

How Investors Should Think About Positioning

12 March 2026

Overview

- History shows US equities typically digest geopolitical shocks quickly; average S&P 500 peak-to-trough decline ~8%, with 12-month returns usually recovering most losses.
- We stay overweight US and EM equities, monitor key supports, keep Japan and Europe neutral, treat fixed income as a portfolio stabiliser, and remain selective in private assets.
- 2026 S&P 500 earnings growth about 12%-14%; liquidity still ample despite Fed runoff; rates likely gliding lower; policy makers have proven crisis dexterity.
- Key risks: conflict expansion beyond Middle East and attacks on subsea infrastructure; hawkish Fed; corporate "AI-washing" layoffs lifting unemployment.

What is our stance today?

We maintain our overweight stance on equities in US and EM. Key technical levels such as the 200-day moving average will be tested on the S&P 500. If it does break below, depending on the reasons it breaks below that support level, we could also test the previous highs achieved pre-liberation day.

US overweight: We hold our overweight call, premised on robust corporate earnings with SPX EPS +12% to 14% for 2026E. Recent bottom-up ranges for 2026 sit around low- to mid-teens.

EM overweight: China has been a slight disappointment, but the light positioning helps investors build for a longer-term horizon. South Korea and Taiwan remain solid on fundamentals but look a tad too hot on speculative behaviour.

JP neutral: Recent outperformance has pushed valuations back to ~20-year highs (excluding Covid) amid BOJ tightening risks. We see unfavourable risk-reward for beta-market players but acknowledge there are niche opportunities within Japan.

EU neutral: We remain positive on Defence and Banks but acknowledge investor crowding can be an issue.

Fixed income: Spreads have been very tight. We see buy-on-dip opportunities following recent spread widening. In the longer term, we iterate that fixed income remains a stabiliser, not a driver of returns.

Private credit: The software shake-out will likely remain topical with funds gating redemptions. However, if investors choose the right managers, total absolute performance is unlikely to be an issue in the 24-36-month time frame. We have seen this with a large real-estate fund previously, and today's private-credit noise somewhat rhymes with history.

Why are we maintaining our equity overweight?

History says markets refocus. Past geopolitical shocks have tended to shift from headlines to fundamentals over time. The present episode should rhyme, not repeat. Geopolitical conflicts do not typically impact financial markets in the US for prolonged periods. Peak to trough S&P500 declines are about 8% on average with subsequent 12-month performance recovering most of the decline.

Figure 1: Geopolitical events and market impact

Geopolitical event	Date	S&P 500	US 10y	Gold	Oil	JPY vs. USD	CHF vs. EUR	DX
Yom Kippur	Oct-73	-14%	1%	-10%	36%	-5%	0%	6%
Soviet invasion Afgh.	Jan-80	-16%	-5%	-32%	3%	-3%	-2%	8%
Falklands	Apr-82	-13%	3%	0%	0%	-12%	-4%	10%
Iraq invades Kuwait	Aug-90	-14%	-4%	11%	54%	0%	6%	-2%
Gulf War	Jan-91	-5%	-1%	2%	6%	0%	5%	2%
9/11 Attacks	Sep-01	-12%	1%	7%	-8%	4%	5%	-1%
US Invades Afgh.	Oct-01	-4%	2%	1%	-4%	1%	1%	-1%
Iraq War	Mar-03	-5%	2%	1%	15%	2%	-1%	-3%
Lebanon War	Jul-06	-4%	1%	4%	3%	-2%	1%	2%
Crimea Annexation	Mar-14	-3%	2%	-1%	1%	2%	0%	0%
Ukraine Invasion	Feb-02	-9%	1%	12%	38%	0%	4%	4%
Hamas Attack Israel	Oct-23	-6%	0%	3%	-1%	0%	0%	0%
Iran Attack	Apr-24	-5%	-2%	8%	0%	-2%	0%	2%
US Attacks Iran	Jun-25	-1%	0%	0%	10%	-2%	0%	1%
Average		-8%	0%	0%	11%	-1%	1%	2%
Median		-6%	1%	2%	3%	0%	0%	1%
Hit ratio		0%	64%	71%	71%	43%	64%	64%

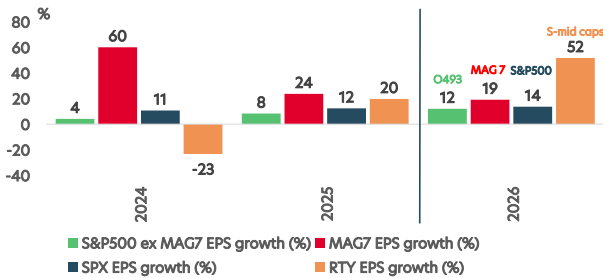
Source: Goldman Sachs, UOB Private Bank

Earnings fundamentals are supportive. The S&P 500 is slated to grow 2026E earnings in the range of 12-14% y/y. This is healthy, especially with valuations coming off. The Mag7 mega-caps' earnings are still growing at high-teens despite the law of large numbers. Encouragingly, the Other 493 (O493) in the S&P 500 are also forecast to grow at double-digit rates. (Ranges differ by provider, but the direction of travel is consistent.)

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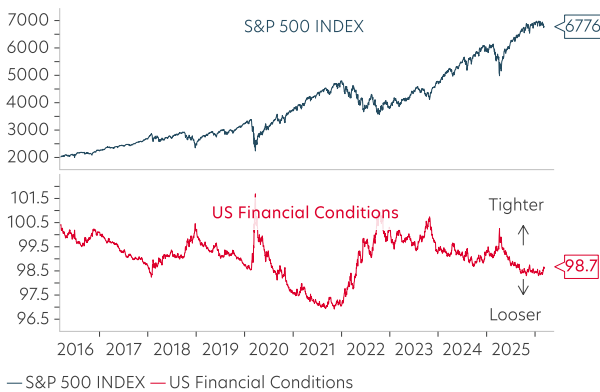
Figure 2: US estimated earnings growth



Source: Bloomberg, UOB Private Bank

Liquidity and interest rates. We are encouraged that liquidity remains abundant even after a large Fed balance-sheet contraction from the peak; total assets are around USD6.6trn today versus the 2022 high (range of ~25-30% below peak on most measures). US policy rates are expected to end the year in the 3.25-3.5% range, with a downward trajectory likely if inflation stays contained and unemployment rises gradually. Should global events turn chaotic, central banks have a policy deftness developed through the GFC, Eurozone Debt Crisis and Covid playbooks.

Figure 3: Financial conditions remains loose



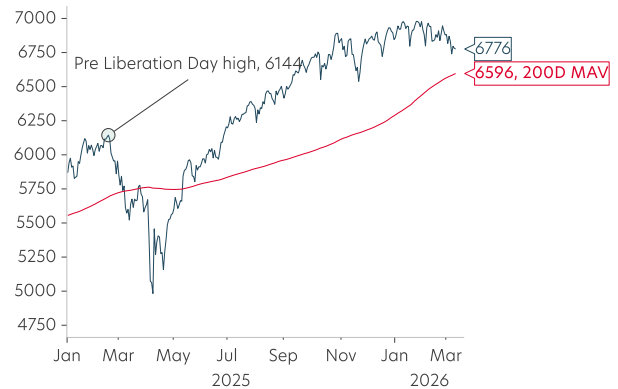
Source: Bloomberg, UOB Private Bank

What could make us change our view?

Conflict broadens materially. Conflict could expand outside of the Middle East, hitting the US and other allied assets. While embassies are likely targets, attacks on financial-related infrastructure like stock exchanges would hit investor sentiment harder. Even though valuations have come off their peaks, they are still elevated because confidence in fundamentals remains firm.

However, the “fear factor” that “anything can be at risk” can result in a loss of confidence. In an extreme case, we could see a sell-down below pre-liberation day highs (S&P 500 at 6144). Subsea infrastructure instability could accentuate this tail risk: >95% of intercontinental data runs through submarine fibre-optic cables, which carry financial transactions, military coordination, and cloud traffic. NATO has publicly prioritised protecting undersea infrastructure (new networks, centres, and patrols) given recent incidents.

Figure 4: S&P500 technical levels to watch



Source: Bloomberg, UOB Private Bank

Central banks turn hawkish. If price stability is prioritised over employment once again, it could undermine the soft-landing narrative and compress valuation multiples. Investors should watch US unemployment, core PCE, and Fed forward guidance.

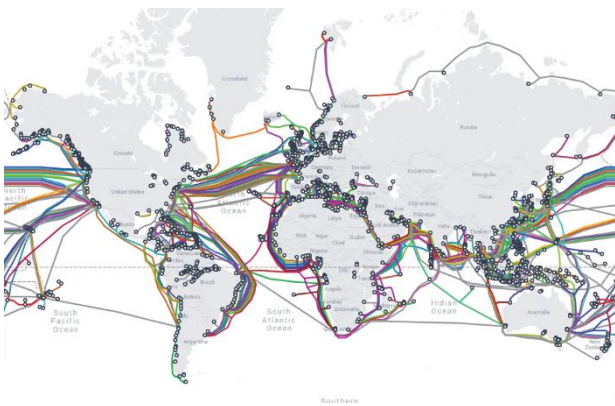
“AI-washing” drives labour shocks. You have heard of green-washing; welcome to “AI-washing.” This is where companies use AI productivity as a reason to cull the workforce, leading to a higher temporary unemployment rate. In this regard, higher white-collar unemployment would disproportionately affect consumption in the US. The underlying reasons can often be traced to poor strategic or financial decisions in the past. Investors, disturbingly, seem to like it—Block cut ~40% of staff and the share price jumped ~20-24% around the announcement.

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Subsea cable disruption at chokepoints. (they look like garden hoses) carry over 95% of international digital communications, including financial transactions, military coordination, and cloud traffic. Intentional sabotage of these cables puts modern connectivity at risk. Publicly known chokepoints where many cables pass together include the Suez Canal-Red Sea corridor, Malacca Strait, the English Channel, around the Cape of Good Hope, and the South China Sea; NATO has repeatedly highlighted protection of undersea infrastructure in 2023–2025.

Figure 5: Global submarine cable network



Source: TeleGeography's Transport Networks Research Service

Wars and the pursuit of energy independence

We do not condone kinetic wars, but the reality is that large-scale wars involving Russia/Ukraine and Iran are already happening. We believe investors should be mentally prepared for continued kinetic wars.

We maintain that this is not a blip, but a likely permanent global state of affairs. In 2024, global military spending already exceeded USD2.7trn and has been growing at a strong clip, pointing higher into 2030 as rearmament cycles proceed. We expect that more ESG funds will continue to “bend their principles” to participate in this segment.

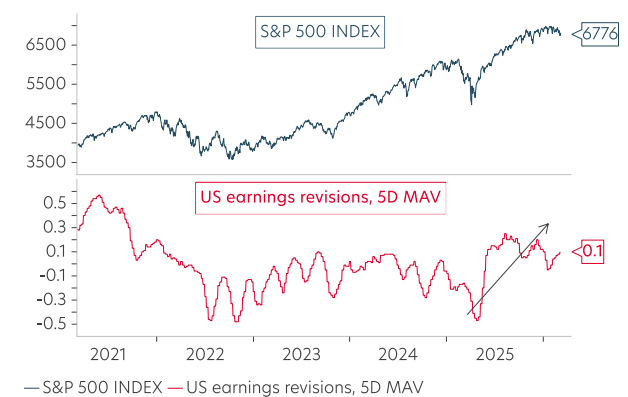
In terms of energy security, we believe that when push comes to shove, independence and politics beats ESG. Therefore, if needed, coal plants will be reactivated. At the same time, oil dependency is structurally declining as the power system shifts; nearly all new power growth now comes from clean energy, reducing oil's long-term role in electricity generation.

- The IEA's Global Energy Review 2025 notes oil's share of total energy demand fell below 30% in 2024 (from a 46% peak ~50 years ago), and global oil-demand growth slowed.
- Renewables provided the largest share (38%) of global energy-supply growth in 2024.
- Renewables and nuclear supplied ~80% of the increase in global electricity generation in 2024, with solar contributing a record increment.
- 2025-2030 global renewable additions are projected to be roughly double the 2019-2024 pace, with solar ~80% of growth on many scenarios and policy sets.

Portfolio implications

Our overweight equities (US and EM) stance stands. We remain neutral on Japan and Europe equities (with a focus on Defence and Banks), treat fixed income as a stabiliser, and stay selective in private credit. We will re-evaluate our stance if the S&P500 breaks technical levels for drastic reasons, EPS revision breadth turns decidedly negative, and policy tone shifts hawkish. We are also vigilant on undersea infrastructure risks and AI-washing as potential left-tail catalysts.

Figure 6: US earnings revisions remain positive

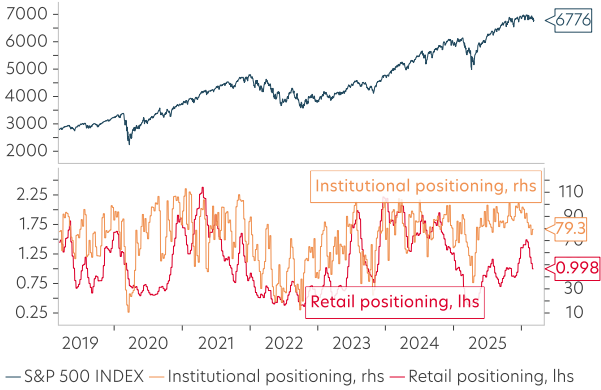


Source: Bloomberg, UOB Private Bank

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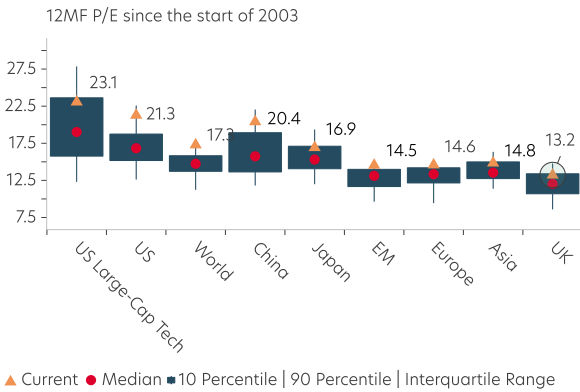
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Figure 7: Investor positioning



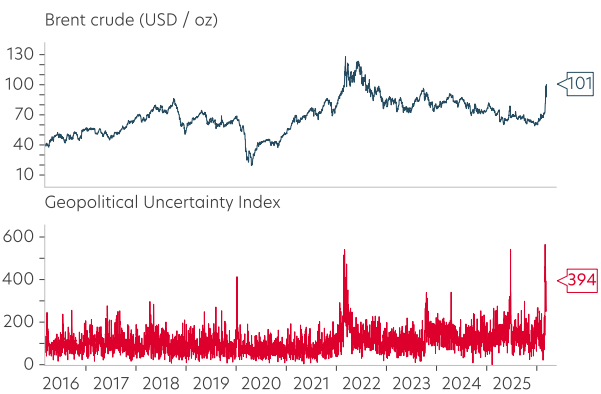
Source: Bloomberg, UOB Private Bank

Figure 8: Valuations still high but off recent peak



Source: Bloomberg, UOB Private Bank

Figure 9: Oil price vs. geopolitical uncertainty



Source: Bloomberg, UOB Private Bank

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