

Navigating a volatile transition phase

2 April 2026

Overview

- History and valuations benefit long term investors who stay the course: 10%–20% drawdowns often rebound 15%–24% in 3–6 months; valuations have de-rated significantly as earnings hold; AI bubble fears cooled; low-volatility strategies continue outperforming, reinforcing portfolio resilience.
- Near term, technicals are soft: S&P500 is likely to re-test 6,144, with positioning not yet fully capitulated. This would imply a peak to trough decline of ~12% SPX and ~15% NDX.
- We acknowledge some tail risks: far-reaching conflict via long-arm terrorism (sleeping cells), a hawkish-leaning Fed (despite a high bar to hike rates), or rapid AI disruption that displaces jobs faster than generating sales.
- Key takeaway: Expect a technical re-test and ongoing volatility but opportunities are arising for long term investors that are not fully invested. We think the time is coming to add selectively on dislocations, as structural supports like a dovish leaning Fed and earnings resilience anchor medium term prospects. Please read our 2Q26 Investment Outlook report published on 1 April 2026.

Navigating a volatile transition

Let's get the bad news out of the way. This morning, President Trump signalled the US will hit Iran "extremely hard" over the next two to three weeks and offered no clear resolution to the Strait of Hormuz closure. Markets did not take it positively.

We remain in a challenging transition phase, with near-term technical pressures set against more constructive medium-term fundamentals. The balance between these forces is likely to determine market direction in the weeks ahead.

With all the negativity, we highlight some historical precedence for investors that have a longer-term horizon.

History argues for caution, but not pessimism

While near-term risks are real, history offers an important counterbalance. Past episodes of 10%–20% equity corrections have typically been followed by average rallies of around 15% over three months and 15%–24% over six months (Fig. 1). This does not preclude further volatility, but it does suggest that periods of stress often lay the groundwork for recovery.

Figure 1: Strong rallies post 10%-20% corrections

Event	Correction: 10-20% drawdown			3M After Trough	6M After Trough
	Peak	Drawdown	Trough		
End of Korean War	Jan'53	-15%	Sep'53	9%	17%
Fed tightening	Aug'59	-14%	Oct'60	15%	26%
Inflation re-acceleration	Sep'76	-19%	Mar'78	12%	19%
Volcker shock	Feb'80	-17%	Mar'80	17%	32%
Rates backup	Oct'83	-14%	Jun'84	11%	9%
Gulf War	Jul'90	-20%	Oct'90	7%	27%
Asian Financial Crisis	Oct'97	-11%	Oct'97	10%	28%
LTCM	Jul'98	-19%	Aug'98	24%	33%
Dot.com + Fed tightening	Jul'99	-12%	Oct'99	15%	21%
Eurozone crisis	Apr'10	-16%	Jul'10	12%	23%
US downgrade/Euro debt	Apr'11	-18%	Oct'11	15%	29%
China slowdown	May'15	-14%	Feb'16	14%	19%
Fed tightening	Sep'18	-20%	Dec'18	21%	24%
Rates higher for longer	Jul'23	-10%	Oct'23	18%	22%
Liberation Day	Feb'25	-19%	Apr'25	26%	35%
Average		-16%		15%	24%
Median		-16%		15%	24%

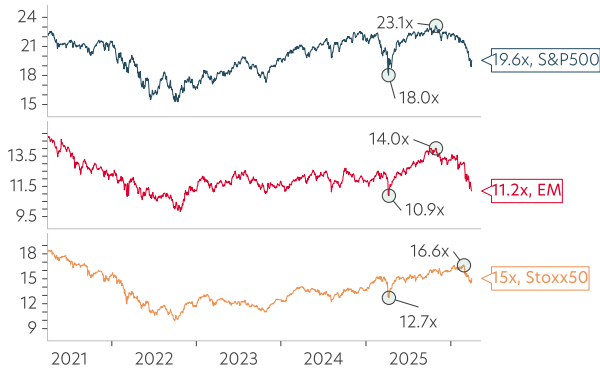
Source: Bank of America, UOB Private Bank

Valuations also look more reasonable (Fig. 2). Equity prices have adjusted lower across the US and emerging markets, even as earnings expectations have broadly held up. This has resulted in a meaningful de-rating, improving prospective returns should growth remain intact. Unfortunately, Europe still appears expensive with only a mild retracement.

Navigating a volatile transition phase

2 April 2026

Figure 2: Valuations now more reasonable



Source: Bloomberg, UOB Private Bank

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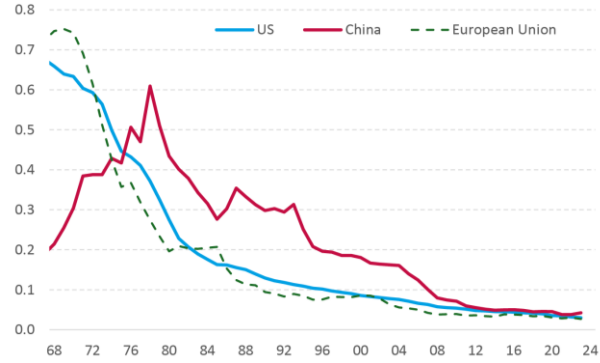
Importantly, AI bubble concerns have moderated. Surveys of professional fund managers show that perceptions of overcrowding and excess have declined materially. Paradoxically, this cooling of sentiment may help extend the AI investment cycle, rather than end it prematurely.

Structural positives remain under-appreciated

Looking beyond the immediate cycle, several longer-term dynamics continue to support risk assets.

First, energy intensity has fallen dramatically (Fig. 3). Measured by the cost of oil relative to GDP generated, the global economy is far less oil-dependent than in previous decades. Diversification into renewables, nuclear and other non-hydrocarbon sources, combined with an economy increasingly driven by intangible assets, has reduced vulnerability to energy shocks. In 1974, the US used 803m tonnes of oil; at USD11.65/bbl that was ~4.8% of GDP. In 2024, usage is ~813 m tonnes, but with a ~USD28.75trn economy and ~\$100/bbl, spending on oil ~2% of GDP.

Figure 3: Oil consumption (m tonnes)/GDP (USD bn)



Source: UBS, UOB Private Bank

Second, low-volatility strategies (Fig. 4), highlighted in our start-of-year outlooks, have performed as expected. Their resilience in recent drawdowns reinforces their role as effective portfolio stabilisers in uncertain regimes.

Figure 4: Low volatility strategy has worked



Source: Bloomberg, UOB Private Bank

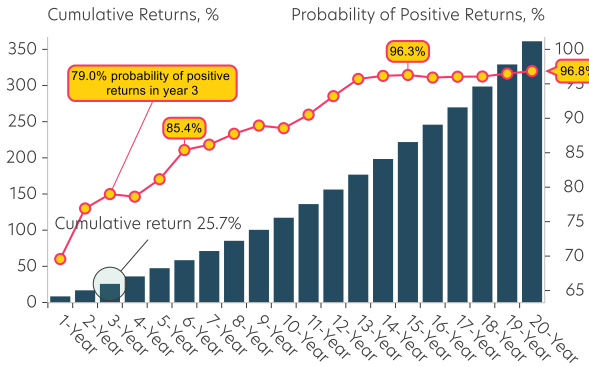
Source: Bloomberg, UOB Private Bank

Finally, markets continue to reward investors with holding power (Fig. 5). US equities, in particular, benefit from an index structure that systematically rebalances towards winners and away from losers. Historically, the probability of positive returns rises to around 79% by the third year of holding, underscoring the value of patience through volatility.

Navigating a volatile transition phase

2 April 2026

Figure 5: S&P500 holding period vs returns



Source: Bloomberg, UOB Private Bank

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Navigating a Volatile Transition Phase

From a technical perspective (Fig. 6), US equities do not yet look fully reset. The S&P 500 (SPX) appears likely to re-test the 6,144 level, corresponding to the pre-DeepSeek and pre-Liberation Day highs. A move to this level would imply a peak-to-trough drawdown of roughly 12% for the SPX, and closer to 15% for the Nasdaq 100 (NDX).

Figure 6: S&P500 technical levels to watch

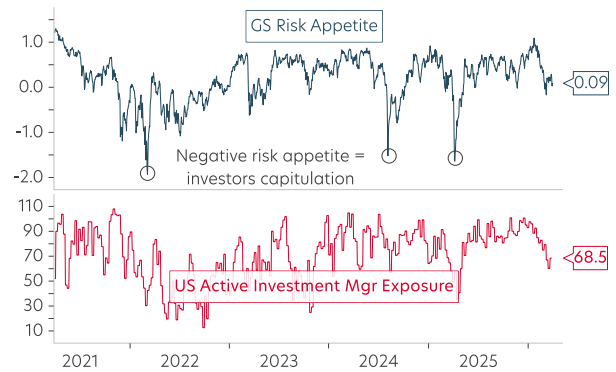


Source: Bloomberg, UOB Private Bank

Positioning data reinforces this caution. While there has been meaningful de-risking, market positioning does not yet suggest full capitulation. Both systematic and discretionary investors appear lighter than at the highs but not positioned defensively enough to rule out another leg lower. As such, a test of prior support would be consistent with historical wash-out dynamics.

Whether markets stabilise at these levels, or break below them, will depend critically on the nature of the next catalyst. A more benign pullback driven by positioning and technicals would look very different from one driven by genuine macro or geopolitical deterioration.

Figure 7: Derisked but no capitulation yet



Source: Goldman Sachs, Bloomberg, UOB Private Bank.

Source: Goldman Sachs, UOB Private Bank

Key downside risks that could trigger further weakness include:

- Beyond an elevated and sustained oil price, a broadening of geopolitical conflict, particularly if tensions evolve into less predictable, long-range terrorism when sleeper cells are activated.
- A less accommodative Federal Reserve response if policymakers choose not to look through the current inflation spike. While we believe the bar for rate hikes remains high, a hawkish shift would challenge risk assets.
- Faster-than-expected AI-driven disruption, where previously wide corporate moats are breached more rapidly than markets currently discount. More jobs lost first before more sales are generated.

Navigating a volatile transition phase

2 April 2026

Closing thoughts

In summary, markets are likely to remain volatile in the near term, with a plausible test of recent support levels. However, we think that medium and long-term fundamentals appear more resilient than price action alone would suggest. The coming weeks should help clarify whether current weakness represents a necessary reset, or the start of something more disruptive.

Our current inclinations are for long term investors who are yet to be fully deployed to ready their cash.

A more comprehensive assessment of positioning, valuations and strategy is set out in our official Quarterly Investment Outlook report published on 1 April 2026.

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