Monthly CIO Signals

By Chief Investment Office, UOB Private Bank

UOB PRIVATE BANK

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CIO FOREWORD

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

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

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

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

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

CHART OF THE MONTH

Bond yields (%)

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

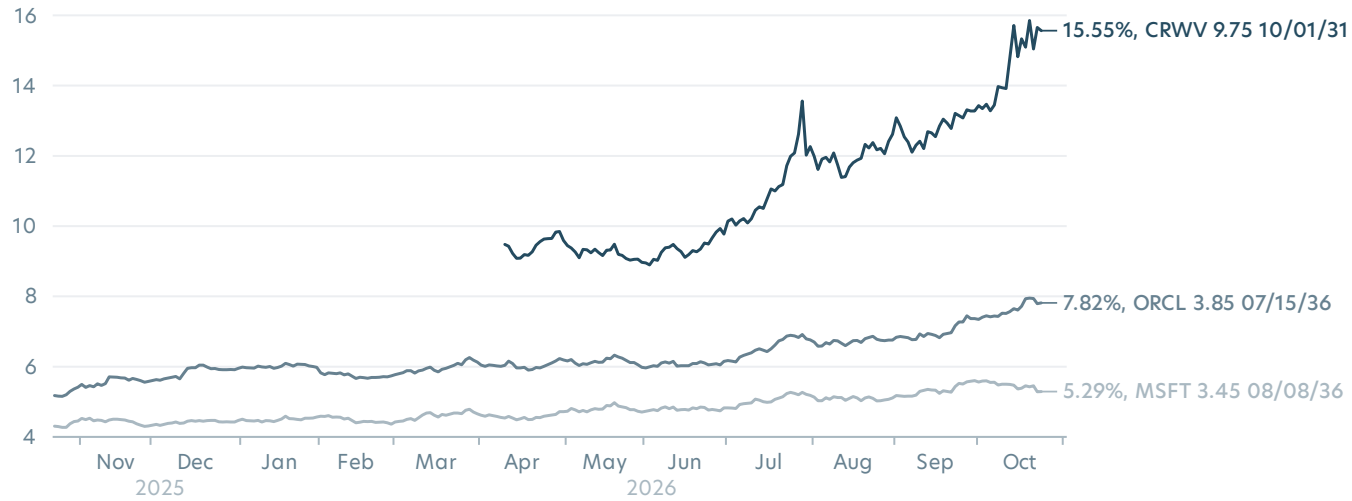


Figure 01 · Source: Bloomberg. Data on 22 October 2026

NUMBER OF THE MONTH

5.5 %

It is what high-quality hyperscaler bonds now yield, backed by fortress balance sheets, vast cash flows and near-sovereign financial strength. A year ago, this combination of quality and income was largely unavailable. Investors can now earn returns that once required moving much further down the credit ladder. Longer-duration bonds remain vulnerable if yields rise, but investors able to tolerate volatility and hold to maturity are well paid to wait. Boring debt no longer means boring returns.

Rates are rising, earnings are growing but peaking. However, wider credit spreads could create attractive buying opportunities.

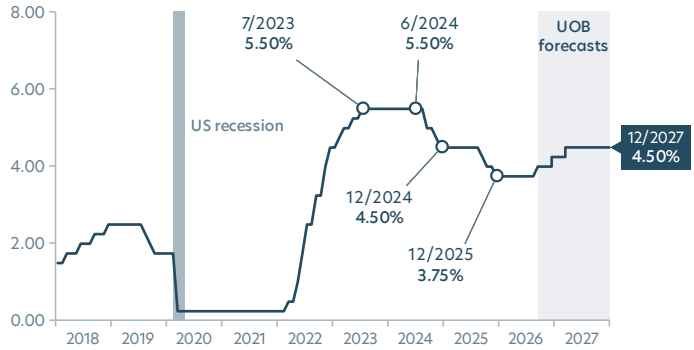


Figure 02 · Source: Bloomberg, UOB Private Bank

ECONOMY

We are in a mini rate hike cycle

Markets have entered a mini rate-hike cycle. Since the first increase on 16 September, equities have moved broadly sideways. We expect two further hikes: one in December 2026, after the US midterm elections, and another in 1Q 2027. History offers a warning: across the past eight hiking cycles, growth stocks performed worst, falling by an average of 8% in the following three months. Investors should favour quality, cash flow and valuation discipline over expensive growth.

MARKETS

S&P500 earnings are strong but may have peaked

The earnings engine is still running strongly, but it may have passed peak speed. Growth surged from 12.5% in 4Q25 to 35.1% by 2Q26, before an expected moderation to 26.3% in 3Q26. Final growth could reach 30%, but the direction is clear: earnings remain solid while acceleration is fading. With expectations already elevated, future market gains will increasingly depend on companies beating forecasts and expressing future confidence in AI's payback.

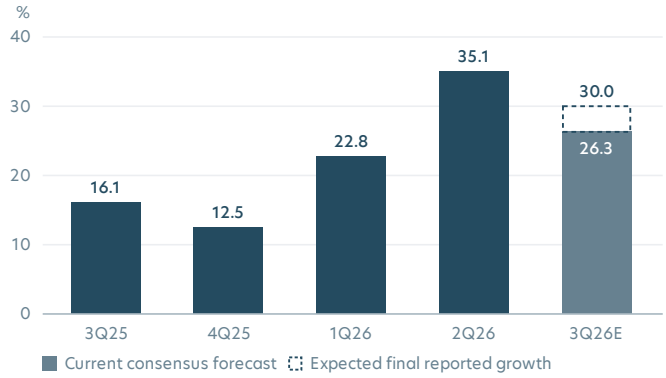


Figure 03 · Source: Bloomberg, UBS, UOB Private Bank

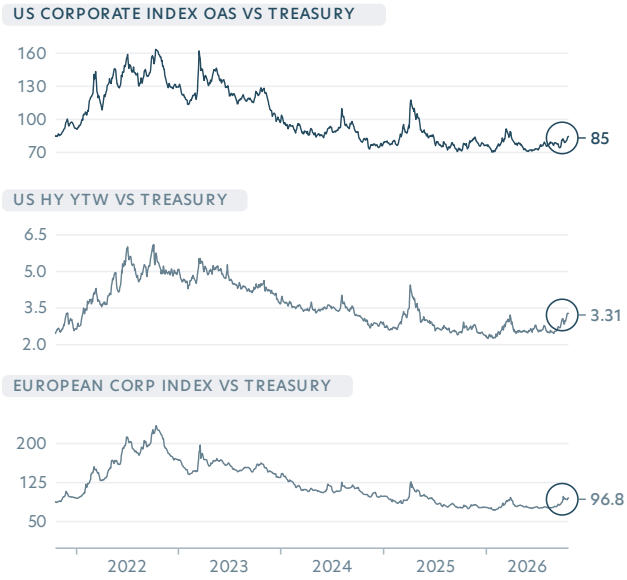


Figure 04 · Source: Bloomberg, UOB Private Bank

RISK WE ARE MONITORING

Spreads are not yet at panic levels

Spreads are widening, but markets are not panicking yet. Early cracks are appearing in high yield, with CoreWeave the warning sign. Another December rate hike could create better entry points, while 1Q 2027's outlook remains too uncertain to trade. Risk-tolerant investors should keep cash ready: the next four months may offer rare chances to buy quality issuers at yields previously reserved for riskier borrowers. Focus on durability, not yield alone.

The recent PHP vulnerability along with moderating spend on AI bears watching. Semiconductor stocks could be signalling a possible crest.

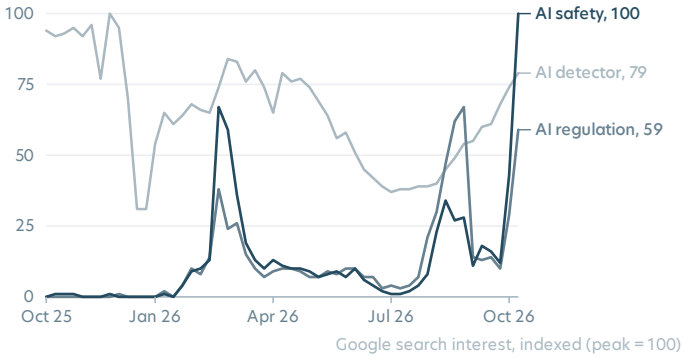


Figure 05 · Source: Google Trends, UOB Private Bank

AI TREND

Worries about AI are growing

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

AI USAGE

Moderating costs helping boost usage

AI demand is not merely holding up; it is accelerating. Token volumes rose 52% over the latest monthly comparison, comfortably outpacing the 23% increase in spending. Businesses are therefore using substantially more AI while paying less per token. This is the adoption flywheel investors want to see: falling prices stimulate usage and broaden applications. The winners, however, will be providers that turn explosive consumption into sustainable revenue, margins and cash flow.

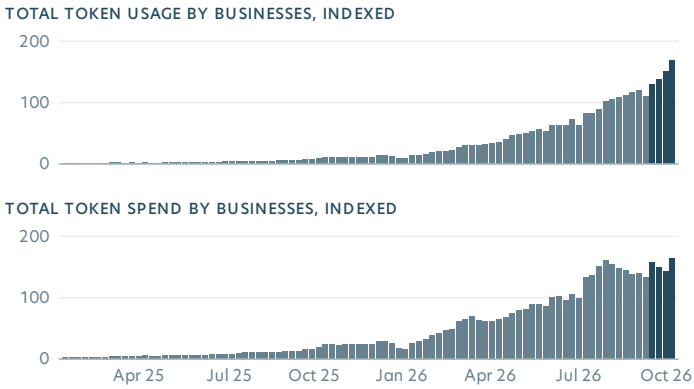


Figure 06 · Source: Ramp AI, UOB Private Bank

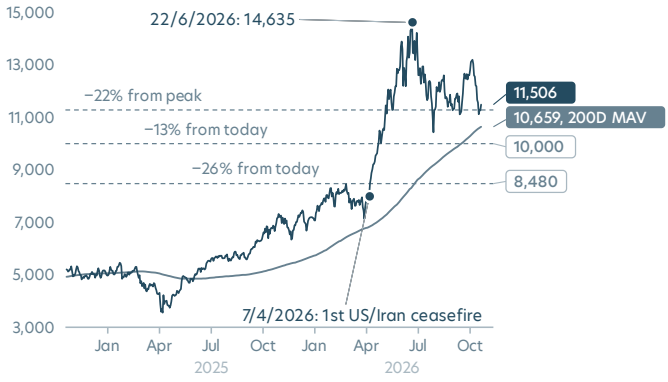


Figure 07 · Source: Bloomberg, UOB Private Bank

SEMICONDUCTORS

AI Hardware/infrastructure at critical juncture

Semiconductors face a defining test. We do not expect prices to revisit pre-Iran conflict levels, which would imply the AI story has effectively unravelled. However, strong 3Q beat-and-raise results must drive the sector above previous highs. Failure to break higher would signal that optimism is already priced in, leaving shares trapped within a wide trading range. Investors should use sharp rallies to rebalance exposure towards companies adopting AI to optimise costs and raise revenues.

CLOSING THOUGHT

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

Asset class views and sector performance

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

ASSET CLASSES	U/W	N	O/W
Alternatives		■	
Hedge Funds		■	
Private Markets		■	
Precious Metals		■	
Money Market			▲

▼ Underweight ■ Neutral ▲ Overweight

Figure 08 · Source: UOB Private Bank

Sector performance % (last 30 days)

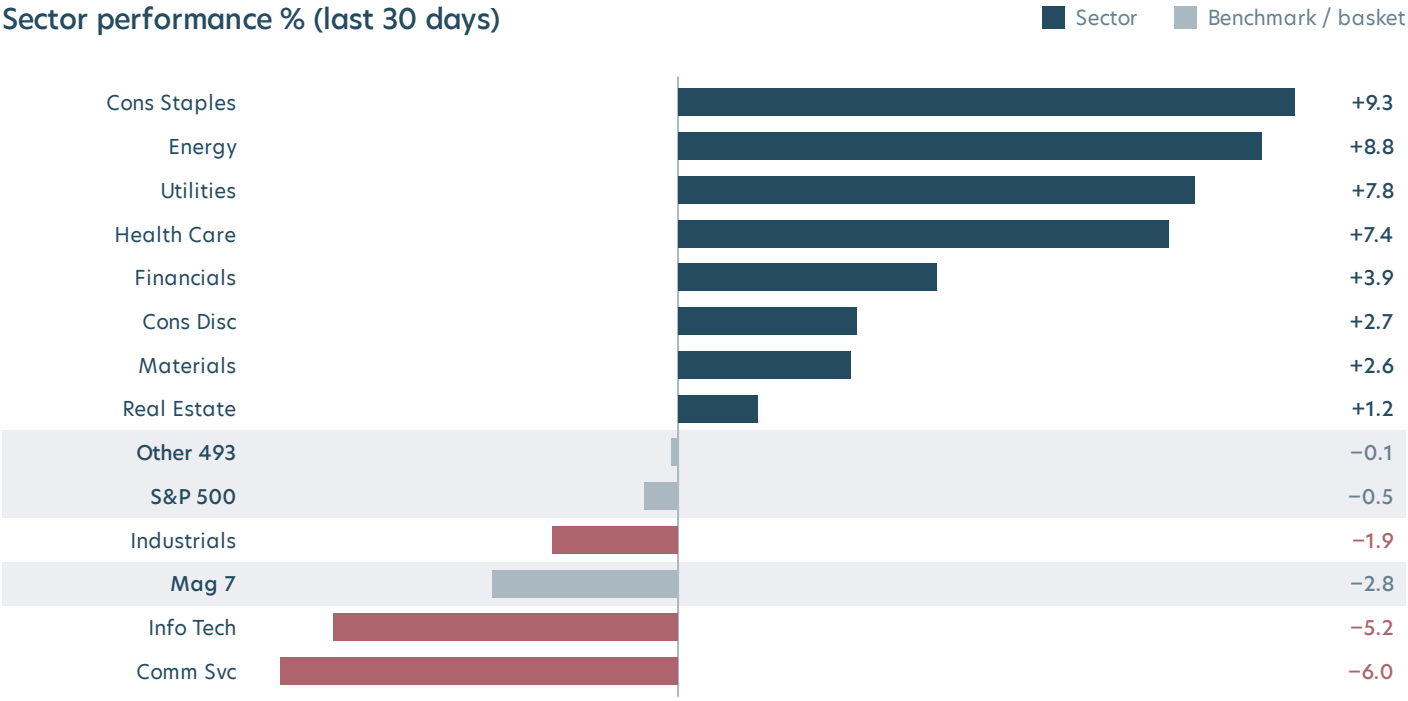


Figure 09 · Source: Bloomberg, UOB Private Bank. Total return over the trailing 30 days

Tactical views

Optimism remains remarkably difficult to kill, but the market is beginning to ask harder questions. The Direxion Daily Semiconductor Bull 3X ETF attracted a record USD7.2bn last week even as it lost roughly one-third of its value. That represents about USD21bn of notional chip exposure. Meanwhile, the Philadelphia Semiconductor Index fell 16% across eight consecutive sessions, its longest losing streak since October 2008. Retail investors are not fleeing the fire. They seem to be running towards it with leverage.

Policy also remains a headwind. With one rate increase already delivered, we expect another in December. Tighter financial conditions rarely make comfortable company for expensive equities. Our monitoring of a natural language processing model that tracks the relative stance of the Federal Open Market Committee remains clearly hawkish.

Positioning has eased but remains well short of capitulation. Mega-cap stocks continue to hold up the S&P 500, while only about 56% of its constituents trade above their 200-day moving averages. The index looks healthier from a distance than it does underneath the bonnet.

Earnings remain the strongest defence. Third-quarter S&P 500 earnings are expected to grow about 26%, potentially reaching 30% after the usual beats and upgrades. However, earnings delivery alone may no longer suffice. If strong results and higher guidance fail to lift share prices, elevated expectations may need a more thorough flushing out.

The pressure is clearest in AI infrastructure. Firmus shelved its listing, AirTrunk postponed its Singapore trust offering, Nscale faces valuation resistance, and Elice fell as much as 32% on debut. Capital is still available, but no longer at any price.

We remain neutral on equities and favour gradual accumulation of high-quality credit for risk-tolerant, hold-to-maturity investors. Spreads have widened, but do not yet signal panic. In China, our "Tribell" strategy remains tilted towards safe rather than super. Finally, US mid-term elections may move markets temporarily, but monetary policy, investor positioning and company earnings will determine what lasts.

HOW TO INTERPRET OUR VIEWS

Strategic views indicate the preferred asset allocation relative to the relevant benchmark over the stated horizon. Tactical views determine whether investors should add, maintain, trim or defer exposure under current market conditions. A strategic overweight does not constitute approval to purchase any security or product at any price or time. Individual recommendations remain subject to instrument approval, portfolio suitability, concentration limits and the stated entry approach.

A NOTE ON CIO SIGNALS

Not every observation requires a trade, and not every month requires a new conviction. CIO Signals focuses on what could affect long-term outcomes, while leaving room for uncertainty, competing interpretations and the possibility that patience remains the best response.

Prediction markets

Turning uncertainty into a live market signal

01 Turning Expectations into a price

What are prediction markets?

Prediction markets allow users to trade contracts linked to future outcomes. These can include inflation data, interest-rate decisions, sports results, technology launches and corporate events.

Contract prices provide a live indication of the likelihood participants assign to an outcome. These prices change as new information emerges.

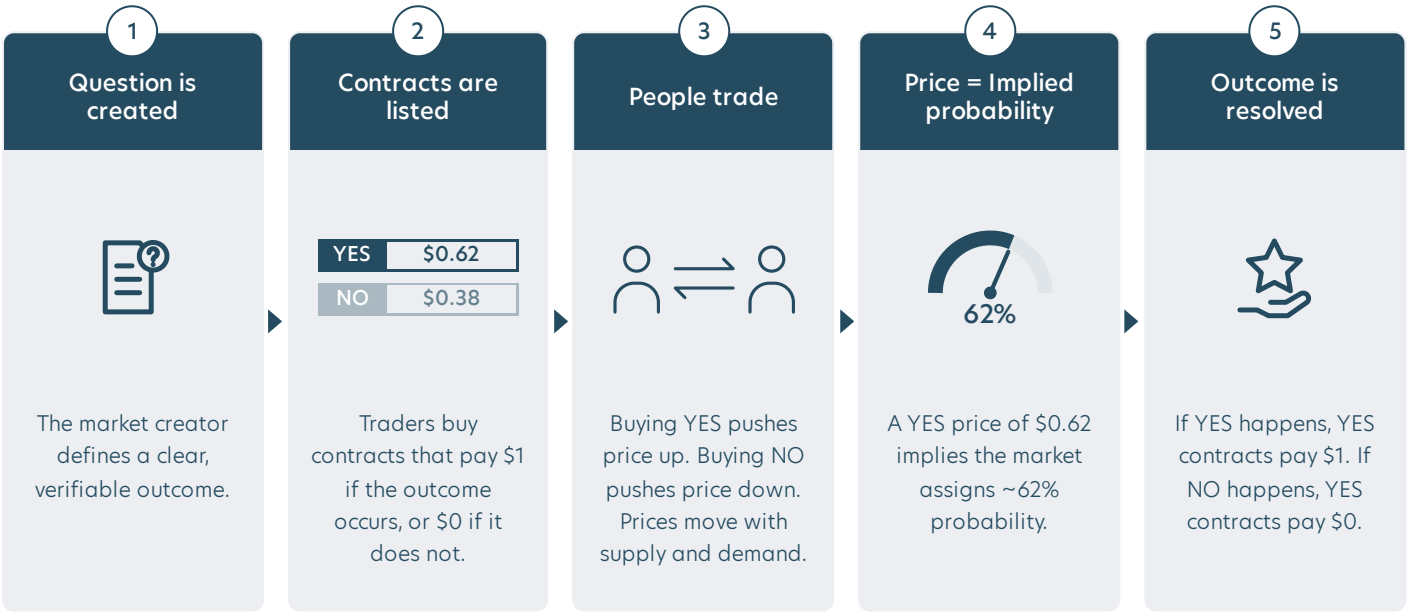


Figure 10 · Source: UOB Private Bank

A simple example: "Who will control both the House and Senate in the US mid-term elections?"

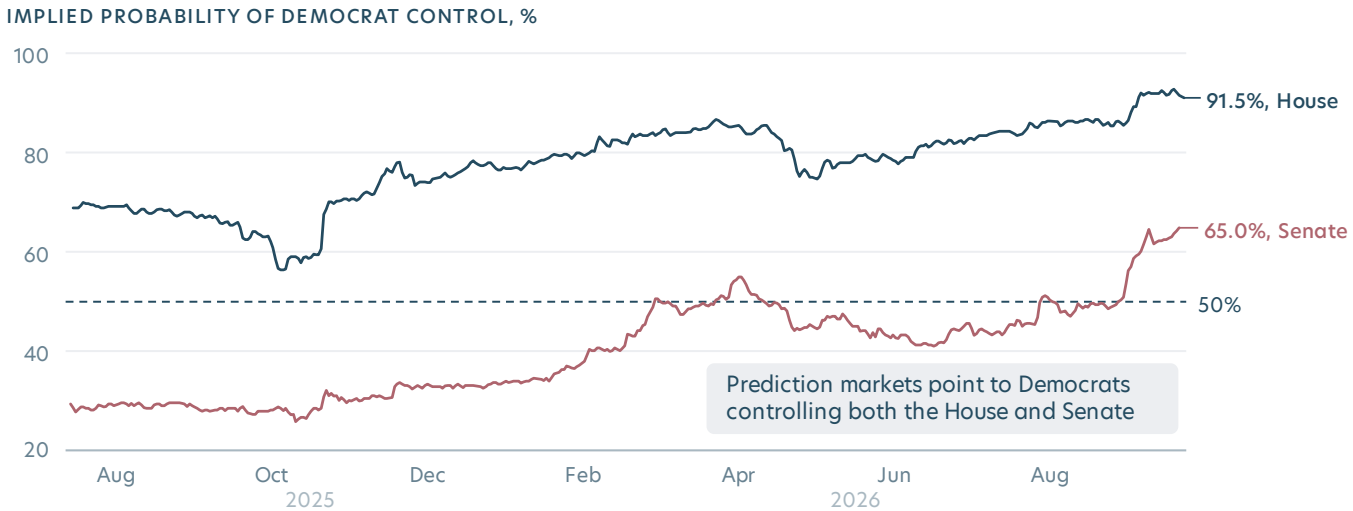


Figure 11 · Source: Bloomberg, UOB Private Bank, Weighted prediction markets (60% Kalshi; 40% Poly)

02 Prediction Markets are gaining momentum

Trading volumes have grown rapidly since 2025, supported by sports, politics and macroeconomic events. Interest is broadening as investors, media firms and institutions seek timely signals of market expectations.

The appeal lies in turning differing views into a continuously updated price, offering another perspective alongside polls, surveys and expert forecasts.

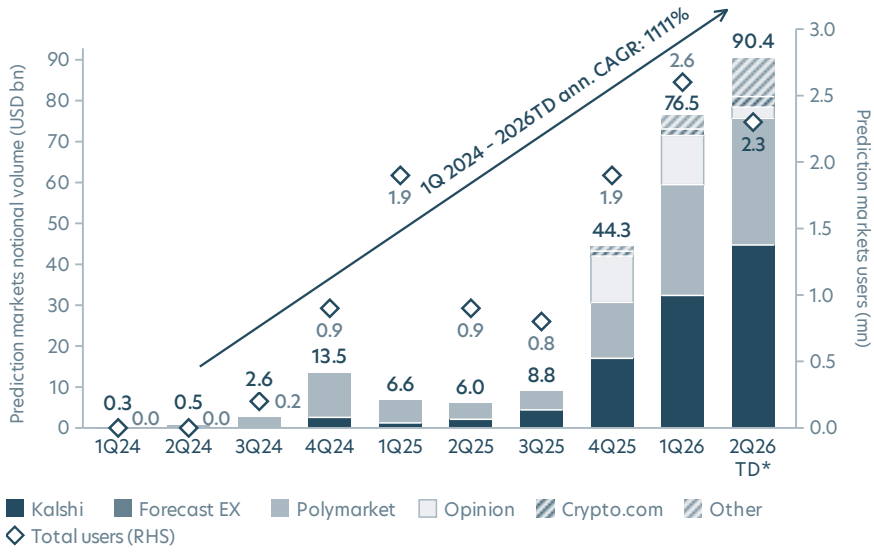
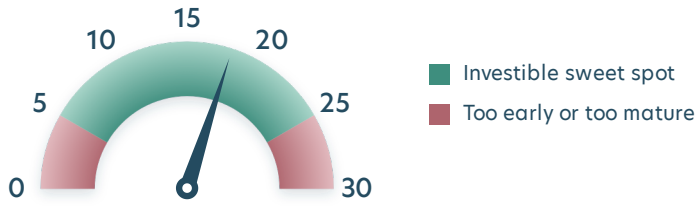


Figure 12 · Source: UOB Private Bank, Dune Analytics, Goldman Sachs Investment Research.
*2Q 2026TD annualised

Theme Maturity Map (Prediction Markets)



Factor	Score	Key takeaway
Technology readiness	4/5	Platforms are already functioning
Market adoption	3/5	Volume has scaled but adoption is not mainstream yet
Revenue visibility	3/5	Fees, data and market-making models are emerging
Regulation	2/5	US regulation is improving but legal and jurisdictional risks remain
Cost curve	4/5	Digital distribution and automated settlement support scalable economics
Investibility	2/5	Direct listed exposure is limited but infrastructure exposure is practical
Total	**18/30**	

Figure 13 · Source: UOB Private Bank

03 Growth alone will not determine investment returns

Prediction markets are attracting growing attention, but popularity alone does not guarantee attractive investment returns.

The next test is whether platforms can turn rising activity into sustainable revenues. Regulatory clarity, reliable execution and broader adoption will shape long-term prospects. Valuation will also matter: strong growth does not necessarily make an investment attractive at any price.

KEY TAKEAWAY

In our view, prediction markets have meaningful long-term potential because they turn uncertainty into tradable information, but the next phase will depend on whether clearer regulation and broader institutional use can convert current volume growth into a sustainable information-market ecosystem.

Speak to your Senior Client Advisor for the full Thematic Investing Series publication and how to position for it.

Interest-rate forecasts, %

INTEREST RATES	25 Sep	4Q26F	1Q27F	2Q27F	3Q27F
USD 3M SOFR (compounded)	3.66	3.96	4.21	4.32	4.36
SGD 3M SORA (compounded)	1.22	1.40	1.50	1.57	1.63
10Y US Treasuries Yield	5.19	5.30	5.50	5.50	5.50
SGD 10Y SGS	2.48	2.65	2.80	2.95	3.00

Figure 14 · Source: UOB Global Economics & Markets Research, as of 25 September 2026

Currency forecasts

FX	25 Sep	4Q26F	1Q27F	2Q27F	3Q27F
DXY	101.3	102.0	102.8	103.6	103.6
USD/JPY	159	159	161	162	162
EUR/USD	1.14	1.12	1.11	1.10	1.10
AUD/USD	0.70	0.70	0.69	0.68	0.68
USD/CNY	6.71	6.75	6.80	6.85	6.85
USD/SGD	1.28	1.28	1.29	1.30	1.30

Figure 15 · Source: UOB Global Economics & Markets Research, as of 25 September 2026

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