as represented by the Bloomberg AusBond Credit 0+ Year Index, has delivered a modest year-to-date total return of +0.28% (as of 25 May 2026). The benefit of elevated all-in yields was offset by spread widening and rates volatility. Spreads widened by c. 7bps amid the escalation of the Middle East conflict, while the impact of three consecutive RBA rate hikes further weighed on returns. Increased primary supply has also contributed to spread softness, with Kangaroo issuance reaching c. AUD 40.7 billion year-to-date (~50% higher YoY).

Looking ahead, we believe AUD credit continues to offer attractive diversification benefits for investors with heavy exposure to USD or SGD assets. This reflects its combination of relatively high all-in yields, market stability supported by a deep domestic buy-and-hold investor base, and strong credit quality (with c. 75% of the index rated A or above). Within the asset class, we see value in bonds issued by Australian major banks, Global Systemically Important Banks (G-SIBs), select utilities, energy and infrastructure names, as well as high-quality foreign corporate issuers.

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



Source: Macrobond, UOB Private Bank

CIO's View

We see value in T2 bonds by Australian majors, G-SIBs and insurers; senior bonds by G-SIBs; 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 the sharp rise in energy prices stemming from the Middle East conflict and its potential inflationary impact. Reflecting this, swaps and futures markets have begun pricing in the possibility of further rate hikes from key G7 central banks.

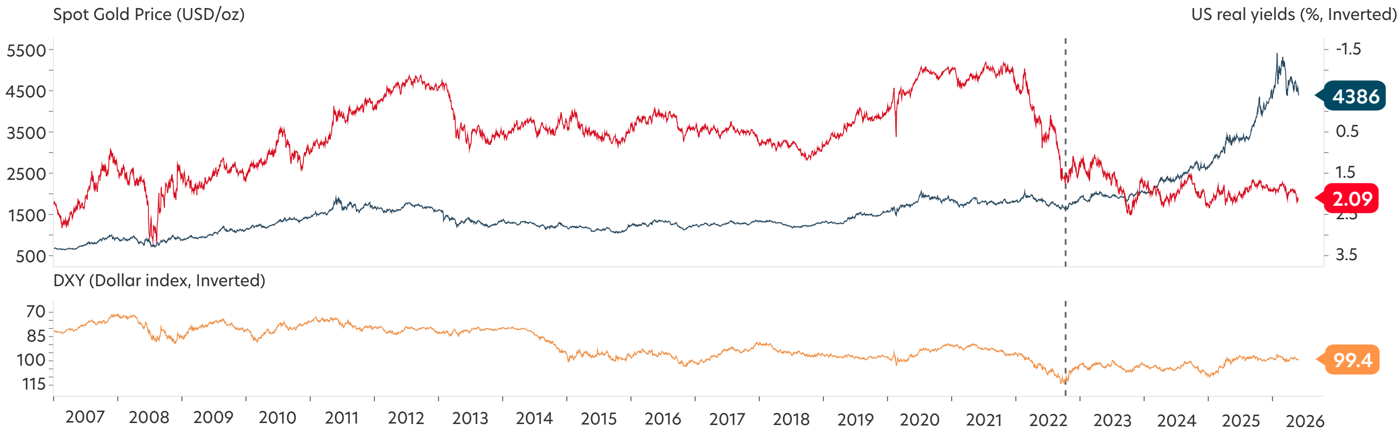
Gold, typically sensitive to interest rates and the US dollar, faces near-term headwinds. Higher rates and a stronger USD tend to weigh on gold prices by increasing the opportunity cost of holding non-yielding assets. At the onset of the US/Israel-Iran conflict, we initially expected heightened safe-haven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

Despite these short-term challenges, we remain constructive on gold's long-term outlook. The recent escalation in geopolitical tensions reinforces 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.

Given near-term risks from potential rate hikes, we have revised our gold price forecasts to USD 4,600/oz in 3Q 2026, USD 4,800/oz in 4Q 2026, USD5,000/oz in 1Q 2027 and USD 5,200/oz in 2Q 2027, rising to USD 4,600/oz in 3Q 2026, USD 4,800/oz in 4Q 2026, and USD 5,000/oz in 1Q 2027. This compares with our previous forecasts, published on 6 March, of USD 5,400/oz, USD 5,600/oz, USD 5,800/oz, and USD 6,000/oz respectively over the same periods.

Commodity	3Q26F	4Q26F	1Q27F	2Q27F
Gold (USD/oz)	4,600	4,800	5,000	5,000

Gold: Rising prices are supported by safe-haven needs; price trend has diverged from US real yields and US dollar



Source: Bloomberg, UOB Private Bank

CIO's View

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

We are now in the fourth month of the US-Iran conflict, with no clear resolution in sight. Despite an ongoing ceasefire, the Strait of Hormuz remains effectively blocked to shipping, and negotiations between the US and Iran are far from a definitive agreement. As a result, geopolitical risk across the Middle East remains elevated.

The United Arab Emirates (UAE)'s decision to exit Organisation of the Petroleum Exporting Countries (OPEC), effective 1 May, 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.

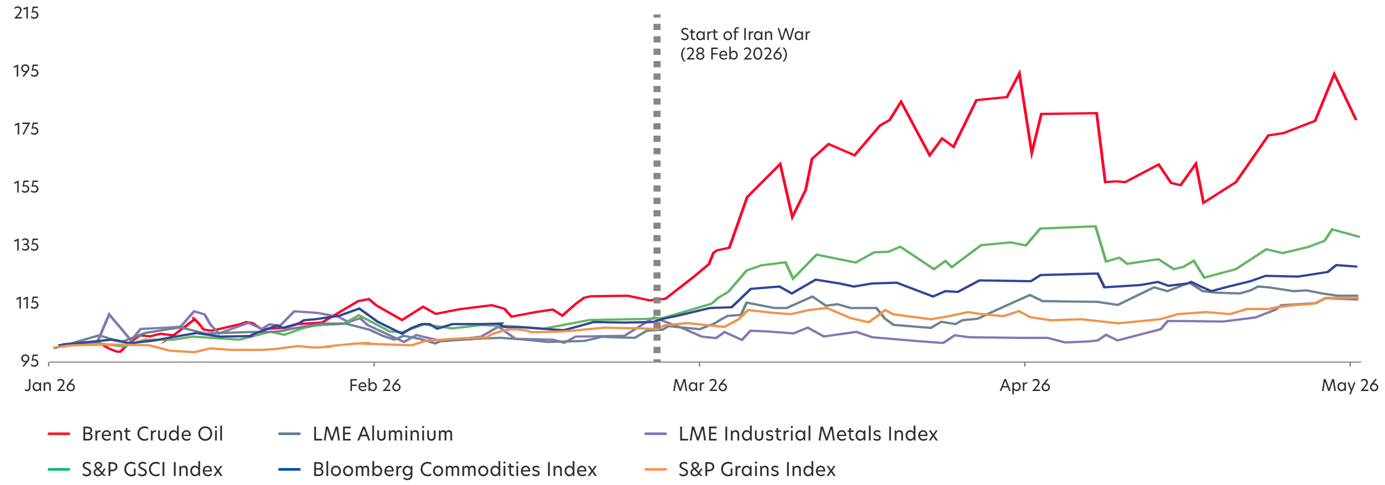
Supply disruptions are being felt across the broader energy complex, extending beyond crude oil to jet fuel, gasoline, and downstream products such as naphtha, polyethylene, urea, helium, and sulphur. As the conflict persists, these disruptions have begun to spill over into other commodity markets, including industrial metals—particularly aluminium and nickel—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 oil markets, with Brent crude rising above USD 120/bbl at end-April after briefly dipping to USD 90/bbl mid-month on hopes of a peace breakthrough. Notably, prompt crude prices are trading at a premium to futures, signalling acute near-term supply tightness.

Looking ahead, we expect the interim US-Iran peace deal to lead to a formal agreement, with Brent crude prices already declining in anticipation. As the Strait of Hormuz reopens, prices are expected to moderate further, with our forecasts at USD 85/bbl in 3Q 2026, USD 80/bbl in 4Q 2026, and USD 70/bbl through 1Q 2027.

Commodity	3Q26F	4Q26F	1Q27F	2Q27F
Brent crude oil (USD/bbl)	85	80	70	70

Jump in energy prices has widened across industrial metals, plastics and agriculture (normalised return since January 2026)



Source: Bloomberg, UOB Private Bank

CIO's View

We recommend fading the Brent crude price surge once the geopolitical uncertainty recedes. OPEC still has ample dry powder to ramp oil production when needed.

Currencies

USD

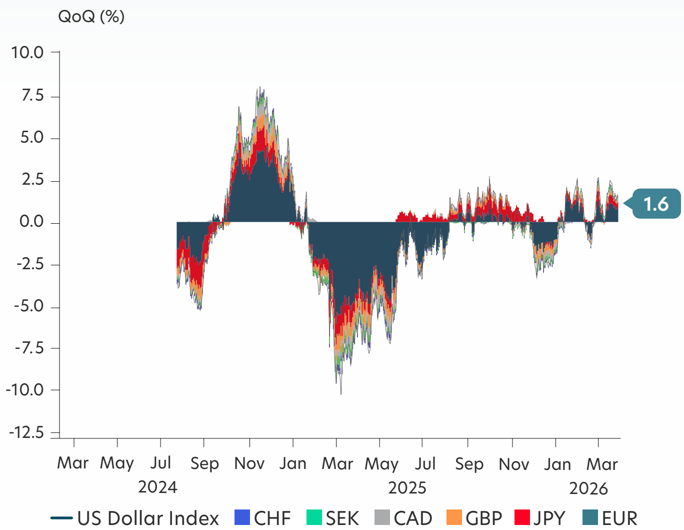
USD to stay elevated through 2Q 2026, renewed weakening thereafter

The USD's safe-haven profile has recently strengthened its correlation with oil, driving much of the DXY's price action. In March, both rose during the Iran conflict escalation, before easing together in early April after a ceasefire announcement. As talks stalled and the Strait of Hormuz remained shut, oil rebounded and lifted the USD, although brief JPY intervention later weighed on the dollar. Near term, elevated geopolitical risks and constrained oil supply should keep the USD supported. However, over the medium term, narrowing US rate differentials and relatively tighter policy among G10 peers point to a gradual bearish bias.

Our updated DXY projections are 97.9 in 3Q 2026, 97.0 in 4Q 2026, 95.7 in 1Q 2027, and 94.9 in 2Q 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

EUR

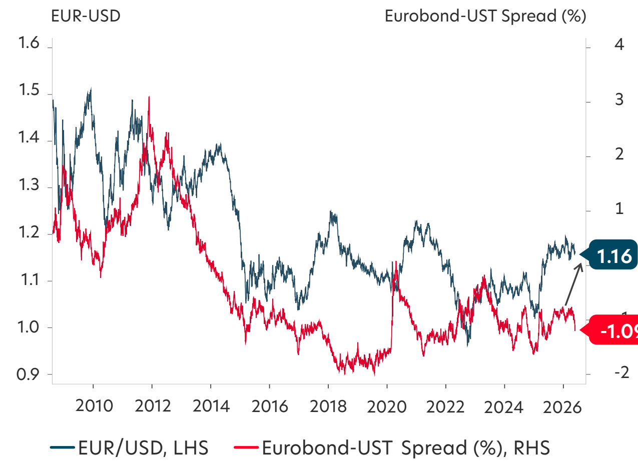
EUR expected to gradually appreciate through 2026

EUR/USD rose 1.5% in April to 1.1731, reversing much of March's 2.2% drop. The rebound was driven by diverging policy outlooks, with the ECB turning more hawkish and signalling a June hike, while the Fed retained an overall easing basis. We now also expect the ECB to raise rates once this year. Near-term, lingering USD safe-haven demand amid geopolitical tensions may cap gains in 2Q 2026. However, as rate differentials narrow and risks ease, EUR/USD is expected to trough in 2Q before gradually recovering thereafter.

Our updated forecasts are 1.18 in 3Q 2026, 1.19 in 4Q 2026, 1.21 in 1Q 2027, and 1.22 in 2Q 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

CNY

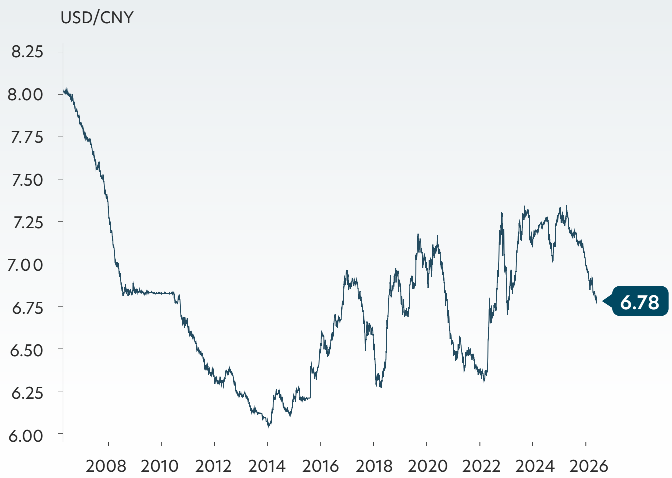
CNY has been the most resilient Asian currency, further reinforced by policy stability

The CNY has been Asia's most resilient currency, rising 0.5% against the USD since the Iran conflict, while peers weakened. This reflects China's insulation from oil shocks, supported by large reserves and a diversified energy mix. Policy signals have reinforced stability, with a stronger China Foreign Exchange Trade System (CFETS) fixing and subdued CNH 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 a moderately loose monetary stance is likely to limit sharp appreciation.

Overall, our updated USD/CNY forecasts are 6.80 in 3Q 2026, 6.76 in 4Q 2026, 6.73 in 1Q 2027, and 6.70 in 2Q 2027.

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

Expect CNY to resume a measured appreciation trend



Source: Bloomberg, UOB Private Bank

JPY

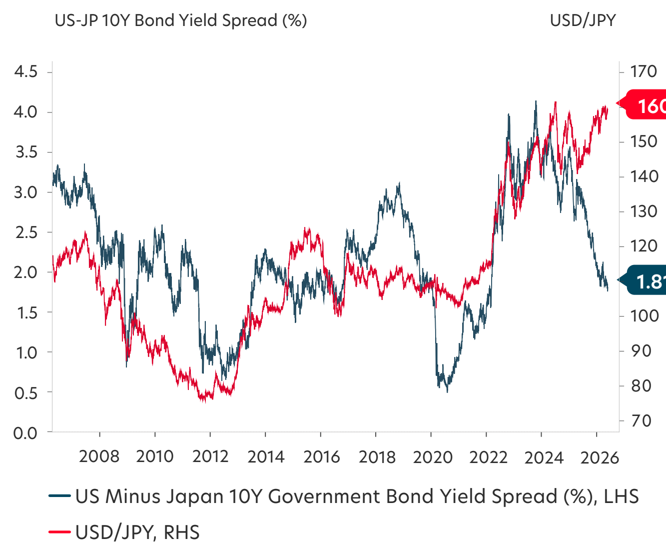
USD/JPY to stay elevated in near-term on geopolitical-driven USD strength

Japanese authorities intervened for the first time since 2024, deploying JPY 5.4 trillion (USD 34.5 billion) and triggering a sharp yen rally, with USD/JPY dropping nearly 3% to 155.57. The move signals strong defence of the 160 level amid inflation concerns. However, past episodes suggest one-off intervention rarely shifts trends sustainably. Elevated oil prices and USD safe-haven demand should keep USD/JPY supported near-term, though a sustained break above 160 is unlikely. Over time, easing geopolitical risks and narrowing US-Japan rate differentials, alongside expected Fed cuts and further BoJ tightening, should drive gradual yen appreciation.

Overall, our updated USD/JPY forecasts are at 157 in 3Q 2027, 155 in 4Q 2027, 153 in 1Q 2027, and 151 in 2Q 2027.

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

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



Source: Bloomberg, UOB Private Bank

AUD

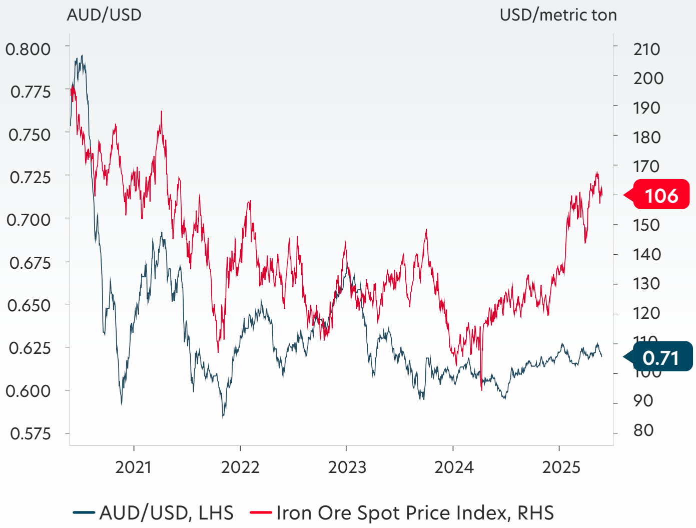
AUD likely to be subject to two-way volatility in the near-term

The AUD outperformed G10 peers, rising 4.4% in April and remaining resilient against the USD since late February. Strength has been driven by a more hawkish RBA, which delivered consecutive hikes and may tighten further to contain inflation, particularly in housing and transport. Near-term, AUD/USD faces two-way volatility amid 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 yield advantage—currently one of the strongest in the G10.

Our updated AUD/USD forecasts are at 0.72 in 3Q 2026, 0.73 in 4Q 2026, 0.74 in 1Q 2027, and 0.75 in 2Q 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

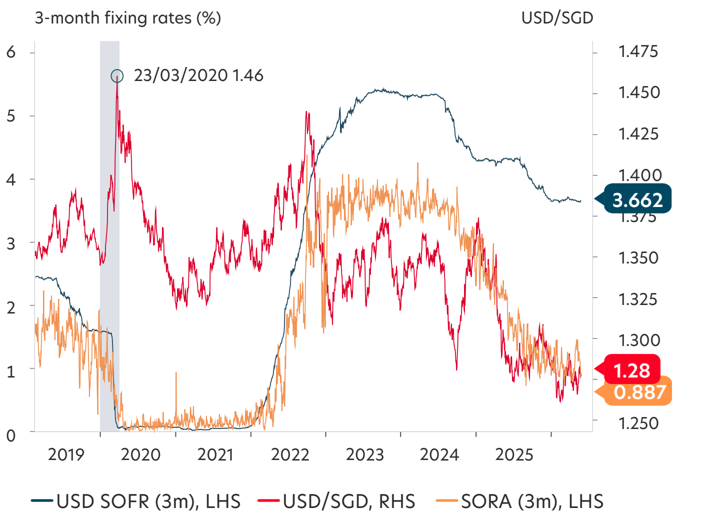
SGD to be supported by safe-haven status and MAS tightening expectations

MAS tightened policy in April 2026, steepening the S$NEER slope by around 50bps to 1.0% p.a., with another increase expected later this year and risks of an earlier move. The SGD is supported by both safe-haven inflows and Singapore's proactive stance against imported inflation. This positions it 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 easing and broader USD softness.

Factoring the SGD's resilience during the Iran conflict, we revise our USD/SGD forecasts to 1.28 in 3Q 2026, 1.27 in 4Q 2026, 1.26 in 1Q 2027 and 1.25 in 2Q 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

Alternatives

Private Equity: Exits improve, selectivity intensifies

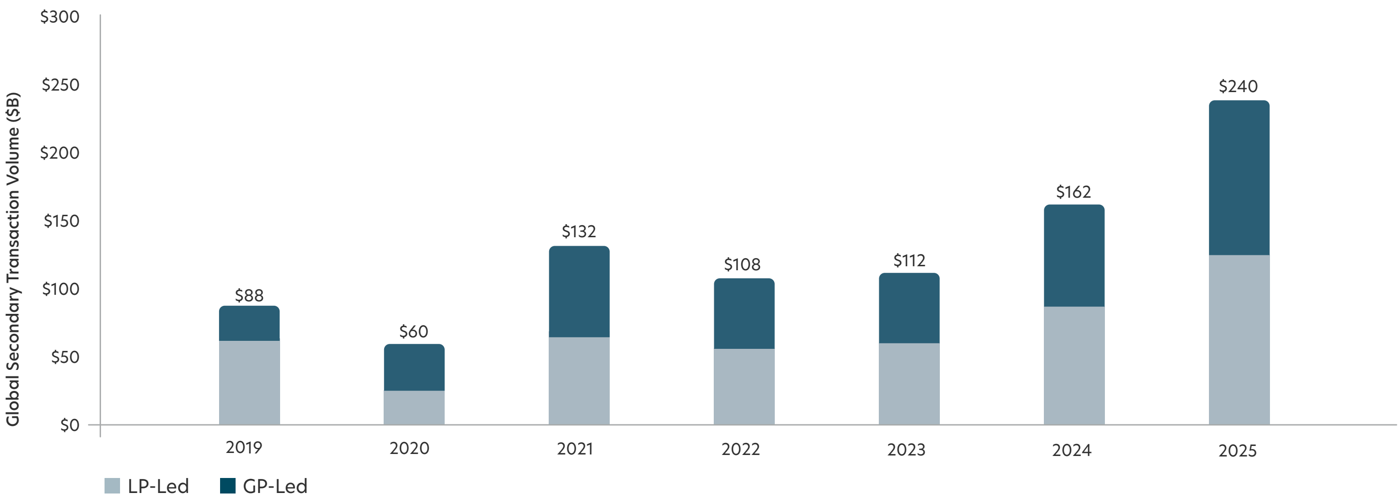
Private equity enters the second-half of 2026 in a period of recalibration. For much of the past decade, returns were supported by a favourable backdrop of low interest rates, abundant liquidity, and multiple expansion. That environment has shifted materially. The sharp rise in interest rates in 2022–2023 exposed vulnerabilities in assets acquired at peak valuations with elevated leverage, resulting in a narrowing of the asset class's historical return premium over public markets.

The industry is now undergoing a necessary recalibration. In today's environment, outperformance is increasingly driven by genuine operational value creation and manager skill, rather than by financial engineering or inexpensive financing. As a result, performance dispersion across managers is widening, reinforcing the importance of careful selection.

Encouragingly, exit activity has begun to recover, but the improvement remains uneven and concentrated. While US exit volumes rebounded in 2025, activity has been skewed toward a limited number of larger transactions. At the same time, the inventory of private equity-backed companies awaiting exit has continued to grow, reflecting a backlog created by subdued distributions and slower exit pacing in prior years. This dynamic is supporting the continued expansion of the secondaries market, which is playing an increasingly important role in providing liquidity by allowing sponsors to reset timelines and recapitalise high conviction assets while providing existing investors with a choice between liquidity and continued exposure.

Looking ahead, the long-term case for private equity remains intact. However, returns are likely to be more moderate and less evenly distributed, with outcomes increasingly dependent on manager selection, execution capability, and a clear focus on fundamental value creation.

Transaction volumes for secondaries have been trending up



Source: Jefferies, Evercore, Campbell Lutyens, as of December 2025, data on global secondary activity

Private Credit: From yield to selectivity

Private credit enters the remainder of 2026 at a nuanced inflection point where elevated headline caution contrasts with largely resilient underlying fundamentals. Recent market anxiety driven by isolated bankruptcies, redemption pressures in semi-liquid vehicles, and concerns around software disruption has intensified scrutiny on the asset class. However, current stresses appear idiosyncratic rather than systemic, with default activity contained and realised losses remaining modest, supported by strong income generation.

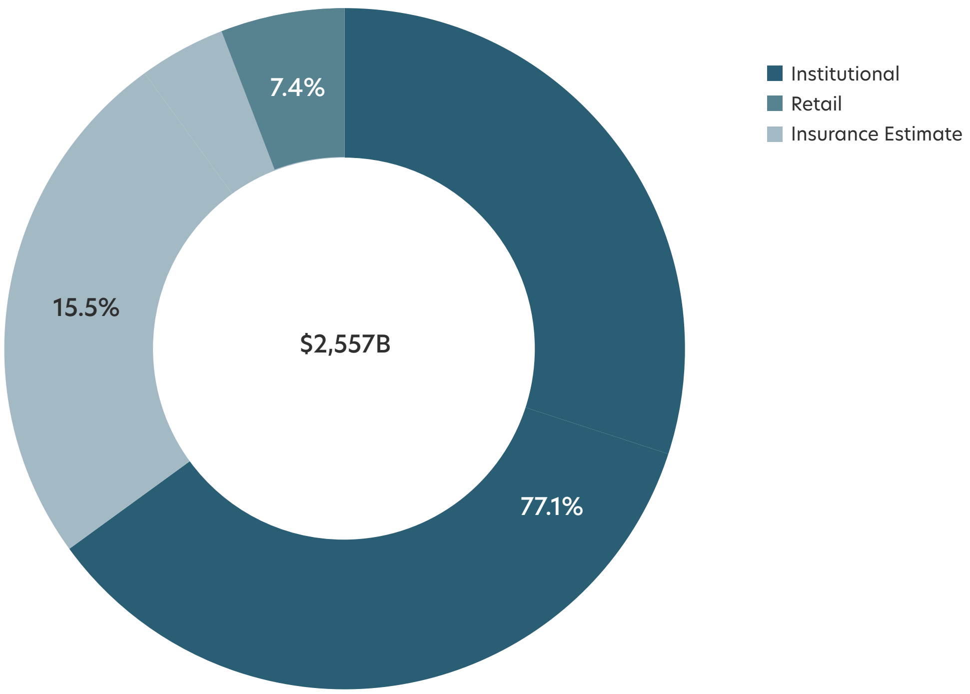
Importantly, private credit continues to be predominantly held by institutional investors, whose longer-term investment horizons and lower liquidity needs provide a more stable capital base and enhance structural resilience relative to more retail-driven segments.

At the borrower level, risks are becoming increasingly bifurcated, particularly in sectors such as software. Companies with weaker competitive positioning face greater disruption risk, while businesses with stable cash flows and defensible market positions remain relatively resilient. This reinforces the importance of underwriting discipline, selectivity, and active portfolio monitoring.

Liquidity dynamics remain a key focal point, with the asset class continuing to experience elevated redemption requests. However, current evidence suggests this reflects a liquidity management challenge rather than a deterioration in underlying fundamentals, with most managers operating within established gating frameworks.

Looking ahead, the environment is likely to be defined by selective stress, wider dispersion, and a growing premium on manager quality. Macro uncertainty and tighter bank lending conditions are already creating opportunities for private lenders to achieve improved spreads and stronger documentation. In this context, established platforms with robust sourcing networks, restructuring capabilities, and disciplined portfolio construction are best positioned to capitalise.

Share of private debt Assets Under Management (AUM) by channel



Source: Pitchbook, Geography Global, as of June 30, 2025
Note: Retail and insurance figures are as of December 31, 2025.

Private Infrastructure: Scaling structural demand

Private infrastructure continues to demonstrate relative resilience heading into 3Q 2026, underpinned by its core defensive characteristics and long-term structural relevance. The asset class benefits from contracted and visible cash flows, inflation-linked revenue mechanisms, and inelastic demand for essential services, positioning it favourably in a more uncertain macro environment.

Investor demand remains robust, reinforcing infrastructure's role as a defensive, income-oriented, and diversification-enhancing allocation. More fundamentally, infrastructure is increasingly recognised as a strategic asset class, central to economic resilience, geopolitical competitiveness, and technological advancement. Assets linked to power, data, logistics, and connectivity are becoming mission-critical to both corporate performance and national priorities.

Capital formation is increasingly focused on long-term secular growth themes, including (i) Renewable energy and energy transition assets, (ii) Power generation, transmission, and grid modernisation (iii) Artificial intelligence and digital infrastructure (iv) Transportation modernisation. These sectors are supported by powerful tailwinds, including decarbonisation, electrification, supply chain reconfiguration, and rapid growth in data consumption driven by AI.

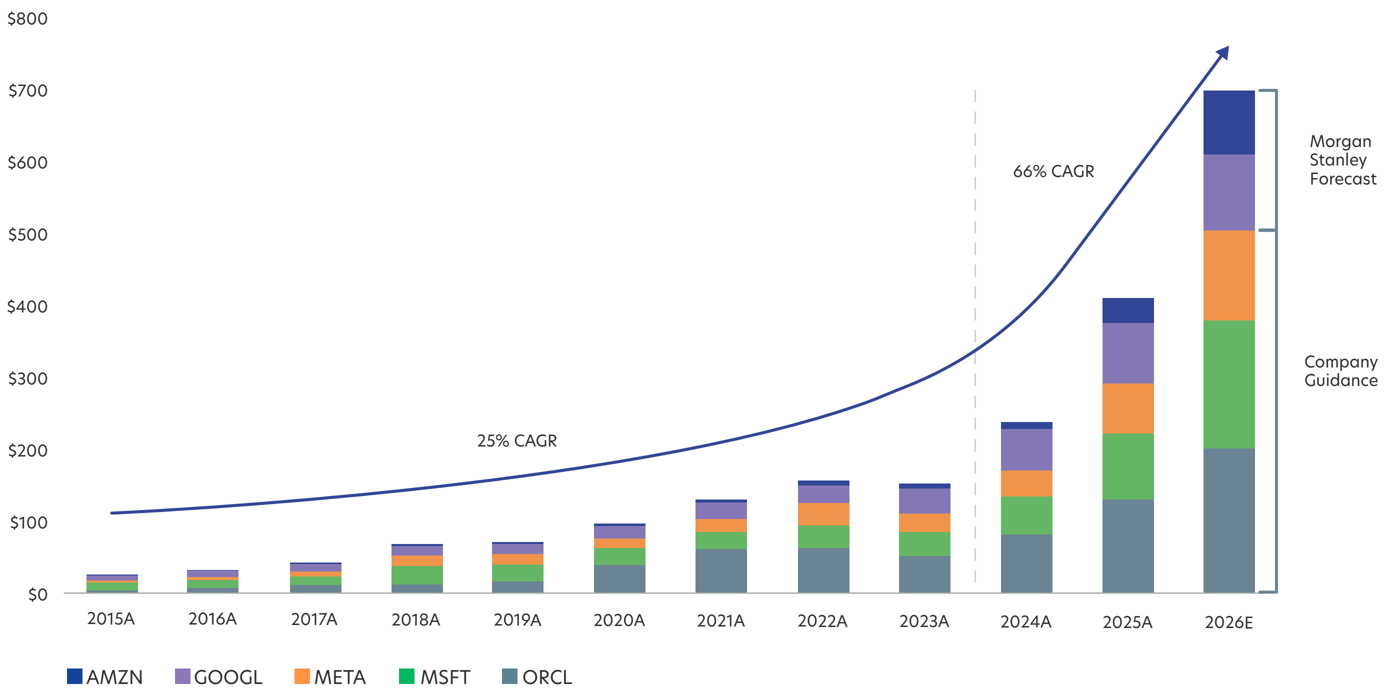
At the same time, the requirement for infrastructure investment is rising against a backdrop of constrained public sector balance sheets. Governments face increasing fiscal limitations, reducing their capacity to fund infrastructure independently.

As a result, private capital is expected to play a central and expanding role in bridging the global infrastructure funding gap. Infrastructure investment is increasingly structural rather than cyclical, with long-duration capital deployed into assets with low obsolescence risk and enduring economic importance.

Hyperscalers continue to ramp up capex forecasts, with spending driven by AI and cloud infrastructure

Capital Expenditures by Year

USD billions



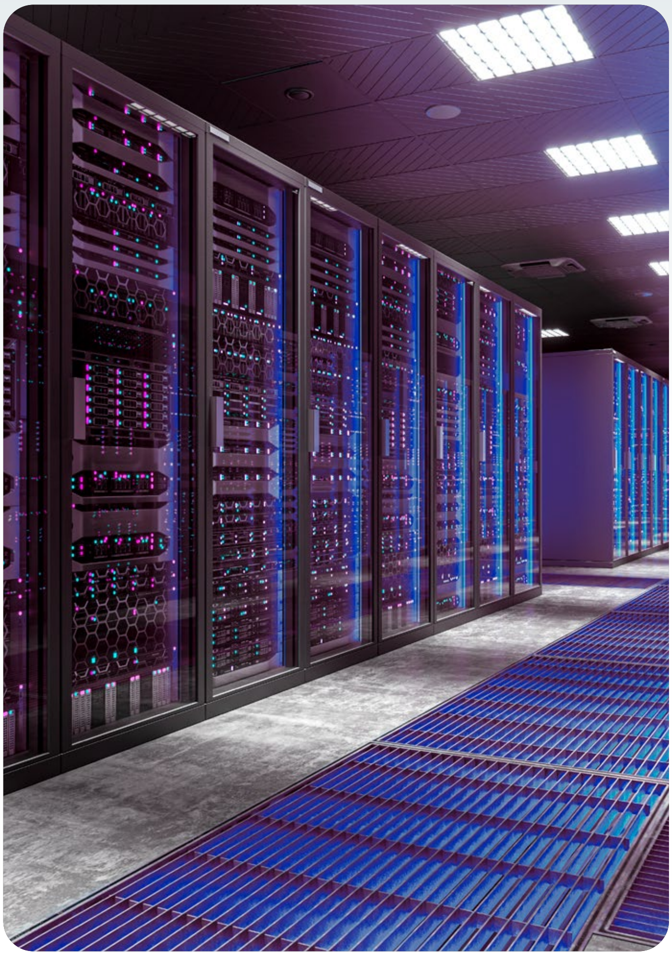
Source: Hamilton Lane, 2015A–2025A from S&P Capital IQ, accessed February 2026; 2026E from company earnings calls and Morgan Stanley, as of February 2026 earnings calls and Morgan Stanley, as of February 2026

Real Estate: Stabilisation and selective opportunities

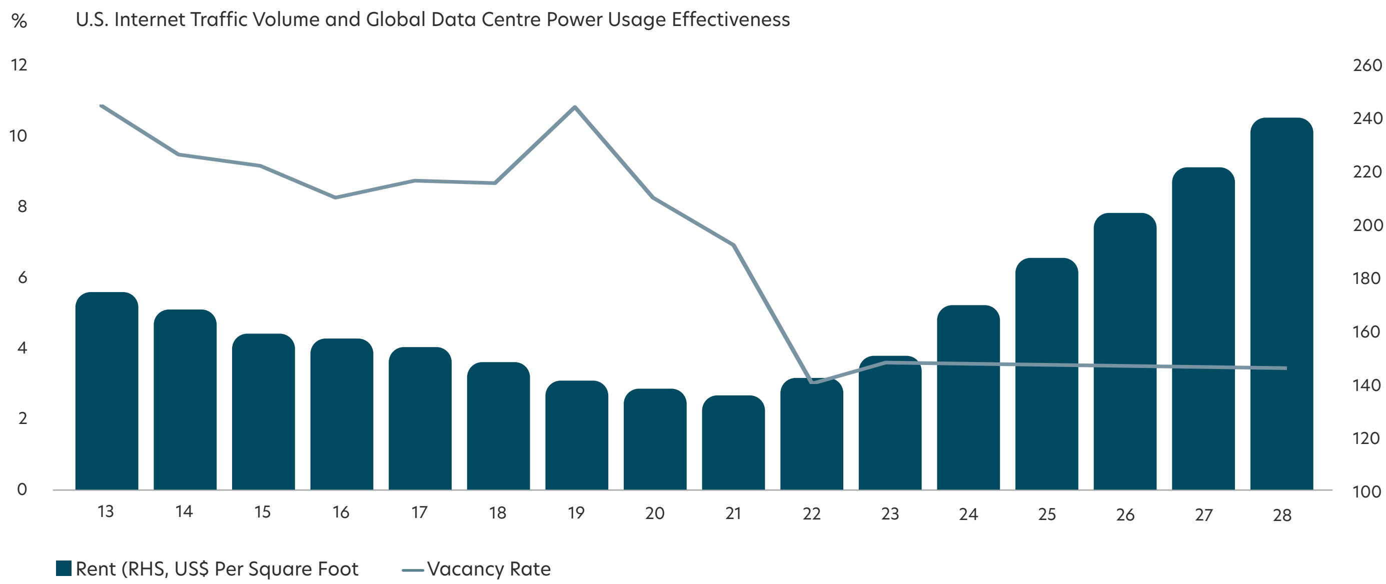
Private real estate enters 3Q 2026 with improving sentiment, although recovery remains uneven across sectors and geography. The repricing cycle driven by higher interest rates appears largely behind the market, while declining development pipelines due to rising construction costs and tighter financing conditions support fundamentals for existing assets.

The sector remains highly bifurcated, with performance increasingly driven by structural demand and asset quality. Logistics, data centres, and residential assets continue to benefit from durable demand drivers such as supply chain reconfiguration, digitalisation, and persistent housing shortages. Reflecting this shift, the investment universe is becoming more diversified and structurally aligned, with capital rotating toward sectors supported by long-term secular trends. Beyond traditional core segments, areas such as senior living, student housing, build-to-rent, self-storage, and life sciences are also gaining traction, offering differentiated income streams and lower correlation to broader economic cycles.

Private real estate is transitioning from a broad beta-driven allocation toward a more selective, strategy-driven opportunity set, where disciplined underwriting and sector expertise are critical to delivering consistent returns.



Data centre vacancies remain low, with tenant demand keeping pace with accelerating supply



Sources: IBISWorld, Uptime Institute, PGIM. As of November 2025

Hedge Funds: Volatility is the new normal

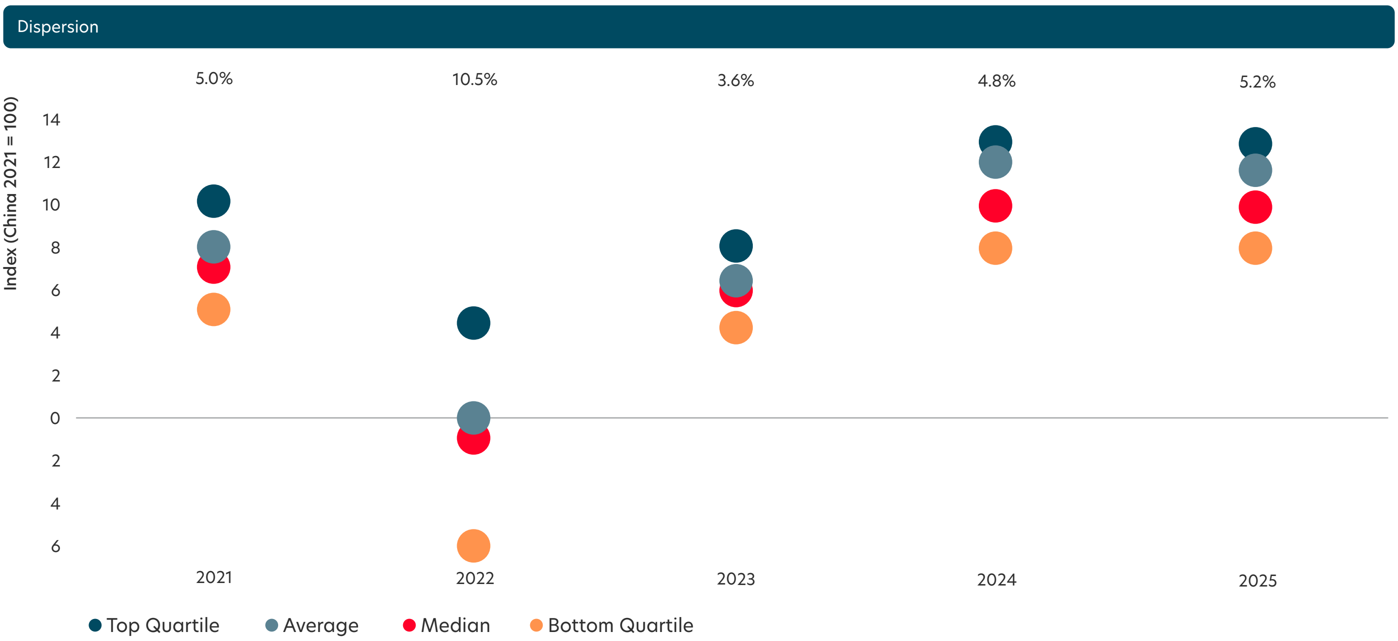
Hedge funds enter 3Q 2026 facing a markedly more volatile and complex macro backdrop following the sharp market dislocations triggered by the Iran conflict earlier this year. After a strong 2025 across many strategies, the industry experienced a notable drawdown period as rising oil prices, heightened geopolitical uncertainty, volatility in interest rates, and rapid deleveraging pressured performance across equities, macro, and systematic strategies simultaneously. While conditions varied by strategy and manager, the nature of the sell-off was largely broad-based. The episode represented one of the more challenging periods for hedge funds in recent years, with several prime brokers highlighting the magnitude and speed of drawdowns as among the most acute in recent years.

The recent volatility also exposed growing concerns around crowding, particularly within larger multi-strategy pod shop platforms. While these platforms continue to attract significant institutional inflows due to their diversification and centralised risk management frameworks, there is increasing evidence that underlying positioning across pods and even across firms has become more correlated, especially in high-conviction thematic exposures. That said, multi-strategy platforms continue to demonstrate relatively stronger downside protection and faster recovery dynamics compared to more directional strategies on average.

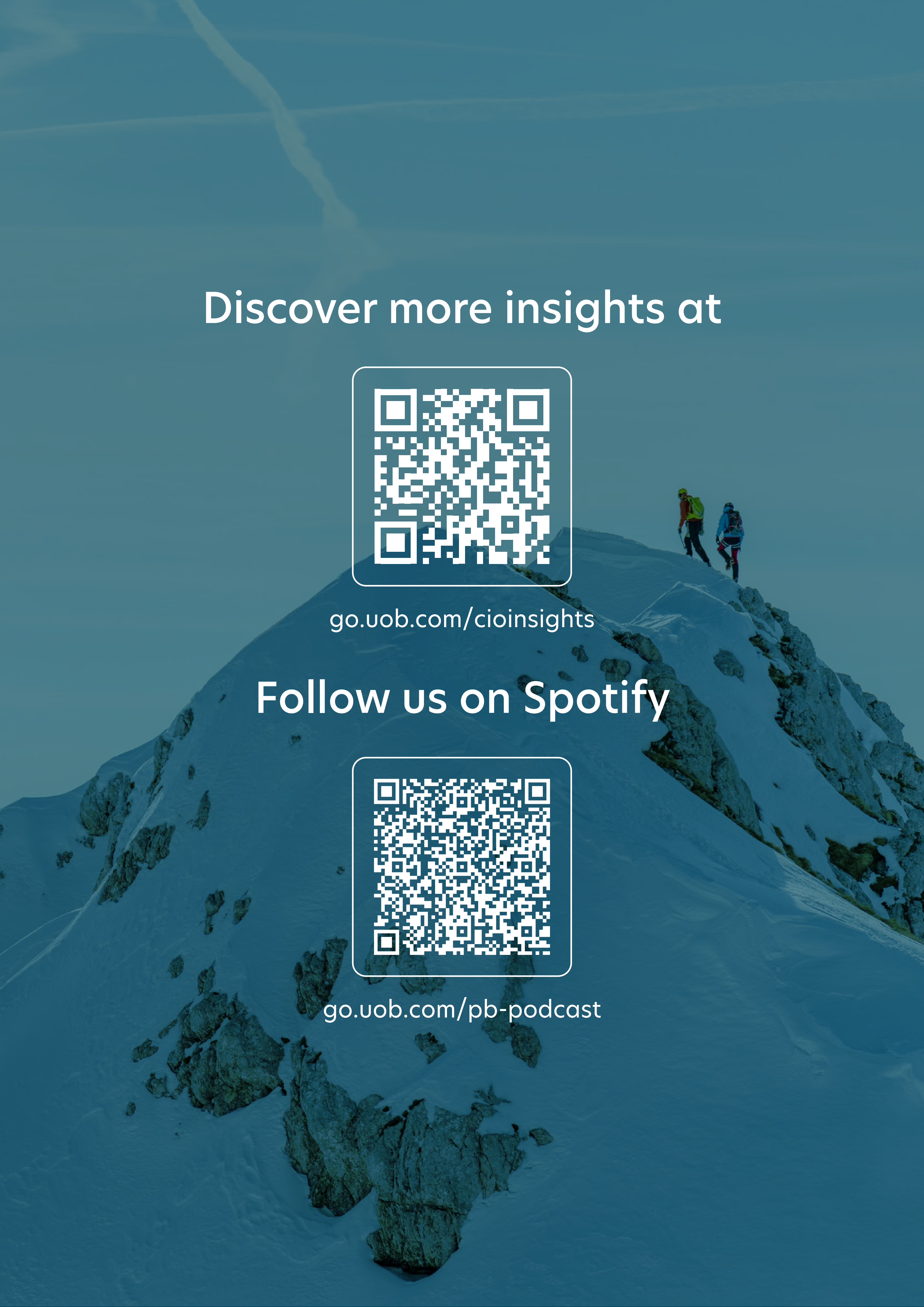
Looking ahead, the environment may become more supportive for equity long/short strategies where widening valuation dispersion and divergence in earnings trajectories between winners and losers, especially within AI-exposed sectors, create fertile ground for alpha generation.

Overall, hedge fund outcomes are likely to become increasingly dispersion-driven, with performance dependent on crowding awareness, ability to navigate rate volatility and shifting correlations, depth and diversification of alpha sources and robust risk management across rapidly shifting market regimes.

Dispersion of Realised Returns of Allocators' Hedge Fund Portfolios



Source: BlackRock with data from Goldman Sachs Capital Introduction Allocator Surveys. Hedge fund portfolio returns achieved by allocators, 2021–2025 (each year through November). Past performance is not a reliable indicator of future performance.



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