

2Q 2026 Investment Outlook

# Resilience amid global complexity





# Contents

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03 CIO Thoughts

---

11 Portfolio Strategy

---

14 Equities

---

24 Fixed Income

---

29 Commodities

---

31 Currencies

---

34 Alternatives



# CIO Thoughts

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## Foreword: Resilience Through a More Complex Cycle

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This quarter, we continue to lean constructive on risk assets, while recognising that the path ahead is likely to be noisier than the destination. Our core stance remains an overweight on US and emerging market equities, with Japan and Europe held closer to neutral, fixed income treated primarily as a stabiliser (though with opportunities in spread widening), and private credit and private equity approached selectively amid ongoing adjustments. That positioning reflects a simple judgement: markets still tend to follow earnings, liquidity and policy more than headlines, even when those headlines are geopolitical.

Our overweight in equities carries an important caveat: a prolonged energy shock. If the Strait of Hormuz and Bab al-Mandab stay closed for more than two months, and oil moves towards USD 150/bbl, earnings risk would rise materially. Even resilient hard-asset semiconductor stocks could face helium shortages, weaker chip output and higher energy costs, increasing the likelihood of downgrades. Asia EM would be especially vulnerable, with Japan, Taiwan and South Korea exposed through Middle East energy dependence. China should be relatively more resilient, supported by earlier de-risking, lower Gulf energy dependence for power, stronger policy flexibility, lighter positioning and strategic buffers.

History is helpful here. Major geopolitical shocks have usually created short, sharp drawdowns rather than prolonged bear markets for US equities. Our research shows that geopolitical shocks since World War II present an average S&P 500 peak-to-trough decline of roughly 4%-8%, with recoveries often measured in months, not years... almost as though the event never happened.

That said, today is not 2022. During the Russia-Ukraine oil shock, Wall Street ultimately looked through the inflation spike because the US macro cushion was unusually large. Federal outlays had surged from roughly USD 4.1 trillion to USD 6.3 trillion, households had built up about USD 2.3 trillion of pandemic excess savings, and payroll growth was still running at an average pace of around 400,000 per month in the early phase of that adjustment. That combination prevented an oil shock from tipping the US into a long recession. Nevertheless, we acknowledge that today's oil supply shock is one of the largest in history and could have longer than expected after-effects if the Strait of Hormuz remains a bottleneck.

At the same time, geopolitics are clearly not as easily reversed as tariffs and the backdrop is less forgiving now. Federal spending is no longer surging, with Treasury data showing fiscal-year-to-date outlays only 2% higher than a year ago. The personal saving rate was just 4% in the latest BEA release, and February non-farm payrolls rose by 92,000 but unemployment rose to 4.4%. Pandemic excess savings, moreover, have already been fully drawn down at the aggregate level. In other words, the main risk to Wall Street this time is less about CPI and more about whether higher energy prices start to erode EPS, especially with consensus still looking for roughly 12%-14% S&P 500 earnings growth for 2026.

## Peak to trough in the S&amp;P 500 around spikes in the Geopolitical Risk Index

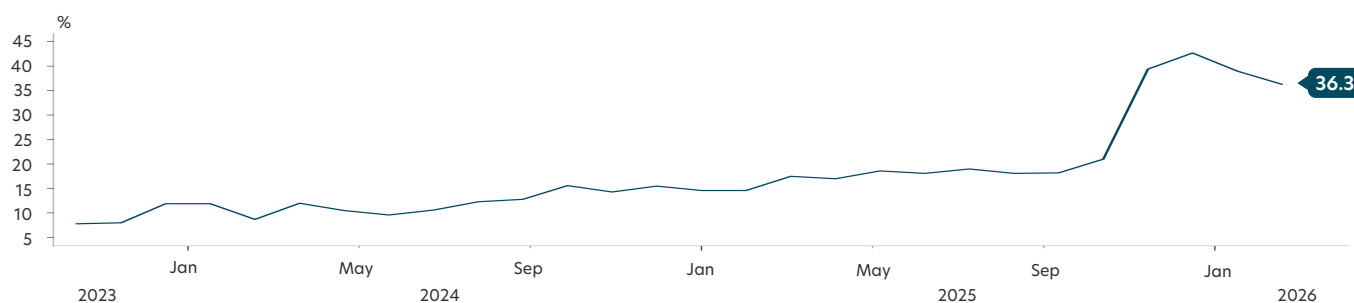
Geopolitical event	Date	S&P 500	US 10y	Gold	Oil	JPY vs USD	CHF vs EUR	DXD
Yom Kippur	Oct-73	-14%	1%	-10%	36%	-5%	0%	6%
Soviet invasion Afgh.	Jan-80	-16%	-5%	-32%	3%	-3%	-2%	8%
Falklands	Apr-82	-13%	3%	0%	0%	-12%	-4%	10%
Iraq invades Kuwait	Aug-90	-14%	-4%	11%	54%	0%	6%	-2%
Gulf War	Jan-91	-5%	-1%	2%	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-22	-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%

That frames the risks we are watching most closely. First, Iran could last longer than usual. Conflict duration matters because a short shock is manageable, but a multi-month disruption raises the odds of sustained pressure on oil, margins and sentiment. Second, vulnerabilities in non-bank financial intermediation have increased since 2022, with private equity and private credit likely to face further aftershocks. Non-bank institutions now account for around half of global financial assets and, despite lighter oversight, are closely connected to banks via private credit, fund leverage, refinancing risk and real-estate exposures. Third, AI job disruption may be more front-loaded than AI job creation. If firms use "AI productivity" to justify rapid labour cuts before new demand arrives, the result could be a temporary growth air pocket rather than the smooth productivity dividend markets assume.

The final risk is policy. If the Federal Reserve shifts from easing bias to hold or hawkish, the pressure would extend across all long-duration assets, including growth equities and even gold. Recent market commentary already suggests the Fed may be reluctant to cut proactively if oil keeps inflation risks elevated.

Overall, our message this quarter is balanced but not defensive: stay invested, stay selective, and watch earnings more closely than inflation. Geopolitics may move markets first, but fundamentals still decide where they settle. Our view is unchanged: if the cycle bends but does not break, disciplined investors should be rewarded for staying focused on fundamentals rather than fear.

## Anticipated AI adoption rate in next 6 months (firms &gt;250 employees)



Source: Bloomberg, UOB Private Bank

# Conflict in the Gulf

## Conflict overview and baseline timeline

At the time of writing, we are entering the fourth week of the Gulf conflict. Headlines remain very fluid, while the prospects of de-escalation remains unclear amid mixed signals from both US and Iran. Against this backdrop, our base case, with a 60% probability, assumes a conflict timeline of roughly 4-6 weeks—consistent with President Trump’s initial indication—while recognising the risk of more protracted scenarios. This view is reinforced by the limited US appetite for a prolonged engagement, particularly with mid-term elections approaching in November. Rising petrol prices tied to an unpopular war have further weakened Republican prospects, adding political pressure to avoid an extended conflict.

## Oil markets: The critical pressure point

The key transmission channel to the global economy and markets remains energy prices. Crude oil ETF volatility has surged past 100, while Brent briefly spiked from USD 70/bbl to USD 120/bbl at the height of the conflict before easing back. With Brent crude now trading at a

higher range, we update our forecasts to USD 110/bbl in 2Q 2026, USD 100/bbl in 3Q 2026, USD 90/bbl in 4Q 2026 and 1Q 2027. The near-term risk of a further spike in Brent crude above the February 2022 Russia-Ukraine War high of USD 130/bbl cannot be ruled out.

## Asia’s exposure: Growth, inflation and sentiment risks

The longer the Strait remains closed, the larger the risk to global growth outlook and EM risk assets. An escalating Middle East conflict and continued threats to Hormuz represent significant macro headwinds for Asia, primarily through higher oil prices, rising inflation and weaker sentiment. About 20% of global crude and LNG pass through the Strait, nearly 80% destined for Asia, so the impact will depend on how long any disruption lasts. Higher energy costs would hit consumers and margins, with the Philippines, Singapore and Thailand most exposed, while Indonesia and Malaysia may see some commodity-linked offsets. For now, we are keeping our GDP and inflation forecasts unchanged, though risks are tilted to the downside and upside respectively as we monitor this evolving situation.

## Impact on 2026E index earnings per \$20/bbl oil price stock



Source: Goldman Sachs Global Investment Research

Note: Estimates based on regional VAR model's sensitivity to impacted Asia ex Japan sectors.

## Investment implications: Staying constructive through volatility

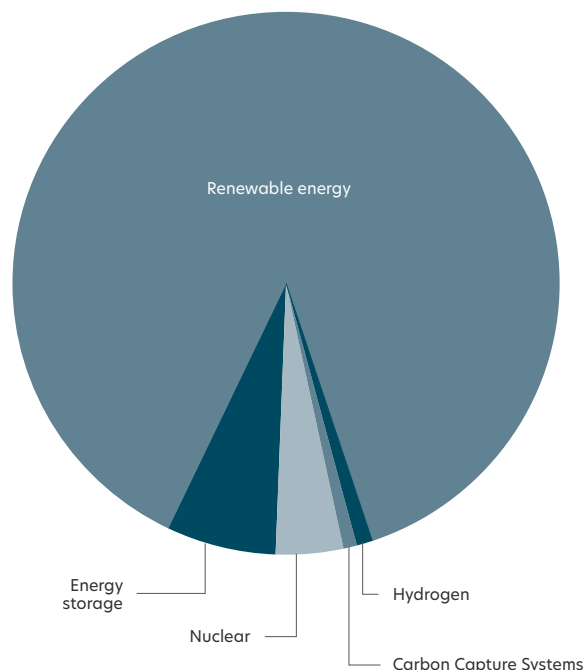
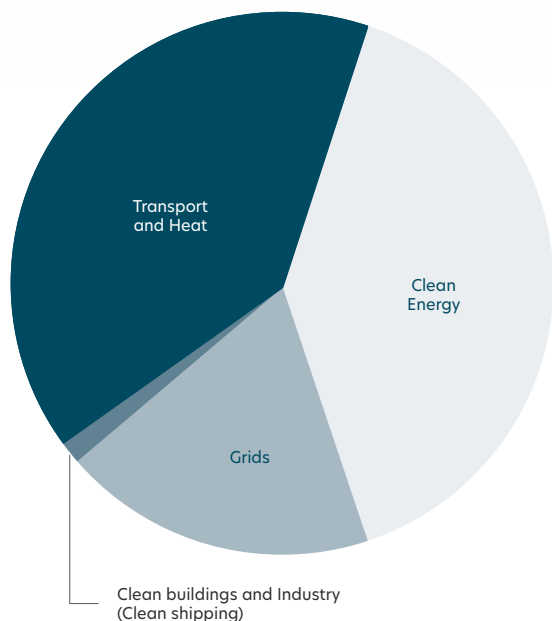
Despite these developments, we maintain a constructive view on the market. History offers useful perspective. Major geopolitical shocks have typically led to brief, sharp market pullbacks rather than extended US equity bear markets. Our research shows that since World War II, such events have produced average S&P 500 declines of about 4%–8%, with recoveries usually unfolding within months, and often leaving little lasting trace. Indeed, as of 17 March, S&P 500 remains only 4% off its January high. Our overweight stance on US equities is underpinned by supportive earnings fundamentals. With the S&P 500 projected to deliver 12–14% YoY earnings growth in 2026, momentum looks robust, all the more so with valuations drifting lower. The Mag7 continue to record high-teens growth, and the Other 493 are likewise expected to post double-digit gains. We also stay Overweight on Emerging Markets and view any dips as opportunities to accumulate quality names.

## Energy security: A strengthening structural theme in APAC

Middle East conflict has sharpened focus on Pan-Asian energy insecurity. Tensions around the Strait of Hormuz – a key chokepoint for global oil and gas – have pushed up prices and exposed APAC's dependence on imported fuels. With only 18% of its oil and 70% of its gas produced locally, the region remains highly vulnerable to supply and price shocks.

This has accelerated a strategic shift toward domestic, low-carbon power. Governments are ramping up investment in renewables, energy storage systems (ESS), and grid upgrades to strengthen resilience. Nuclear is also regaining momentum in Korea and Japan, where uranium stockpiles offer long-term security. Investment beneficiaries include ESS providers and transformer/HVDC manufacturers, while import-exposed energy players face headwinds. Energy-transition spending is already outpacing GDP growth, and related equities have outperformed during recent price spikes. While risks remain, from weaker AI-data-centre demand to uneven power trends, APAC's energy transition is now a strategic necessity as well as an opportunity.

### Global energy transition investment breakdown (2024)



Source: BNEF, JP Morgan

# The AI Shock to Software: Painful Before It Becomes Productive

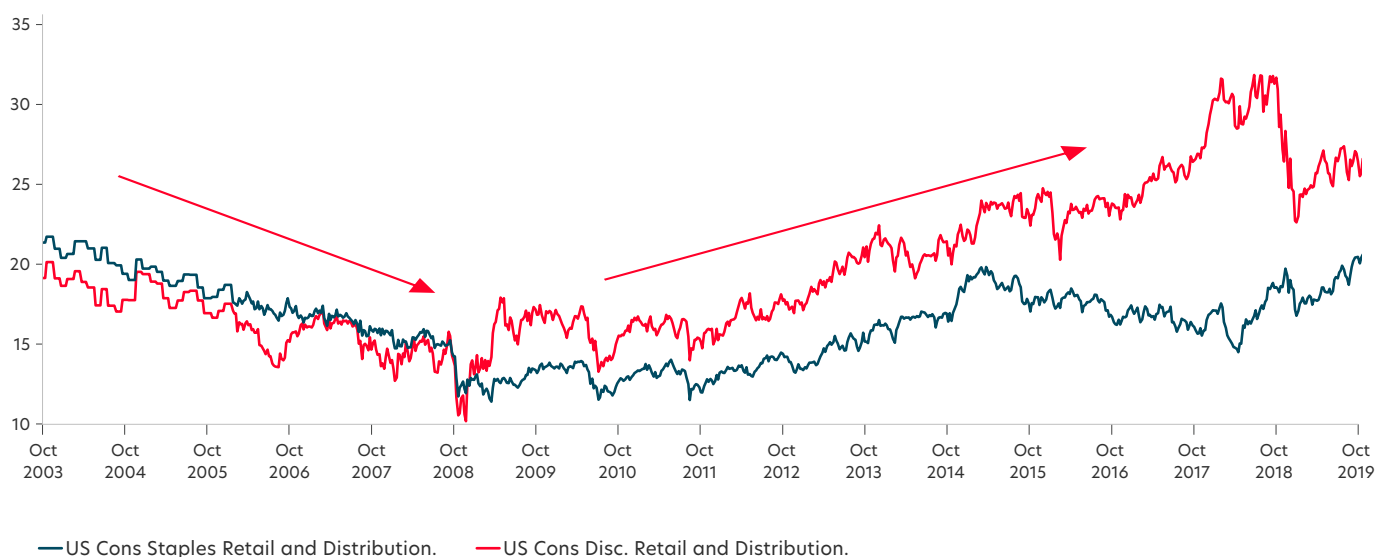
The market is arguing about AI as if it must choose between apocalypse and abundance. We think that the technology has already crossed a threshold and that “non-techies” still underestimate the speed of change. An extreme view argues that abundant machine intelligence could crush software pricing, displace white-collar workers and trigger a wider negative loop across consumption and valuations. A more optimistic scenario accepts the same rapid improvement in AI capability but cheaper services will raise purchasing power, lower the cost of starting companies and ultimately expand the economy.

Our view is less dramatic. The shake-out is real, yet it will not be resolved in one or two quarters. It should take at least a year, because software teams must do more than unveil an AI roadmap. They must prove that renewals can hold, revenue can still compound and margins can still improve, even as customers realise internal teams using agentic tools can replicate parts of existing products at lower cost. Procurement departments are asking a brutal question: why renew a large software contract if a smaller internal team can rebuild enough functionality in weeks?

That is why there will be casualties. The most exposed businesses are those selling labour-priced intelligence in packaged form: tools built around routine workflows, seat expansion and product differentiation. If AI reduces the cost of coding, narrows feature gaps and lowers barriers to entry, then the long tail of software faces price compression and a flood of competitors. But this does not mean incumbents are finished. The likely winners will be fast adopters: firms that embed AI deeply into workflows, improve outcomes rather than just automate tasks, and combine that with assets that remain hard to copy, such as data, distribution, trust and systems integration.

Good historical parallels sit outside software. E-commerce did not kill physical retail. It derated weak formats, shifted economics online and later rewarded retailers that became omnichannel. Fintech did not destroy banks either. It unbundled profitable activities where distribution, search and user experience mattered most, forcing incumbents to digitise and rebundle around trust, scale and regulation. AI will do something similar to software. It will punish weak middlemen, commoditise generic categories and strengthen a smaller group of incumbents that adapt enough.

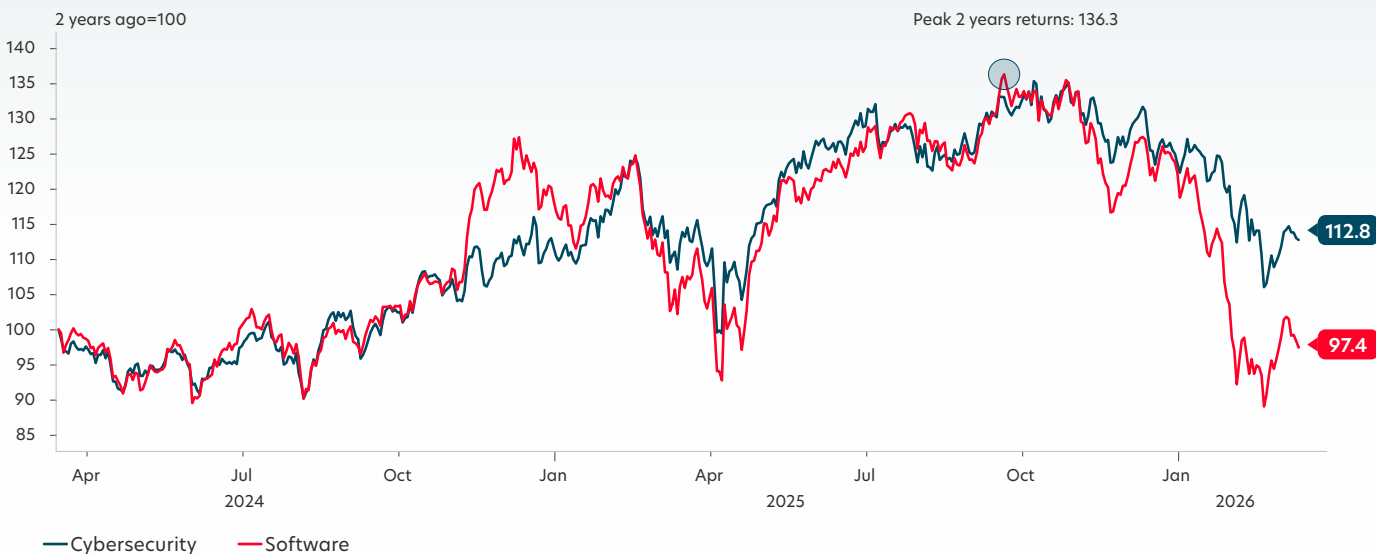
## 12 month forward P/E Ratio



Source: Nomura, Bloomberg, UOB Private Bank

Cyber security should be more insulated than most software because it is becoming more mission-critical, not less. Threats are intensifying, AI is strengthening both offence and defence, and enterprises still have to spend on resilience, zero trust and recovery. Yet insulation is not immunity. Cyber names still trade on premium valuations, and those multiples can still compress if incumbents fail to show that their products outperform AI-native challengers. Operational resilience does not guarantee valuation resilience.

So the most likely outcome is neither immediate collapse nor instant abundance. It is year-long proving ground in which investors separate software that is merely exposed to AI from software that is genuinely improved by it. There will be price cuts, broken narratives and painful exits. But as with retail and banking before it, the companies that adapt fastest should emerge leaner, stronger and more valuable than those that mistake structural disruption for a passing scare.



Source: Bloomberg, UOB Private Bank



# Hard-Asset Leadership in a Capacity-Constrained World

## Physical constraints are now binding

The debate between “hard” and “soft” assets is gaining importance as the investment cycle tilts towards higher capital intensity. Over the past decade, soft assets, defined as software, data and platform models, have dominated returns due to scalability, high margins and low reinvestment needs.

Today, the performance drivers are shifting. AI adoption, energy consumption targets and supply chain reconfiguration are increasingly colliding with physical constraints that software alone cannot solve.

This marks the return of hard assets, with an attempt to address the scarcity in energy infrastructure, critical minerals, semiconductor supply chains and advanced manufacturing capacity.

## Bottlenecks in the real world

Whilst soft assets remain essential, higher utilisation pushes physical systems towards their capacity limits. As these limits bind, hard assets become the bottleneck and that bottleneck becomes the investment opportunity.

The focus on AI has turned some of the largest technology companies from a capital-light model to a heavy capex model. In 2026, estimated capex from the US hyperscalers has ballooned to \$650 billion. To put this number into context, these companies will spend more on capex in 2026 than they did in the entire pre-AI era.

## Capex investments are not confined to AI related sectors

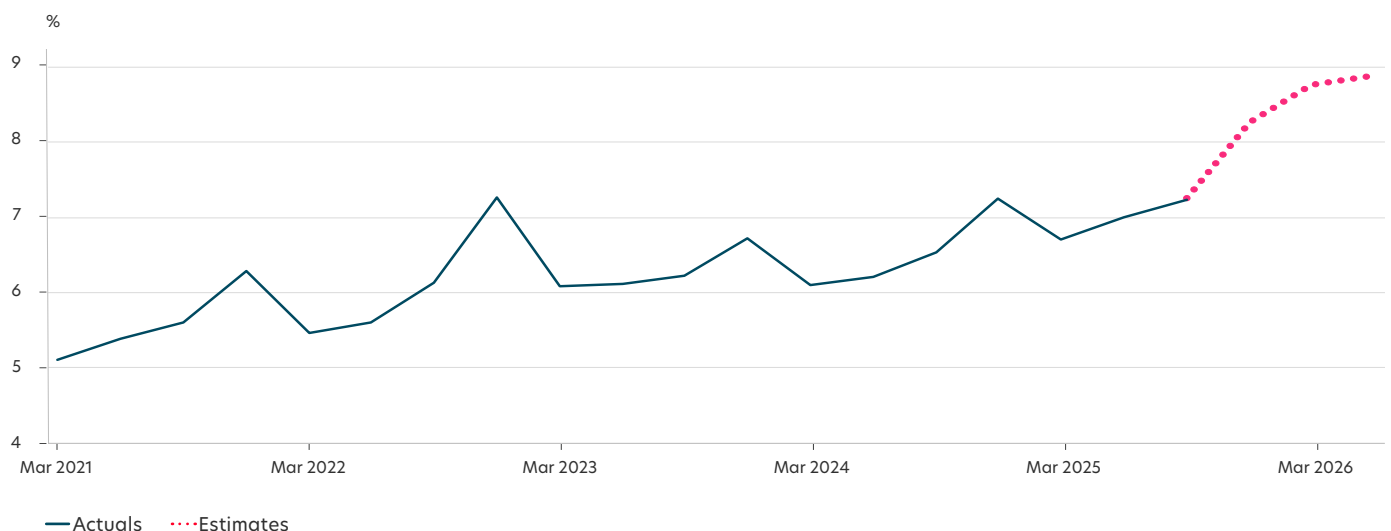
The binding constraints are now spreading across the physical stack: power and grid access, advanced packaging and memory, and optical interconnect capacity. In each case, demand is strong, but deployment is gated by long lead times, concentrated supply chains and the need for large-scale industrial capacity rather than software alone.

However, the broader capex cycle is not confined to AI-related investment. Rising capital intensity is being reinforced across multiple domains, creating sustained opportunities in hard-asset sectors like materials, energy and industrials, even as AI-specific spending eventually normalises.

## Policy support is reinforcing the trend

Governments are also contributing to this shift in market leadership. Industrial-policy programmes across the US, Europe and parts of Asia are channeling incentives towards semiconductor fabrication, clean-energy infrastructure, power-grid upgrades and transport modernisation. These initiatives are not short-term stimulus but multi-year commitments that lock in capital spending and reduce uncertainty for project developers.

## S&P 500 capex-to-sales ratio is projected to spike higher in 2026



Source: Bloomberg, UOB Private Bank

## Investment implications: Stay long bottlenecks and chokepoints

With this backdrop, we favour companies that own, build or supply hard-asset capacity. The next winners are less likely to be defined only by code and platforms, and more likely to include the firms that supply scarce power, packaging, memory and connectivity.

- **Power infrastructure:** Grid access, substations and transmission are becoming mission-critical assets.
- **Semiconductors:** AI accelerators, memory and advanced packaging remain core chokepoints.
- **Optics/photonics:** Optical interconnects and silicon photonics are emerging as the next layer of bottleneck as AI clusters demand more bandwidth and lower power per bit.
- **Advanced industrials:** Specialised manufacturing capacity should benefit where demand is backed by long-duration capex and policy support.

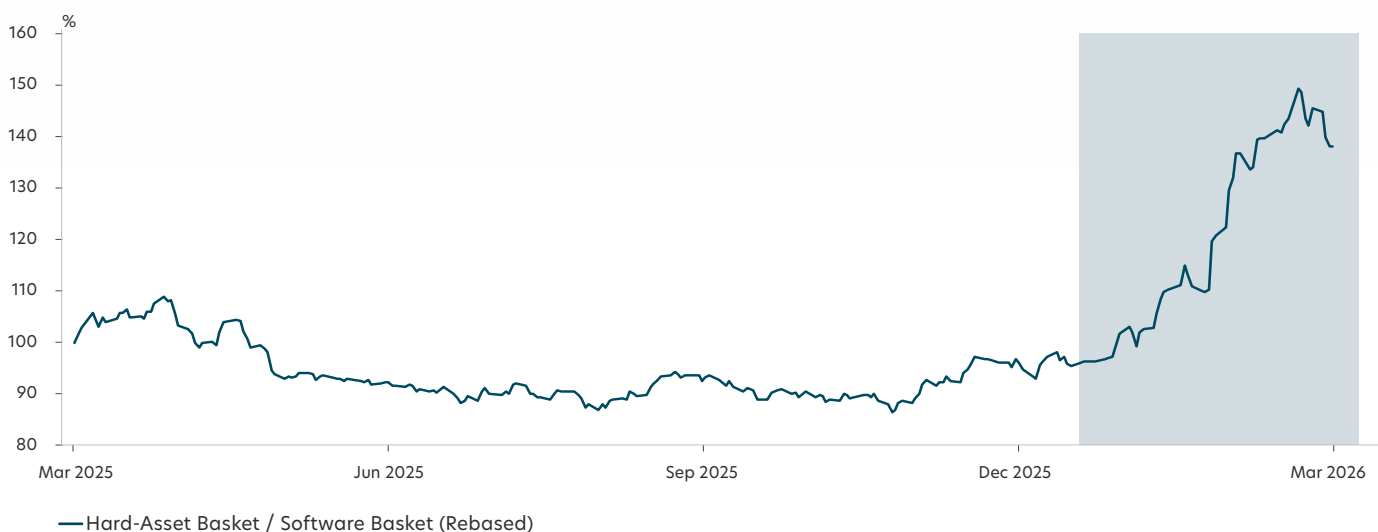
- **Defence:** National-security priorities are reinforcing demand for resilient supply chains, secure electronics, sensors, autonomy and scaled production capacity, making defence and dual-use manufacturing an additional hard-asset beneficiary.
- **Risks:** Cyclical overbuild, falling utilisation, execution risk, and faster-than-expected normalisation in supply.

### Risk: Capex cycles are cyclical in nature

However, investors should recognise the cyclical nature of this hard-asset leadership. Historically, hard-asset outperformance peaks when capex momentum slows, supply catches up or policy support normalises. At that point, capital returns typically rotate back towards soft-asset models with higher free-cash-flow conversion and lower reinvestment needs.

This cycle is unlikely to be different: the trade should perform while bottlenecks remain binding, but it will roll once capex crests.

### Hard assets have materially outperformed soft assets since 2026 (Rebased to 100)



Source: Bloomberg, UOB Private Bank

# Portfolio Strategy

## Asset Class Summary

Asset Classes	U/W	N	O/W	Comments
<b>Equities</b>				<b>Remain Overweight. Corporate earnings backdrop remains supportive. Buy quality stocks on dips.</b>
United States				Stay Overweight. Expect leadership to broaden amid buoyant earnings. Diversification remains key.
Europe				Remain Neutral. We see selective opportunities in areas like AI infrastructure and utilities amid modest growth.
Japan				Stay Neutral. We see structural tailwinds but cyclical risks. Favour companies riding on fiscal-policy driven themes.
EM Asia				Remain Overweight. Tech-led earnings upgrades are expected to persist while valuations are undemanding relative to DM peers.
<b>Fixed Income</b>				<b>Remain Neutral. Stay opportunistic on recent credit spread widening. Prefer an average duration of 5-7 years.</b>
DM IG				Stay Overweight. Optimise for portfolio resilience amid recent bond sell-off. Expect Fed to continue its gradual easing cycle.
DM HY				Remain Underweight. Risk-reward remains asymmetric with sector mix being unfavourable.
EM IG				Stay Overweight. Continue to favour Asian quasi-sovereigns and strategic SOEs.
EM HY				Remain Neutral. Selectivity is required given company-specific risks on the balance sheets.
<b>Alternatives</b>				<b>Shift to Neutral from Overweight. Hold off on further allocation to private equity and credit until risk-reward improves.</b>
Hedge Funds				Stay Neutral. We favour long-short equity strategies amid a volatile market environment.
Private Markets				Shift to Neutral from Overweight. Constructive on private real estate and infrastructure. Maintain prudence in private equity and credit.
Precious Metals				Stay Overweight. Beyond near-term inflation risks, Gold can thrive on safe-haven demand and continued central bank allocation.
<b>Money Market</b>				<b>Remain Neutral. Gradually deploy dry powder as market volatility presents opportunities.</b>

Underweight
 Neutral
 Overweight
 Current quarter's position
 Previous quarter's position

### Notes:

- 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 2Q 2026

Asset Classes	Very Conservative (%)		Conservative (%)		Balanced (%)		Growth (%)		Aggressive (%)		Comments
	Now	Chg.	Now	Chg.	Now	Chg.	Now	Chg.	Now	Chg.	
<b>Equities</b>			<b>30.0</b>		<b>50.0</b>		<b>65.0</b>		<b>75.0</b>		
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		
<b>Fixed Income</b>	<b>90.0</b>		<b>65.0</b>		<b>32.5</b>	▲ 2.5	<b>12.5</b>	▲ 2.5			
DM IG	45.0		27.6		13.8	▲ 1.1	5.3	▲ 1.1			
DM HY			4.9		2.4	▲ 0.2	0.9	▲ 0.2			
EM IG	45.0		26.0		13.0	▲ 1.0	5.0	▲ 1.0			
EM HY			6.5		3.3	▲ 0.3	1.3	▲ 0.3			Avg. duration: 5 to 7 years
<b>Alternatives</b>					<b>10.0</b>	▼ -5.0	<b>15.0</b>	▼ -5.0	<b>17.5</b>	▼ -2.5	
<b>Money Market</b>	<b>10.0</b>		<b>5.0</b>		<b>7.5</b>	▲ 2.5	<b>7.5</b>	▲ 2.5	<b>7.5</b>	▲ 2.5	

#### 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

- In 2026, global growth should firm modestly as targeted fiscal support, resilient US momentum and China's stabilisation measures offset energy-related drags, though gains remain uneven and concentrated in AI-driven investment over broad-based demand.
- 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's GDP growth at 4.7 % in 2026, with industrial production and exports to remain key growth drivers in coming years.



## Monetary policies

- We expect the Federal Reserve to stay on hold in the near-term, before delivering two cuts in 2Q and 3Q 2026, bringing the policy rate to 3.25% as labour market softness emerges.
- The ECB is expected to keep policy rates unchanged through 2026, maintaining a data-dependent stance as it balances still-sticky services inflation with renewed external price pressures from the Middle East conflict.
- 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 25-bp 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 is expected to ease gradually in 2026, though risks remain tilted upwards due to higher oil prices and persistent geopolitical tensions.
- US inflation is expected to trend down gradually towards 2.6% this year, though upside risks persist from energy prices and tariff-related cost pressures.
- China's inflation is set to turn mildly higher as deflationary pressures ease, while ASEAN economies are expected to see generally contained price trends, with only modest upside risks from elevated commodity and supply-chain stresses.



## Asset allocation

- Remain Overweight on Equities as the Fed's easing cycle is supportive of risk assets. We stay Overweight on US and recommend to diversify from mega-cap tech stocks to Financials, Industrials and Healthcare. Stay Overweight on EM Asia; constructive on China tech and dividend plays as well as Korean/Taiwan semis. Prefer SG within ASEAN.
- Remain Neutral on Fixed Income given reasonable all-in yields but tight spreads. Stick to an average duration of 5-7 years. Remain Overweight on DM IG and EM IG.
- Shift Alternatives to Neutral from Overweight and hold off further allocation to private equity and credit until risk-reward improves.

# Equities

## United States

### Leadership broadens amid buoyant earnings

**Stance:** We maintain an overweight stance on US equities entering 2Q 2026, supported by resilient corporate profitability, a gradual Fed easing cycle and continued investment in AI infrastructure.

Having said that, the market environment is becoming more complex. Rising geopolitical tensions in the Middle East, energy price volatility and elevated valuations have triggered short-term risk-off episodes.

At the same time, the market is transitioning into a phase characterised by broader leadership beyond mega-cap technology, with increasing participation from cyclicals and infrastructure-related sectors.

Overall, we advocate buying quality companies during periods of consolidation. We maintain diversification across selected cyclicals and structural growth themes (e.g., AI infrastructure-related bottlenecks). Investors should consider taking advantage of recent volatility to gain defensive exposure via structured products.

### Macro and rates backdrop

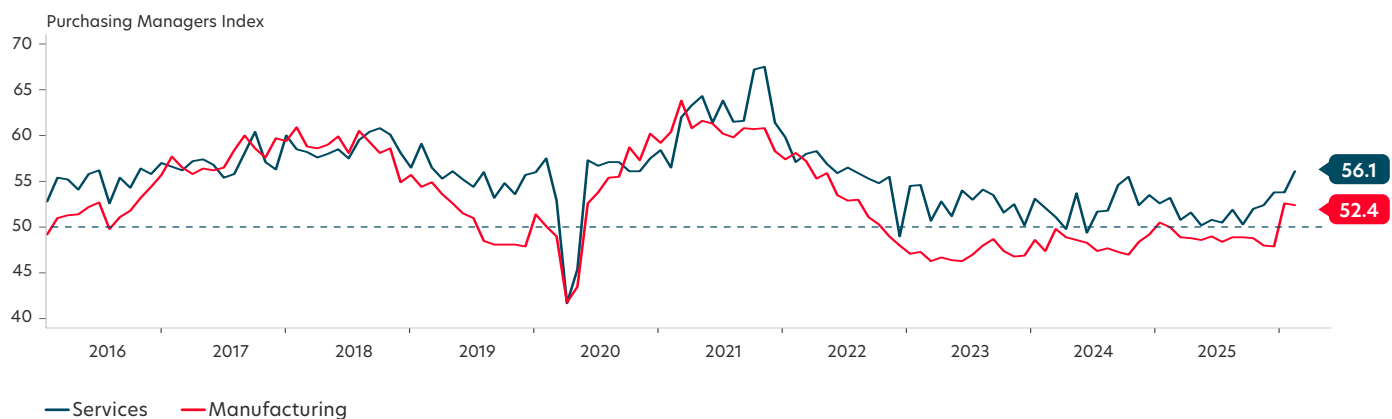
**Fed path:** Our base case remains for two 25bps Fed rate cuts in 2026, which would bring the Fed Funds Target Rate to 3.25% (upper bound) by end-2026. Investors should watch for any delays in Fed rate cuts given potential pass-through from energy price surge to inflation amid the ongoing geopolitical turmoil.

**US growth:** US real GDP growth is projected to be 1.7% for 2026, with labour market weakness likely to emerge in months ahead. Unemployment rate is expected to edge higher to 4.5% and stay elevated through 2026.

Meanwhile, headline and core inflation forecasts for 2026 are projected to be at 2.6% respectively. Having said that, the risk to CPI is biased toward upside, given rising manufacturing input costs and gasoline prices.

**USD and global spillovers:** The dollar received safe-haven bids amid escalating geopolitical tensions in the Middle East. While the USD could stay well-supported against most G10 currencies through 2Q 2026, its broader weakening trend should resume as geopolitical risks fade and monetary policy drivers reassert themselves.

### The US economy remained resilient



Source: Bloomberg, UOB Private Bank

## Earnings and valuations: Productivity gains support profit boom

**Earnings dynamics:** Consensus forecasts point to low- to mid-teens earnings per share (EPS) growth in 2026, suggesting that corporate profits will remain the primary engine of US equity market returns.

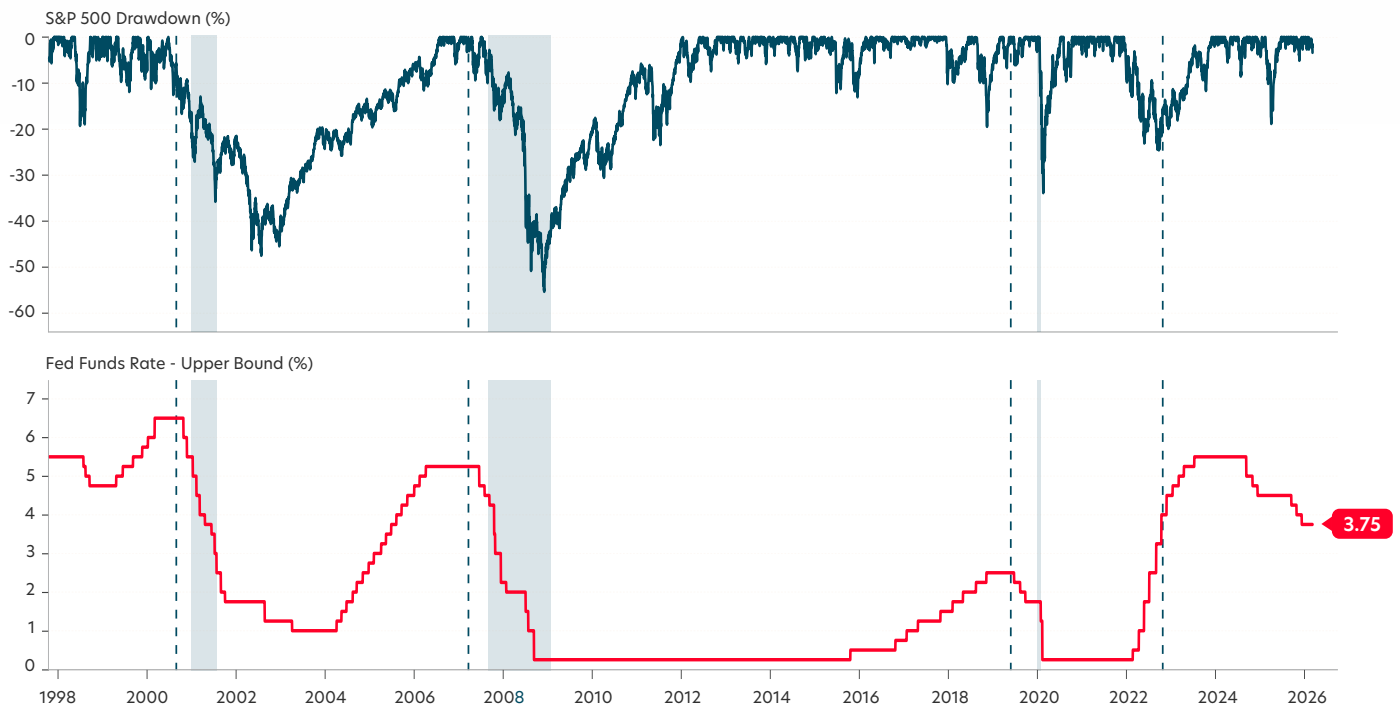
Productivity gains from automation and digitalisation have enabled firms to maintain strong margins even as hiring moderates. This manifests as a “jobless profit boom”, where earnings growth continues even as employment growth slows.

AI capabilities are expected to diffuse across the wider economy, helping various sectors reap efficiency gains. While the Magnificent Seven (Mag7) companies are still expected to deliver solid earnings growth, market leadership could broaden to include other sectors. In addition, recent share price actions also point to rising investor concerns regarding the returns on investment (ROI) from the Mag7 firms' swelling AI capex.

**Valuations:** The S&P 500 now trades at a more palatable 19.5x 12MF P/E following recent derating (as of 20 March 2026), just slightly above the 10-year average of 19.0x. With corporate profit margins close to cyclical highs, the US equities can reasonably sustain valuations close to the historical ranges, barring an economic recession.

**Market positioning:** Investors should maintain discipline on entry points and focus on companies with durable earnings visibility and strong balance sheets. We emphasise diversification and exposure beyond the mega-cap technology names; investors should consider the industrial, financial and healthcare sectors.

## US equity bull markets do not die of old age; they are limited by the Fed's tightening



Source: Bloomberg, UOB Private Bank

**Note:** Grey areas denote periods of US recession.

## Investment strategy: Ride on broader market participation

**Diversification:** While the AI theme is not over, we expect market broadening with the diffusion of AI benefitting the economy at large. For perspective, we continue to favour the S&P 500 Equal Weight Index and the low-volatility strategy for US equity exposure.

**What to own:** While there is still a lot of uncertainty about how AI will reshape industries, demand for computing power and data centres is expected to surge as AI adoption expands. This trend could drive significant investment in power generation, energy infrastructure and grid upgrades. Industrials and infrastructure-related sectors should continue to shine as key beneficiaries of the AI capex boom.

**Risk flag:** While strains within the private credit market have begun to surface, current indicators point to limited systemic risk to the broader financial system. Importantly, the Fed's easing stance reduces the probability of a systemic financial shock.

## Investment takeaways

Investors should maintain disciplined portfolio allocation and diversification to navigate elevated valuations and evolving geopolitical risks. The US equities remain supported by resilient earnings, a gradual Fed easing cycle, and ongoing technological innovation. Looking ahead, the next phase of the market cycle is likely to feature broader market participation across sectors, greater volatility driven by geopolitical developments, and returns increasingly driven by earnings rather than valuation expansion.

### CIO's View

We maintain an overweight stance on the US equities entering 2Q 2026, supported by resilient corporate profitability, a gradual Fed easing cycle and continued investment in AI infrastructure.



# Europe

## Selective opportunities amid modest growth

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

The region offers pockets of opportunities, particularly in areas linked to AI infrastructure, fiscal spending, defence and utilities. However, the broader market lacks a decisive catalyst for sustained outperformance.

Economic growth in Europe is stabilising but remains modest relative to the US. Concurrently, valuations are reasonable compared with US equities but are no longer undemanding relative to the region's 10-year history. Market leadership also remains narrow, with a limited number of stocks driving index performance.

In this environment, we advocate balanced portfolios that combine selective cyclicals with growth sectors offering earnings visibility. We reiterate our preference for companies leveraged to the energy infrastructure and defence spending themes.

Selectivity and active management will be crucial given rising market volatility from geopolitical events. Investors should monitor shipping rates for signal that crude supply disruption has eased, and inflationary pressures have abated; this could keep any potential European Central Bank (ECB) rate hike at bay.

## Macro and policy backdrop: Growth stabilising, rates on hold

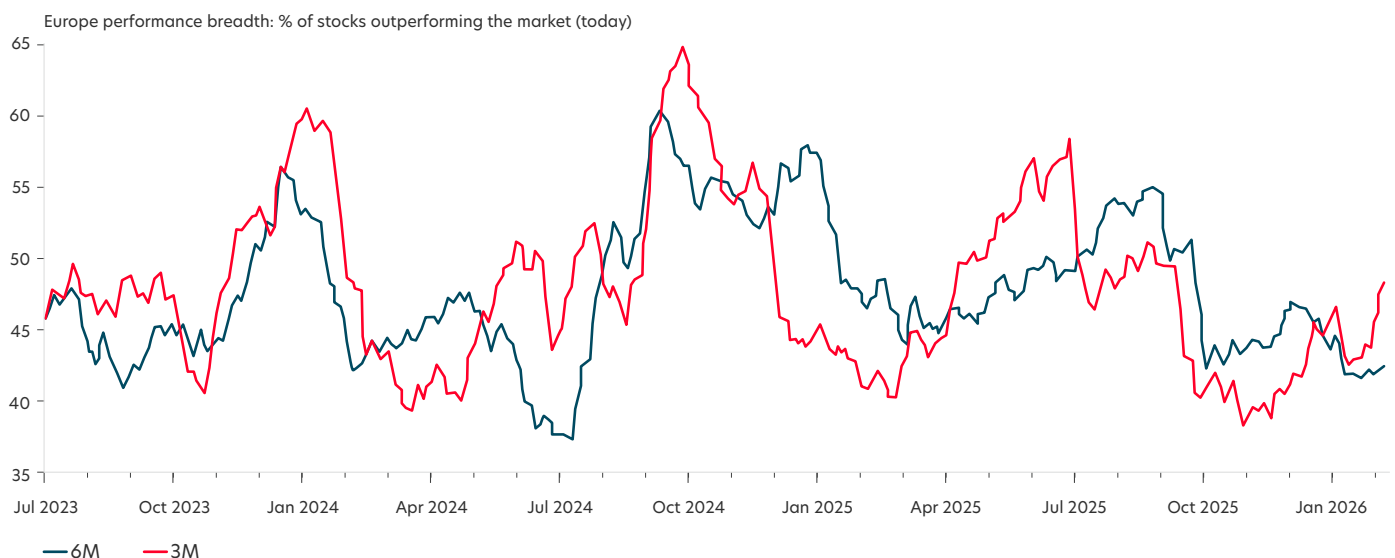
**ECB path:** The ECB kept its refinancing rate at 2.15%, yet the overall tone leaned hawkish. Communication and projections signalled a stronger emphasis on inflation vigilance, and President Lagarde's remarks suggested a heightened readiness to respond if risks materialise. With forward guidance removed, the reaction function is intentionally more flexible, reflecting both caution and optionality.

**Eurozone growth:** Euro area GDP growth is projected at 1.2% for 2026, underscoring the bloc's resilience despite ongoing headwinds from tighter financial conditions and external trade frictions. However, the latest US-Iran conflict has led to heightened downside risks to a somewhat fragile Euro area recovery.

**EUR to grind higher:** Despite recent consolidation, we retain a constructive medium-term view on the EUR against the USD, underpinned by the prospect of narrowing rate differentials.

A stronger euro tends to support domestically-oriented companies while creating a translation headwinds or earnings drag for multinational exporters. The currency effects could cap market-level upside, reinforcing the case for our neutral stance.

## Europe's market breadth remains low



Source: FactSet, Morgan Stanley Research

## Earnings and valuations: Stable growth but narrow leadership

**Earnings dynamics:** Corporate earnings remain broadly resilient though the growth profile is relatively modest. Consensus expects mid to high single-digit EPS growth for 2026. While this represents steady expansion, the pace remains slower than in other major markets.

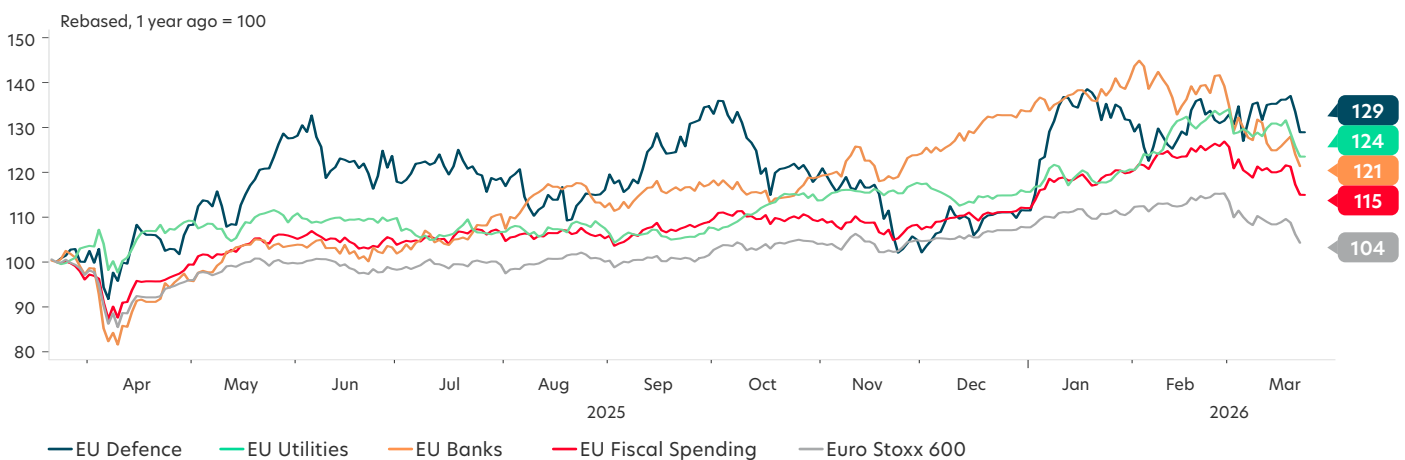
Earnings leadership is also relatively narrow. For a start, the expected recovery in automotive sector largely reflects base effects following a sharp decline in 2025, rather than a sustained demand rebound.

AI-related productivity gains are real at the company level, but the benefits are unevenly distributed. Leading adopters with pricing power are capturing most of the efficiency gains. Overall, Eurozone's earnings growth lacks the broad-based acceleration that would justify a more bullish regional stance.

**Valuations:** Following a recent derating, the Euro Stoxx 600 trades at 14.2x 12MF P/E (as of 20 March 2026), hovering around the 10-year average. The valuation discount relative to US equities can be attributed to Europe's slower structural growth profile.

**Market positioning:** Among major sectors, banks and utilities offer some of the clearest earnings visibility, while industries such as chemicals and autos face structural headwinds. We also favour parts of the industrial sector (e.g., defence spending and energy infrastructure) which still offer upside from fiscal-policy and national-security driven themes.

### Stick to the winning themes



Source: Bloomberg, UOB Private Bank

### CIO's View

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

## Investment strategy: Targeted opportunities, not market beta

**AI infrastructure bottlenecks:** Companies involved in chips manufacturing equipment, advanced lithography and memory supply remain key AI beneficiaries.

**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 offer targeted alpha opportunities in areas such as AI infrastructure, utilities and defence. High stock-level dispersion and relatively narrow market breadth limits the potential for strong performance at the index level. Investors should focus on disciplined stock selection, selectively participating in structural growth themes. Within the bloc, we prefer peripheral regions (e.g., Italy and Spain) to Germany as delayed fiscal relief, structural drags and external headwinds could weigh on cyclical earnings recovery.

# Japan

## See structural tailwinds but cyclical risks

**Stance:** We remain neutral on Japanese equities into 2Q 2026. The market continues to benefit from structural improvements in corporate governance, shareholder returns and strategic investment priorities. However, Japan's outperformance through the first two months of 2026 has pushed valuations back to ~20-year highs (excluding Covid) amid BoJ tightening risks.

Recent geopolitical developments have triggered bouts of risk aversion in global markets, with Japanese equities briefly entering correction territory following its standout performance relative to regional peers. The market could stabilise once uncertainty subsides.

More broadly, Japan's investment case is evolving beyond cyclical recovery toward structural economic transformation, driven by themes such as economic security, supply-chain resilience and technological innovation. We see niche opportunities in these areas.

Notably, we prefer companies which benefit from policy themes including defence infrastructure buildout as well as energy self-sufficiency under the Takaichi administration. Companies demonstrating meaningful improvements in corporate governance and shareholder returns remain favoured. Finally, we like firms which act as critical nodes in the broader AI supply chain. Having said that, investors should maintain discipline on the valuations at entry.

## Macro and policy backdrop:

### Fiscal priorities and rates normalisation

Japan's policy environment remains supportive for investment, following the landslide electoral victory of PM Takaichi's administration, which has strengthened political stability and policy continuity.

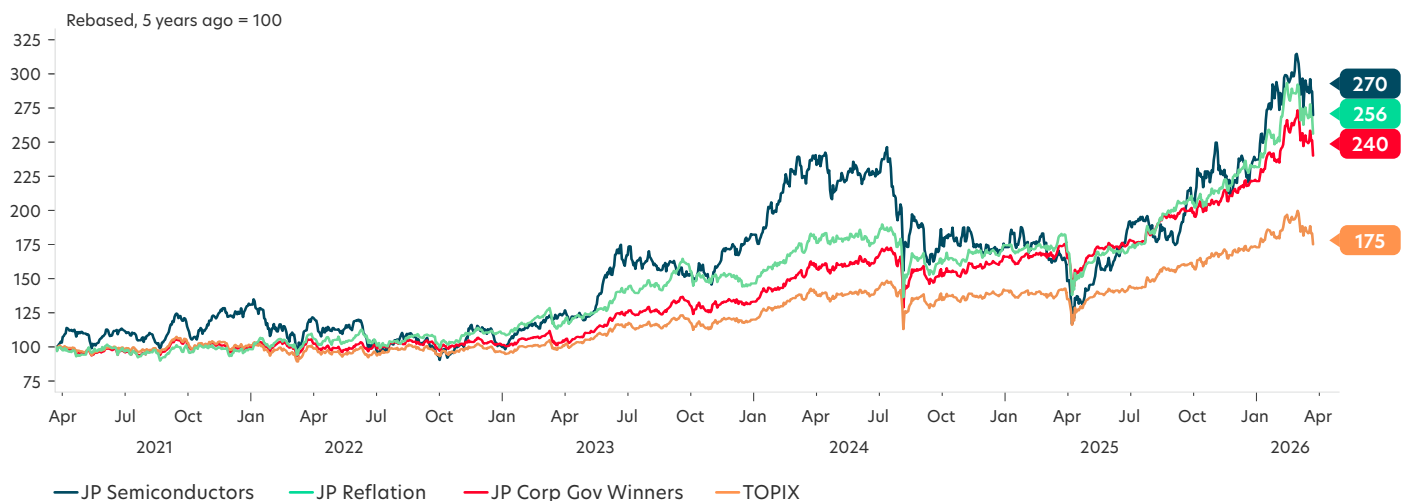
The government's economic strategy focuses on strengthening national resilience and strategic industries. Key priorities include economic security, supply-chain resilience and AI infrastructure. These initiatives are expected to drive increased investment across sectors, from semiconductors and advanced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

**BoJ path:** Our economics team expects BoJ to make a final hike in policy rate to 1.00% from 0.75% in 3Q 2026, supported by positive momentum in spring wage negotiations that is likely to feed through to inflation. Having said that, current geopolitical developments point to a more cautious approach i.e., a longer pause.

**JP 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.

**JPY trajectory:** While USD/JPY could remain strong near term amid USD safe-haven bids and elevated crude prices, we anticipate a gradual moderation in USD/JPY toward levels more consistent with narrowing US-Japan interest rate differentials.

## Prefer semiconductors, corporate governance winners and reflation beneficiaries amid stimulus expectations



Source: Goldman Sachs, Bloomberg, UOB Private Bank

## Earnings and valuations: Resilient profits despite external shocks

**Earnings dynamics:** Consensus projects low-teens EPS growth for TOPIX in 2026, driven by stronger pricing power, rising real incomes supporting domestic consumption, as well as continued corporate restructuring and productivity gains. We expect corporate earnings to remain broadly resilient despite global volatility. Companies are demonstrating greater ability to pass costs through to end-consumers.

**Valuations:** TOPIX trades ~16.6x 12MF P/E (as of 12 March 2026), which is above its 10-year average of 14.7x. We see potential for multiple compression as the BoJ looks to normalise policy rates. Having said that, 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:** Recent market weakness amid rising crude oil prices largely reflects temporary risk-off sentiment rather than a deterioration in corporate fundamentals. We reiterate our preference for large-cap quality names with strong pricing power.

In terms of portfolio positioning, sector selection and thematic exposure matter. Investors should favour companies riding on fiscal policy-driven themes, demonstrating improved corporate governance and shareholder returns, as well as occupying critical choke points across the AI infrastructure stack.

## Structural growth themes: AI, infrastructure and economic security

**AI and semiconductor ecosystem:** Companies involved in semiconductor equipment, materials and advanced manufacturing are well-positioned to benefit from the ramping global technology investment.

**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 oil prices, stronger-than-expected JPY appreciation, poor policy execution related to fiscal reforms 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, an increasingly hostile geopolitical environment, currency dynamics and moderate economic growth suggest broad market outperformance may be limited. Thus, we remain neutral on Japanese equities, focusing on companies aligned with structural growth themes such as AI infrastructure, national resilience and supply-chain security.

## Equity valuations are demanding relative to the 10-year average; EPS growth needs to do heavy lifting



Source: Bloomberg, UOB Private Bank

### CIO's View

We remain neutral on Japanese equities into 2Q 2026. We see structural tailwinds but cyclical risks.

# Emerging Market Asia

## Tech leadership to cement gains

**Stance:** We maintain overweight on EM Asia equities entering 2Q 2026, supported by improving earnings momentum, structural technology leadership and attractive valuations relative to developed markets.

While geopolitical tensions and higher energy prices have introduced periods of market volatility, the broader fundamentals for emerging markets remain supportive. EM Asia continue to benefit from stronger earnings growth prospects relative to developed markets, exhibiting greater long-term growth potential.

Within the region, several markets stand out for their structural strengths. Tech-driven economies such as South Korea and Taiwan are benefiting from the global AI and semiconductor investment cycle, while China is showing early signs of stabilisation following policy support and structural reform initiatives.

Meanwhile, Singapore offers a defensive and high-quality gateway to ASEAN growth, supported by strong financial institutions, regional capital flows and rising demand for digital and infrastructure investment.

Taken together, these dynamics support a constructive stance on EM Asia equities, with selective opportunities across technology leaders, financials and structural growth sectors.

## Macro backdrop and rates: Tech exports remain a bright spot

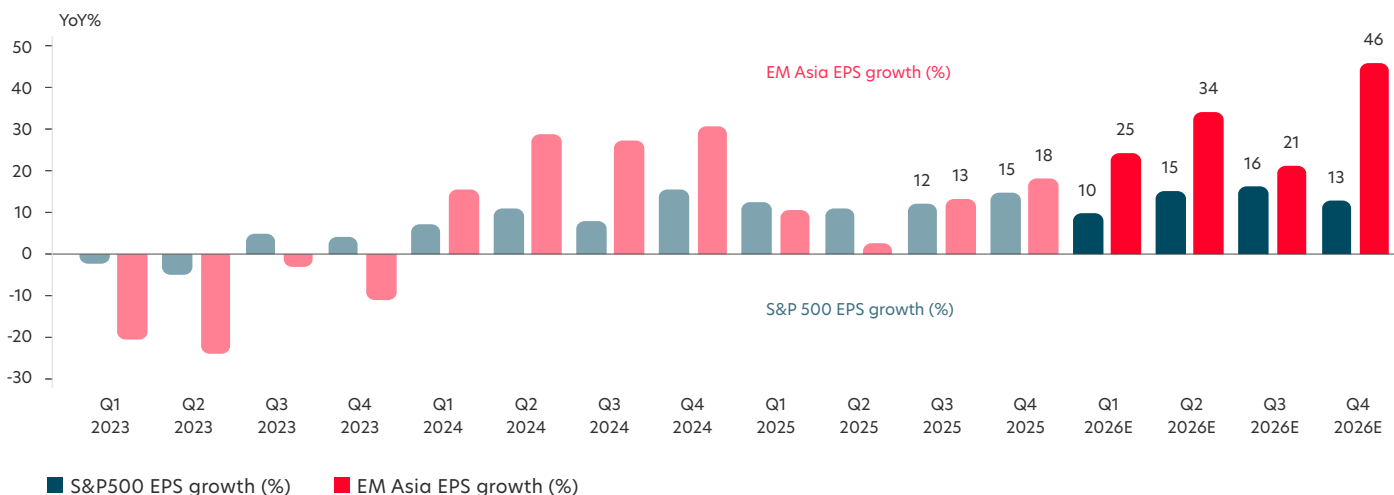
**EM Asian growth:** China's growth is set to moderate to 4.7% in 2026, with weak private consumption and investment offsetting firm exports and industrial production. China property market pressures are likely to persist in 2026-27 with significant supply glut and unresolved debt issues of the Chinese developers.

**Monetary policy:** Barring a sharp economic slowdown, our economics team expects a 10bps policy rate cut and a 50bps RRR cut by the PBOC this year. Meanwhile, central banks in South Korea and Taiwan are likely to go on an extended rate pause amid a resilient growth outlook. Policymakers will continue to monitor the situation in the Middle East, and the impact on their GDP growth and inflation.

**EM Asian currencies:** The CNY, KRW and TWD may remain under pressure against a broad USD rebound amid elevated global risk aversion. However, as geopolitical uncertainty eases, market focus is likely to rotate back to monetary policy dynamics, which should help anchor the EM Asian currencies.

Resilient regional growth and an eventual Fed easing cycle should facilitate a recovery in the EM Asian currencies. This is especially so given the region's robust economic fundamentals, underpinned by strong semiconductor exports in Taiwan and South Korea.

## EM Asia poised for outperformance on strong earnings growth and undemanding valuations



Source: Bloomberg, UOB Private Bank

## Earnings and valuations: Tech-led earnings upgrades to persist

**Earnings trajectory:** Consensus projects ~40% EPS growth for 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 strongest contributions to earnings growth. Notably, the tech hardware companies are expected to deliver the most significant earnings revisions, reflecting strong global demand for semiconductor equipment, memory chips and AI computing infrastructure.

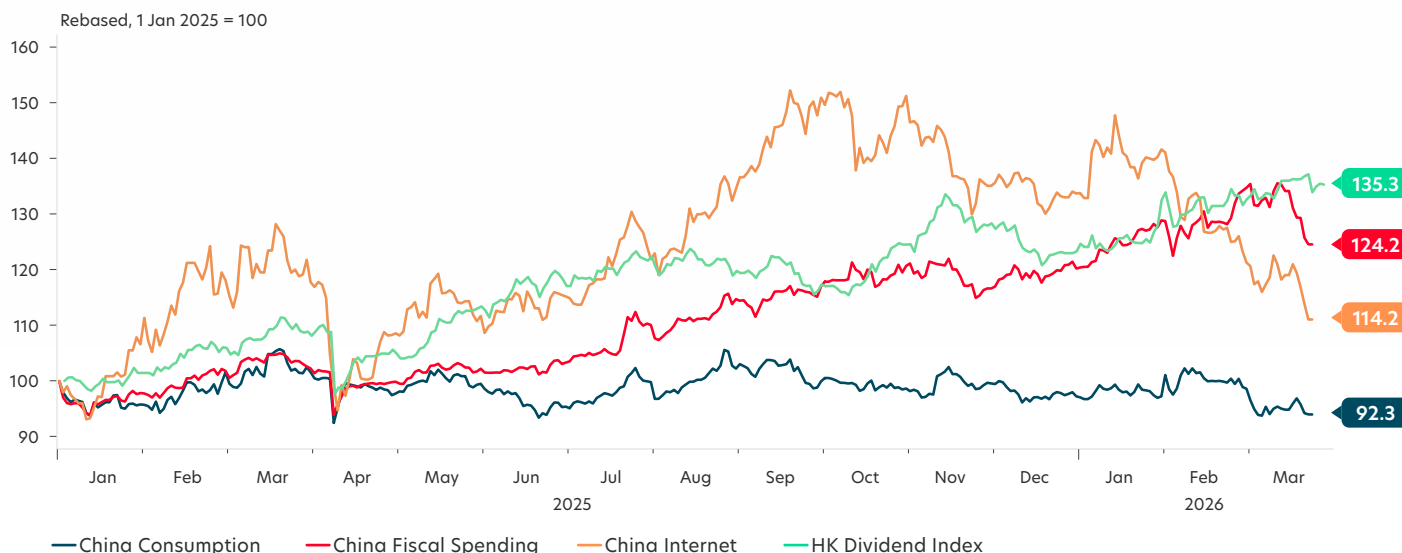
At the country level, South Korea and Taiwan are expected to lead earnings upgrades amid accelerating manufacturing activity, rising memory prices and strong

semiconductor exports. China's earnings outlook remains more moderate but shows signs of improvement as policy measures aimed at supporting growth begin to stabilise economic activity.

**Valuations:** EM Asia trades at 12.4x 12MF P/E while HSCEI trades at 9.9x 12MF P/E (as of 20 March 2026); the valuations are at a discount relative to developed markets despite stronger long-term growth potential. We see attractive entry points following recent periods of volatility triggered by the Middle East conflict, but selective positioning remains warranted.

**Market dynamics and positioning:** Investor positioning across Asia remains relatively balanced, leaving scope for renewed foreign capital inflows should global risk sentiment stabilise.

### A near-term setback in Chinese tech names presents buy-on-dips opportunities



Source: Bloomberg, Goldman Sachs, UOB Private Bank

## Structural growth themes: AI, tech supply chains and economic resilience

**Semiconductor value chain:** Taiwan and South Korea host several of the world's most advanced semiconductor manufacturers, positioning them to benefit from the rapid expansion of AI, high-performance computing and data centre infrastructure.

**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) and clean energy technologies.

**ASEAN growth & 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:** Sustained increases in oil prices could pressure energy-importing economies. Escalation of geopolitical tensions could affect global supply chains. 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 including AI, advanced manufacturing and EVs. We continue to favour selected East Asian AI tech hardware names. Finally, we prefer Singapore's equities within ASEAN for their resilient fundamentals and safe-haven qualities.

## CIO's View

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



# Fixed Income

## Developed Markets Investment-Grade

### Uncertainty meets stability

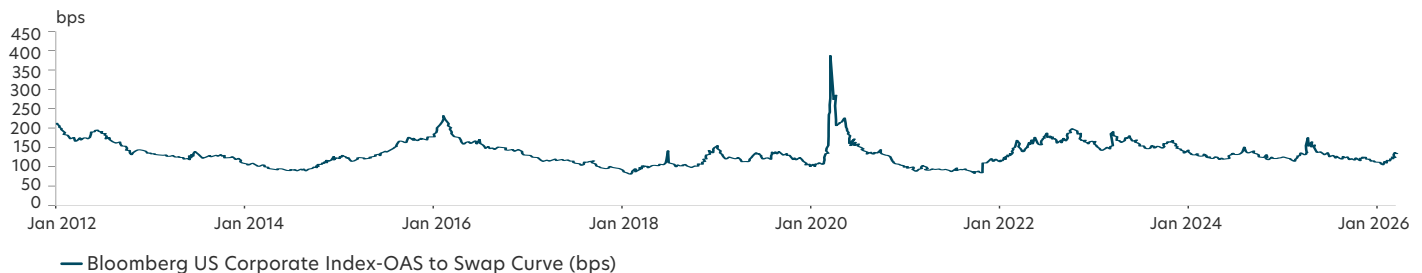
Developed Markets Investment-Grade (DM IG) endured a challenging start to 2026, with the Bloomberg US Corporate Index returning -0.2% year-to-date (as of 19 March 2026). Performance reflects broad risk-off sentiment following the escalation of the US-Iran conflict and growing concerns in private markets. Despite the drag from wider credit spreads and higher US Treasury yields, DM IG has demonstrated its value as an effective portfolio stabiliser amid heightened volatility across equity and commodity markets.

The Middle East conflict has complicated market expectations for the Federal Reserve's (Fed) policy path, as energy price shocks exert fresh inflationary pressures. While the recent energy price surge mirrors the onset of the Russia-Ukraine (2022) and Iran-Israel (2024) conflicts, the current monetary backdrop is fundamentally different. The Fed's 525bps rate hike cycle of 2022-23 was one of the sharpest in decades and was accompanied by material credit spread widening—a dynamic less likely to be replicated given today's more stable credit conditions and stronger corporate fundamentals.

DM IG credit fundamentals have strengthened materially in recent years, contributing to spread compression that has left current valuations stretched (OAS: 133bps). We view the increasing likelihood of risk repricing as a healthy correction, and a protracted conflict would accelerate this adjustment. However, we expect the magnitude to be contained, underpinned by a still-constructive corporate earnings backdrop.

As geopolitical tensions abate, markets could shift their attention back towards US fiscal concerns, the AI capex cycle, and emerging risks in private markets. In this environment, credit selection with sector overlays is essential to navigating choppy conditions and fragile risk sentiment. In terms of duration positioning, we expect Fed policy tailwinds to diminish, while fiscal pressures and persistent inflation could keep long-term US rates elevated. We therefore prefer an average portfolio duration of 5-to-7 years to optimise carry and capture rolldown benefits from the current yield curve's steepness.

### DM IG credit spreads still hovering near decade-tights



Source: Bloomberg, UOB Private Bank

### CIO's View

Prioritise meticulous credit selection and sector overlays to navigate fragile risk sentiment and volatile market conditions.

# Developed Markets High Yield

## Risk repricing clouds the outlook

Developed Markets High Yield (DM HY) delivered flat year-to-date returns (as of 19 March 2026), erasing early gains as DM HY credit spreads breached 300bps for the first time since November 2025. We had previously cautioned on the risk of credit spread decompression, and markets are now recalibrating credit valuations towards the trailing five-year average of 361bps.

While DM HY default rate estimates remain manageable at 2.7%, sentiment has softened following the collapse of UK specialist lender MFS and the equity market selloff in US software companies. That said, DM HY quality has improved: 58% of the Bloomberg US Corporate High Yield Index is now rated BB, bolstered by more secured issuances and the migration of several buyouts into the leveraged finance market.

Issuance volumes in 2026 should be comparable to 2025 (USD 368 billion), though a pickup in M&A and LBO activity could lift net new supply. Energy and power generation companies may also add incremental supply as global electrification accelerates to meet surging data centre power demands.

We maintain an underweight stance on DM HY, emphasizing credit selectivity by avoiding overextended balance sheets and structurally declining industries.

With the DM HY-IG credit spread differentials at 198bps, we find limited value in DM HY (relative to DM IG) and favor defensive DM HY utilities and consumer staples only on the margins.

## DM HY credit spreads recalibrating wider



Source: Bloomberg, UOB Private Bank

## CIO's View

Maintain an underweight position, focusing on credit quality and avoiding companies with excessive leverage or structural weaknesses.

# Emerging Markets Asia Investment-Grade

## Source of resilient returns with lower volatility

Emerging Markets Asia Investment-Grade (EM Asia IG) has demonstrated notable resilience, with the Bloomberg EM Asia USD Credit High Grade Index returning -0.1% year-to-date (as of 19 March 2026) and outperforming US IG. This outcome reflects EM Asia IG’s high-quality composition, lower market beta, and robust home-bias technicals.

Sustained local and regional demand has been a structural pillar supporting EM Asia IG’s ability to generate stable returns with lower volatility. These attributes continue to make a compelling case for portfolio allocation, given the asset class’s dual role as a portfolio stabiliser and a source of geographical diversification.

While corporate credit fundamentals have been solid—underpinned by strong earnings and disciplined balance sheet management—a protracted Middle East conflict could spark greater credit differentiation. The credits most exposed include refiners, port operators, and consumer companies with meaningful Middle East operations.

EM Asia IG credit spreads, currently near decade lows at 101bps, leave limited room for further compression given ongoing headwinds. This does not, however, undermine the case for EM Asia IG as a core income-generating asset class, given its yield levels (YTW: 4.7%) and robust technical support.

Our approach focuses squarely on prudent credit risk management. We favor quasi-sovereign and state-owned enterprises, ASEAN financials, Asia-based insurers, and infrastructure and utility credits that offer either greater resilience to exogenous shocks or stronger recovery prospects.

## Limited room for EM Asia IG credit spread to compress but yield compensates



Source: Macrobond, UOB Private Bank

### CIO's View

EM Asia IG remains a premier core income asset class, supported by attractive yields and strong regional demand.

# Emerging Markets Asia High Yield

## Not all high yield are created equal —avoid the traps

Emerging Markets Asia High Yield (EM Asia HY) has made a strong start to 2026, delivering a year-to-date return of +1.0% (as of 19 March 2026) and outperforming DM HY. EM Asia HY credit spreads have widened modestly but in an orderly fashion to 393bps, reflecting the asset class's resilience, further supported by encouraging corporate earnings and benign default rates. EM Asia HY offers an attractive carry profile, with the Bloomberg EM Asia USD Credit High Yield Index yielding 7.8%.

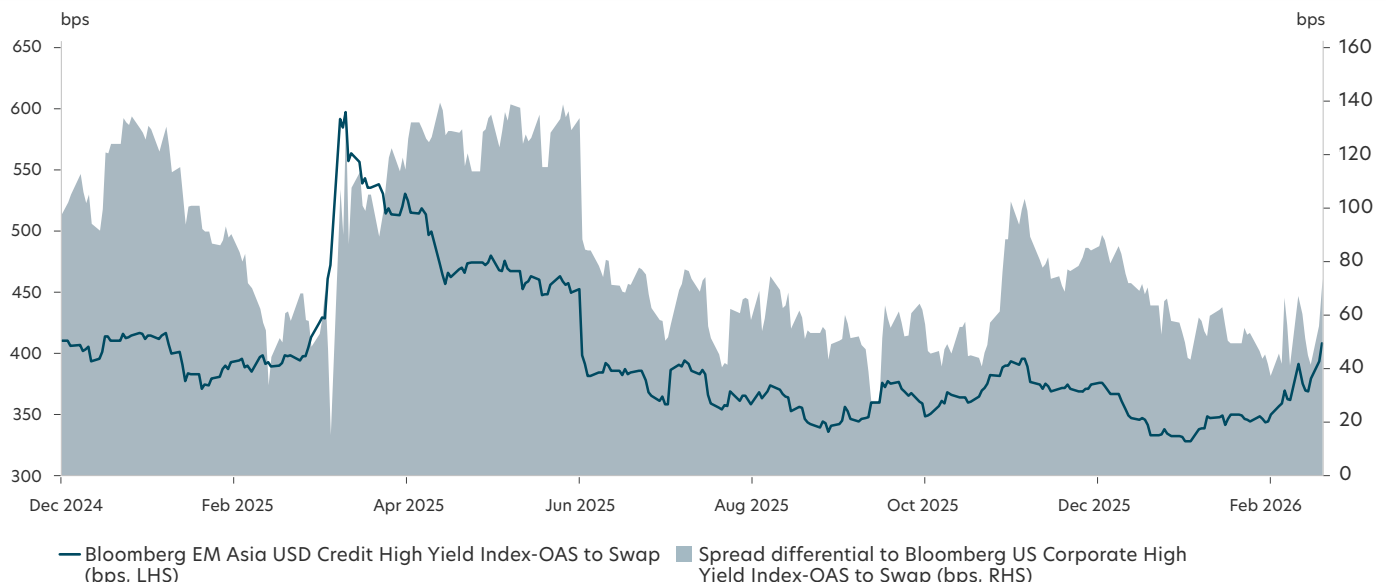
Our preference for EM Asia HY over DM HY has been well-founded, with the credit spread differential between the two compressing steadily to 62bps from 88bps at the start of 2026. A repeat of 2025's +9.5% return is a high bar, but EM Asia HY remains a reliable income generator, having moved past the China high yield property and frontier sovereign credit stress events that defined the 2022-24 period.

From a market structure perspective, EM Asia HY's stable investor base should continue to anchor demand while supportive issuance dynamics underpin valuations.

We expect EM Asia HY default rates to remain manageable given solid 2025 earnings and promising forward guidance. Near-term refinancing risks also appear limited. Outside of China property developers, 2026 bond maturities are concentrated in Indian renewables and infrastructure credits and Macau gaming operators. The former benefit from relatively stable business models and diverse funding access; the latter are experiencing steady gross gaming revenue growth, peaking capex, and improving cash generation that have supported leverage reduction.

Although we do not anticipate a broad or 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 spread tightening



Source: Bloomberg, UOB Private Bank

## CIO's View

Rigorous bottom-up credit selection is essential to avoid localised credit stress while capturing attractive carry.

# US Technology Credits and Issuance Supply

## Absorbing the AI capex wave

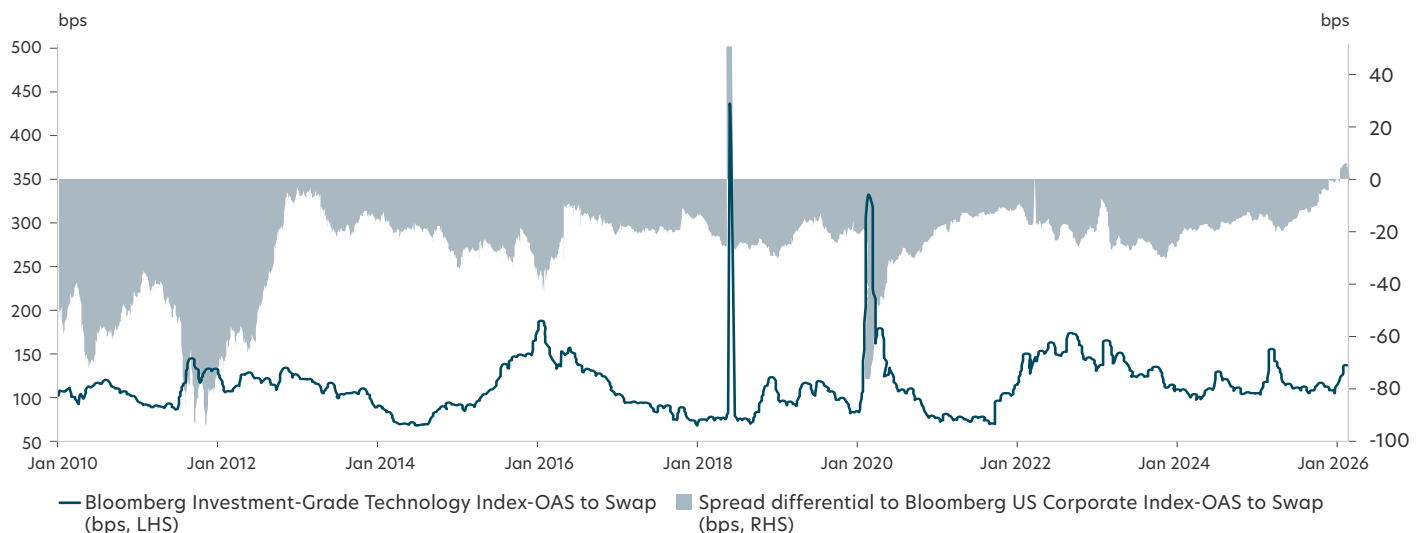
As anticipated in our 1Q 2026 Outlook, new bond issuance from US technology companies—AI hyperscalers in particular—has been robust. Led by Alphabet (GOOGL), Amazon (AMZN), and Oracle (ORCL), AI hyperscalers have raised over USD 100 billion across major currencies so far in 2026. Beyond ORCL's well-documented concerns, newly issued hyperscaler bonds have performed resiliently in secondary markets; price softness reflects the broader move higher in benchmark rates rather than credit quality deterioration or supply indigestion. This reinforces our view that the market has the capacity to absorb AI-driven bond supply, as evidenced by consistently strong book coverage at issuance.

With AI-related capex continuing to exceed expectations, we anticipate hyperscalers will remain active borrowers. We take this opportunity to reaffirm two key uncertainties shaping our view of the sector: first, whether credit markets can continue absorbing supply of this scale without meaningful spread widening; and second, the pace at which AI capex can be monetised and translate into earnings validation.

US IG technology has been affected by concerns in the software segment. Notably, US IG technology credit spreads have moved wider than the broad Bloomberg US Corporate Index—reversing a dynamic that has held since 2005. In our view, this presents a compelling entry point for investors seeking quality exposure to the secular AI growth theme through high-grade hyperscaler credits. While we do not expect bond supply to materially weigh on demand, we continue to favour hyperscalers with strong balance sheets, consistent free cash flow generation underpinned by durable core business models, and ample credit rating headroom. A solid financial foundation reduces reliance on external funding markets and provides meaningful credit buffers as hyperscalers progress through the capex monetisation cycle.

Beyond hyperscalers, the AI theme also presents opportunities through industrials and utilities. As digitalisation accelerates and the energy transition gathers pace, structurally rising power demand across data-intensive industries will drive growth in electrical equipment and power infrastructure—an increasingly attractive complement to core hyperscaler credit allocations.

## US IG Technology sector offers attractive relative value post recent spread widening



Source: Bloomberg, UOB Private Bank

## CIO's View

We favor hyperscalers with robust balance sheets and consistent free cash flow, providing a buffer as they progress through the capex monetisation cycle.

# Commodities



## Precious Metals (Gold)

### Long-term safe haven demand dampened by near-term inflation risk

Outside of Brent crude oil and energy markets, the entire metals complex came under intense selling pressure during the week of 16-20 March. Gold failed to sustain its price level around the USD 5,000/oz psychological support and saw heavy selling to USD 4,600/oz. Silver, which inherently is more volatile, saw heavier selling below USD 70/oz. Platinum where there is full consensus of a long-term supply deficit was also sold off to levels below USD 2,000/oz.

We remain convinced of the long-term structural positive drivers for gold. In particular, after this dramatic escalation of geopolitical risk event from the Middle East, the long-term safe haven demand for gold from both retail investors and central banks is likely further reinforced.

However, over the near term, investors will have to grapple with the immediate risk from the sharp rise in

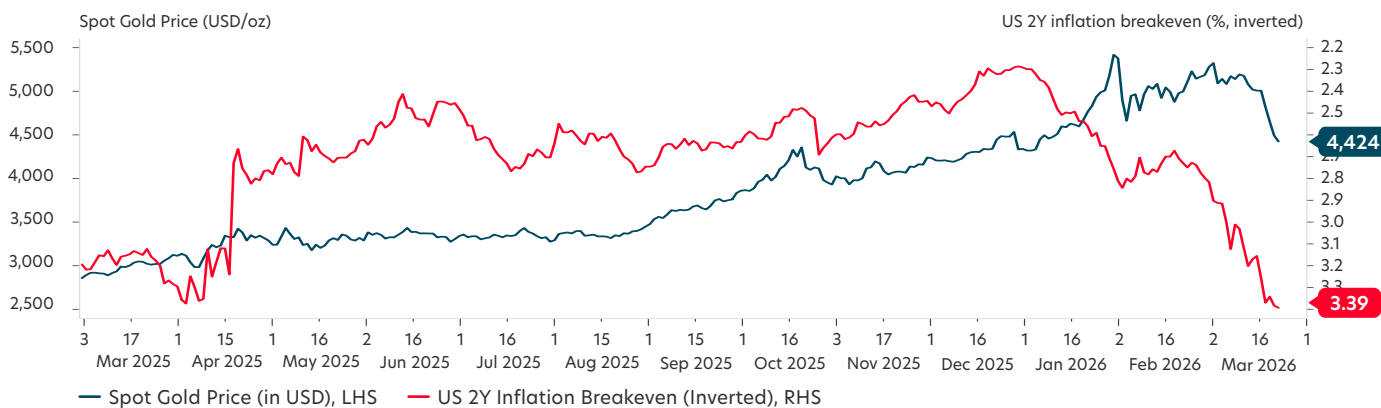
energy prices over the past month and its potential inflationary impact.

Swaps and futures market have started to price in potential rate hikes from key G7 central banks. Both European Central Bank (ECB) and Bank of England (BoE) have warned last week in very clear terms that they “stand ready to act” against higher inflation. At the latest FOMC, Chair Jerome Powell has also warned that this latest spike in energy prices is more complex, coming after previous shocks from Covid and Russia’s invasion of Ukraine.

Gold is allergic to higher interest rates and the stronger USD. In the near term, it seems the dominant driver will be negative concerns from investors on gold prices from upcoming potential rate hikes. Given this near-term risk of potential rate hikes, we have updated our forecast for gold below.

Commodity	2Q26F	3Q26F	4Q26F	1Q27F
Gold (USD/oz)	4,400	4,600	4,800	5,000

### Gold sold off as US inflation expectations jumped since the start of the US/Israel-Iran war



Source: Bloomberg, UOB Private Bank

### CIO's View

We remain constructive on Gold as a portfolio hedge, given long-term safe-haven demand rather than as a primary returns driver. However, we expect the near-term price trajectory to be hampered by inflation risks and rising US government bond yields.

# Brent Crude Oil

## Rising prices amid escalation of conflict in the Middle East

With the Strait of Hormuz effectively shut to shipping, contingency plans have been activated by various Middle East countries to ship crude oil via alternative routes. However, these stop-gap measures are not able to address the significant "blockage" of around 20 mio bbl of oil stuck at the Strait of Hormuz.

Beyond the disruption of oil shipping from the Strait of Hormuz, there is now increasing concern over the tit-for-tat attacks and increasing damage to energy infrastructure across the Middle East.

As such, there are increasing worries that even if there is an immediate ceasefire and resumption of shipping traffic through the Strait of Hormuz, the damaged energy infrastructure across the Middle East will still take months to repair and bring back on-line.

Crude oil markets have indeed priced in such a risk of disruption in supply longer term, with the price for Oman crude and Dubai crude now significantly dislocating from the benchmark Brent crude future price. It is worth noting this disruption in Oman crude and Dubai crude has never happened before, not even during Russia's invasion of Ukraine in early 2022.

Overall, given the further escalation of conflict in the Middle East, on-going blockage of shipping from the Strait of Hormuz and the increasing magnitude of damage to energy infrastructure, we now raise our Brent crude oil forecast higher. Our updated Brent forecast is now USD 110/bbl for 2Q 2026, USD 100/bbl for 3Q 2026 and USD 90/bbl for 4Q 2026 and 1Q 2027.

Commodity	2Q26F	3Q26F	4Q26F	1Q27F
Brent crude oil (USD/bbl)	110	100	90	90

## Three key scenarios for the US-Israel-Iran war

Scenario	Brent crude oil price	Probability
<b>Base case: 4-6 weeks</b> , US & Israel strikes are successful to neutralise Iran's missile and nuclear programmes, limited attacks on energy structures	USD 80-90/bbl near term, before easing back down to USD 75/bbl	60%
<b>Bad case:</b> 3 months, Iran's missile and nuclear programmes take longer to neutralise, more material damage to energy structures	USD 90-100/bbl for many weeks before easing to USD 80/bbl	25%
<b>Worst case:</b> 6-12 months, Trump to seek regime change and control of Kharg Island (Iran's primary offshore oil export terminal), significant damage to energy structures in Iran and Gulf states	USD 100/bbl and above, possibly testing the early 2022 high of USD 130/bbl for several months	15%

Source: UOB Global Economics & Markets Research

## CIO's View

We now forecast higher Brent crude prices given escalating Middle East tensions, the ongoing blockage of shipping from the Strait of Hormuz as well as increasing magnitude of damage to energy infrastructure.



# Currencies

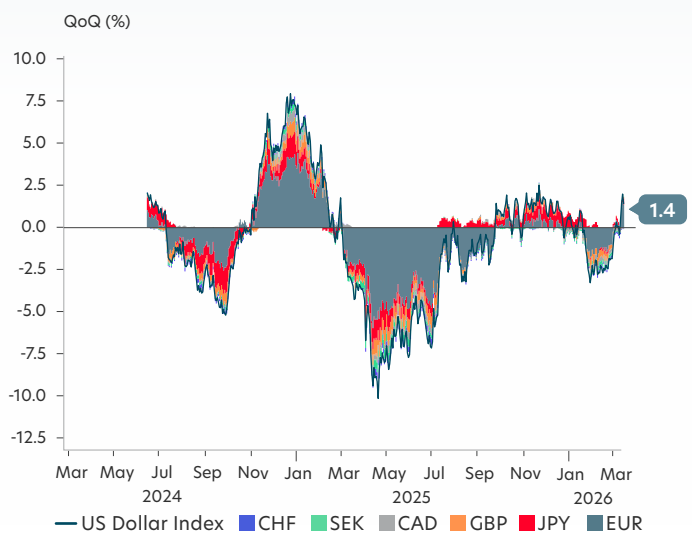
## USD

### DXY expected to stay relatively well supported against most G10 currencies through 2Q 2026

While our medium-term bias on the USD remains tilted to the downside, recent geopolitical developments introduce additional uncertainty and may generate episodic FX volatility. The US-Israeli strikes on Iran risk triggering a period of global risk aversion, which could lend near-term support to traditional safe-haven currencies, including the USD. If the conflict endures, sustained upward pressure on oil prices could amplify inflation risks, potentially delaying further Fed rate cuts and further underpinning the USD. Overall, we expect the USD to stay relatively well-supported against most G10 currencies through 2Q 2026, before resuming its broader weakening trend as geopolitical risks fade and monetary policy drivers reassert themselves. Our updated DXY forecasts are 99.1 for 2Q 2026, 97.6 for 3Q 2026, 96.7 for 4Q 2026, and 95.8 for 1Q 2027.

FX	2Q26F	3Q26F	4Q26F	1Q27F
DXY	99.1	97.6	96.7	95.8

Contributions to the US Dollar Index (DXY)



Source: Macrobond, UOB Private Bank

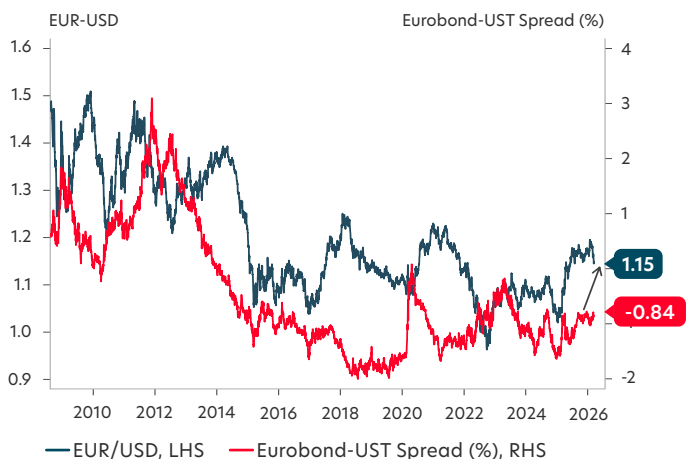
## EUR

### EUR expected to gradually appreciate through 2026

EUR/USD eased into a relatively narrow trading band around 1.18 in February, as the “Sell America” narrative that dominated January—lifting the pair to a high of 1.2081—gradually faded. Despite this near-term consolidation, we retain a constructive medium-term view on EUR/USD, underpinned by the prospect of narrowing rate differentials. The Fed remains firmly on a dovish trajectory, whereas the ECB appears to have concluded its easing cycle. Our macro team expects the ECB to leave rates unchanged through 2026, while the Fed is not anticipated to reach its terminal rate until 3Q 2026. Taken together, we continue to look for EUR/USD to grind higher through 2026, though geopolitical risks in the Middle East may introduce periodic bouts of volatility. Our updated forecasts are 1.16 for 2Q 2026, 1.18 for 3Q 2026, 1.19 for 4Q 2026, and 1.20 for 1Q 2027.

FX	2Q26F	3Q26F	4Q26F	1Q27F
EUR/USD	1.16	1.18	1.19	1.20

Compression of EUR-USD rate differentials to be supportive



Source: Macrobond, UOB Private Bank

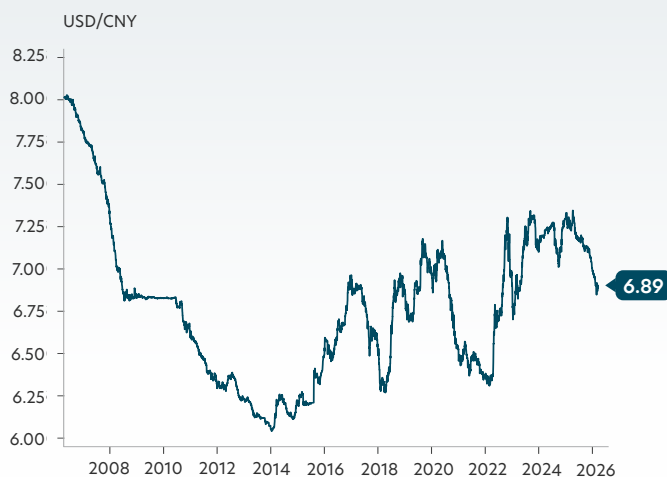
# CNY

## CNY likely to consolidate in near-term

The CNY has continued to trade with a firm bias, extending the strengthening trend that began after signs of US-China trade de-escalation emerged in November. It briefly touched a two-year high of 6.8318/USD in late February, remaining stronger than the PBOC's daily fixing. SAFE data shows client positions supported the move, with banks' clients holding the second-largest notional long-CNY position on record in January (CNY 621.4 billion). To temper the appreciation, the PBOC cut the risk-reserve requirement on forward FX sales to zero from 20%, lowering the cost of short-CNY derivative positions. Looking ahead, this policy shift and heightened geopolitical sensitivity point to a near-term consolidation. Further gains should be more measured, as domestic fundamentals offer limited support. Our team expects GDP growth to ease to 4.7% in 2026 from 5.0% in 2025, with monetary policy remaining "moderately loose", implying a restrained CNY path. Updated USD/CNY forecasts are 6.95 in 2Q 2026, 6.90 in 3Q 2026, 6.85 in 4Q 2026, and 6.80 in 1Q 2027.

FX	2Q26F	3Q26F	4Q26F	1Q27F
USD/CNY	6.95	6.90	6.85	6.80

### Pace of CNY appreciation may be moderated by softer growth



Source: Bloomberg, UOB Private Bank

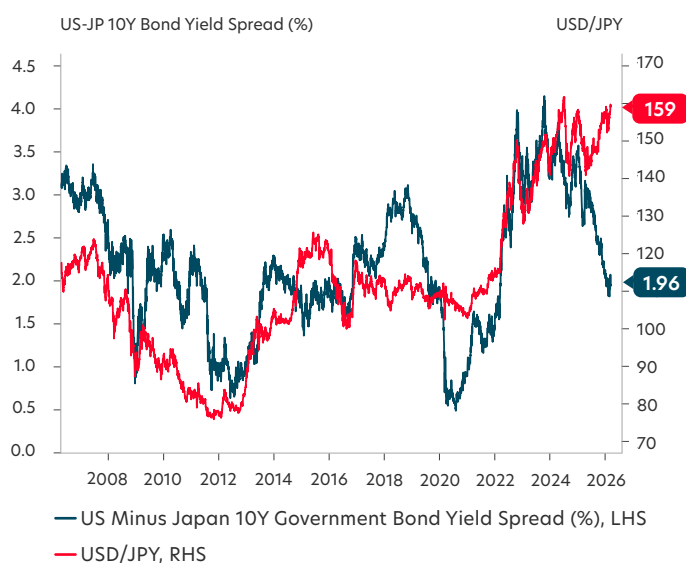
# JPY

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

USD/JPY did not push toward 159 after the 8 February snap election, despite the ruling party's landslide under Prime Minister Sanae Takaichi. Instead, the pair fell 3.2% in the following week to 152.27, driven by reduced fiscal risk premiums after Takaichi reaffirmed she would avoid new bond issuance to fund a two-year food sales-tax cut. USD-related factors later helped the pair rebound in late February, supported by hawkish FOMC minutes. In the near term (2Q 2026), USD/JPY is expected to stay elevated, reflecting broad USD strength amid renewed Middle East tensions and higher crude prices, which have weighed on the JPY. Further ahead, as geopolitical risks ease, we expect gradual moderation in USD/JPY in line with narrowing US-Japan rate differentials. We anticipate two additional Fed cuts this year, while the Bank of Japan is projected to deliver a 25bps hike to a 1% terminal rate in 3Q 2026 following spring wage negotiations. Updated forecasts: 159 in 2Q 2026, 156 in 3Q 2026, 154 in 4Q 2026, and 152 in 1Q 2027.

FX	2Q26F	3Q26F	4Q26F	1Q27F
USD/JPY	159	156	154	152

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



Source: Bloomberg, UOB Private Bank

# AUD

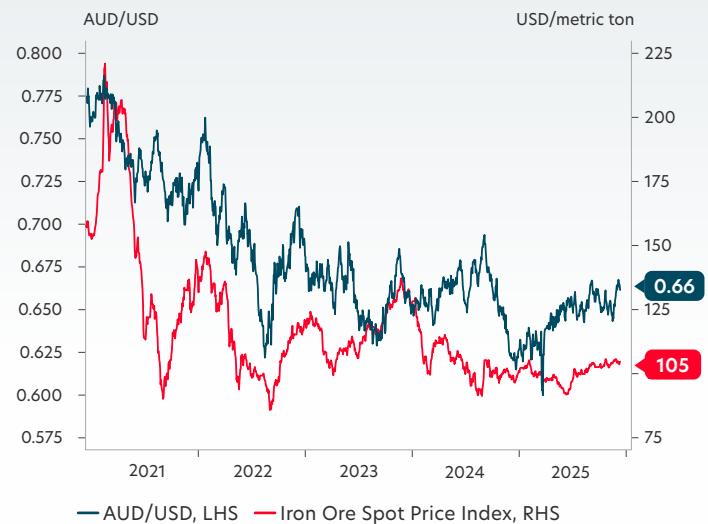
## AUD draws support by hawkish RBA policy repricing

The AUD has been the top performer within the G10 complex year-to-date, appreciating more than 6% to 0.71 as the Reserve Bank of Australia (RBA) became the first major central bank to tighten policy this year, raising the Official Cash Rate (OCR) from 3.60% to 3.85% in early February. Notably, Australia's policy rate now exceeds that of the US for the first time since 2017, adding to appreciation pressures on AUD/USD. Furthermore, our macro team expects a further 25bps hike at the 5 May meeting, taking the OCR to 4.10%, as near-term inflation pressures are likely to remain elevated.

Looking ahead, the AUD should continue to draw support from the market's hawkish repricing of the RBA's policy path following February's lift-off. That said, the recent resurgence in global risk aversion amid heightened geopolitical tensions may exert downward pressure on the currency through 2Q 2026. Beyond this period, we retain a constructive outlook on AUD/USD, with updated projections of 0.69 in 2Q 2026, 0.71 in 3Q 2026, 0.72 in 4Q 2026, and 0.73 in 1Q 2027.

FX	2Q26F	3Q26F	4Q26F	1Q27F
AUD/USD	0.69	0.71	0.72	0.73

### Increasing RBA rate hike expectations cushion AUD despite risk-off sentiment



# SGD

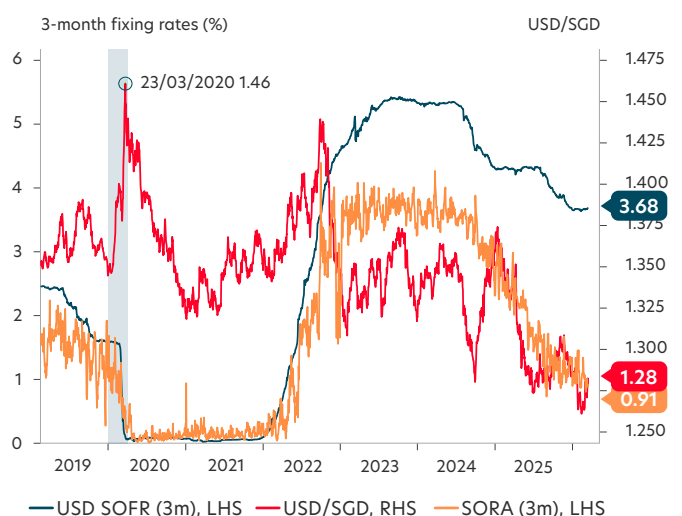
## SGD to be supported by safe-haven status and MAS tightening expectations

USD/SGD appears to have formed a near-term base around 1.26 over the past month, with heightened Middle East geopolitical tensions helping trigger a rebound. Even so, the SGD's regional safe-haven status and expectations for the MAS to tighten policy in April—potentially via a 50bps slope steepening to about 1.0% p.a.—should limit SGD downside in 2Q 2026. As geopolitical risks ease, we expect USD/SGD to resume its downward trend, aligning with broader USD softening as focus returns to upcoming Fed rate cuts. Updated forecasts are 1.29 in 2Q 2026, 1.27 in 3Q 2026, 1.26 in 4Q 2026 and 1.25 in 1Q 2027.

The S\$NEER's persistence near the top of the policy band this year, alongside SGD's potential outperformance in a fragile global environment, underpins our expectation of a modest recovery across key SGD crosses in 2026. SGD/MYR appears to have found a floor at 3.07 in late February, with scope to move toward 3.10 by year-end.

FX	2Q26F	3Q26F	4Q26F	1Q27F
USD/SGD	1.29	1.27	1.26	1.25

### USD/SGD finds support near 1.26 amid geopolitical tensions



# Alternatives

## Private Assets Outlook: Pivoting to Neutrality

We have moved to a neutral stance on private assets at the aggregate level, while retaining exposure as part of a long-term total-return strategy. Within this, private equity and private credit are also aligned to neutral at the sub-asset-class level. Recent developments around the Iran conflict have increased uncertainty over oil prices, inflation and the path of policy rates, arguing for a more cautious and selective approach to new capital deployment across private markets.

However, our neutral stance reflects the resilience of the underlying capital base supporting private assets. Across private equity and private credit, the dominant investor pool remains institutional and structurally long-term. Commitments are typically made through multi-year structures and are less sensitive to short-term market volatility than liquidity-driven sources of capital.

The composition of marginal capital is evolving. Fundraising has increasingly shifted towards wealth channels, often through semi-liquid vehicles. While these broaden access, they also introduce periodic redemption features. As a result, although the outstanding capital base remains largely institutional and long duration, new flows are becoming more responsive to liquidity conditions. This reinforces the case for a neutral stance overall, with selectivity taking precedence over broad increases in exposure.

Within this framework, private equity is neutral. It remains a core long-term allocation, supported by operational value creation and long-duration ownership. Near-term deployment, however, should be more measured. Uneven fundraising, elevated exit backlogs and slower capital recycling support a balanced stance. In a volatile environment, selective strategies, particularly those with exposure to secondaries, are better positioned to benefit from dislocations and more flexible pricing.

Private credit is also a hold rather than an add, reflecting its role as a stable income generator rather than a primary source of incremental return. The asset class continues to offer attractive carry, underpinned by contractual cash flows and seniority in the capital structure. That said, increased lender competition has compressed spreads and narrowed advantages versus liquid alternatives. Heightened scrutiny of underwriting standards, particularly in sponsor-backed software deals, has weighed on sentiment and is likely to sustain redemption pressures. Private credit therefore remains a hold rather than an add.

Within private markets, we continue to favour real estate and infrastructure for long-horizon, income-led total returns. In real estate, rebased valuations have improved entry points, while assets with frequent lease resets or inflation linked income provide greater cash-flow resilience, even as higher real rates weigh on values. In infrastructure, deployment conditions and liquidity are improving, supported by secular drivers such as digitalisation, energy security and the energy transition. Many assets across both areas also align with the HALO profile (Heavy Assets, Low Obsolescence), reflecting essential-use characteristics and lower disruption risk.

Within hedge funds, we continue to favour equity long/short and multi-strategy approaches. Long/short strategies are well positioned to exploit rising dispersion while retaining flexibility around net exposure. Multi-strategy funds complement this with diversified return drivers, strong risk management and the ability to reallocate capital as conditions evolve.

Overall, our stance on private assets is neutral, reflecting elevated macro uncertainty and a maturing market backdrop. Exposure remains appropriate within a long-term portfolio, but with a more balanced internal mix and a clear focus on areas where selectivity and pricing discipline continue to be rewarded.

# Private Equity: Liquidity in Focus

Distributed to Paid-In Capital (DPI) remains the central focus as the quarter progresses. Since early 2026, managers have continued to prioritise returning capital, even if it means accepting more modest pricing. This reflects the pattern in 2025, where exit counts increased while aggregate exit value declined, based on S&P Global data on completed global PE exits. The shift shows a practical need to keep distributions moving at a time when LPs are increasingly selective and directing commitments toward firms that can deliver realised outcomes. The slowdown in traditional commingled fundraising during 2025 has reinforced this emphasis on actual cash returns.

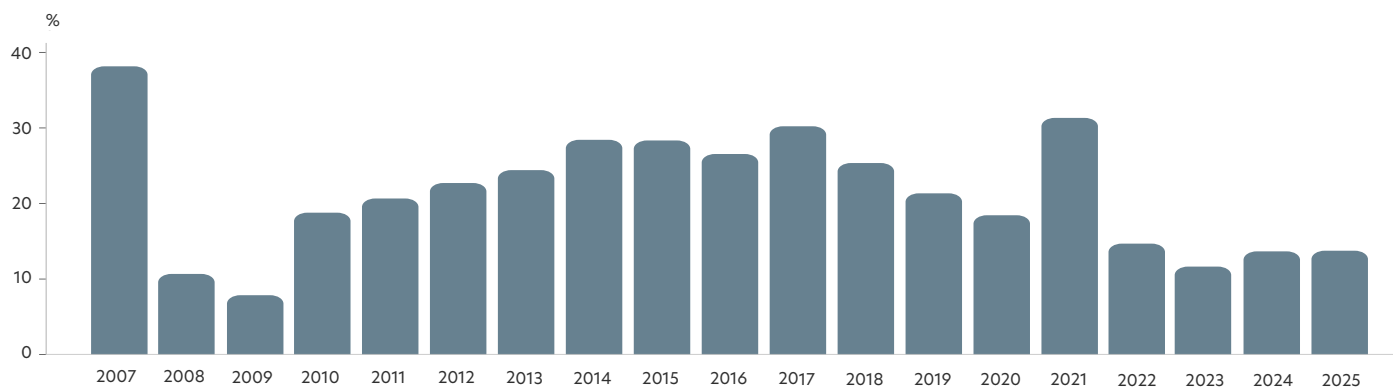
The secondary market has become a more important source of liquidity as traditional exit routes remain uneven in their recovery. GP-led transactions, continuation vehicles, and NAV-based solutions continued to gain traction through early 2026 because they provide a reliable way for managers to release capital when M&A or IPO markets are not dependable. Discounts have narrowed for higher-quality assets, which indicates continued investor interest, although buyers remain highly selective. The broader improvement in dealmaking in 2025 was concentrated in very large transactions, and this concentration has prevented liquidity from flowing evenly across the market.

Continuation vehicles in particular are serving as a useful mechanism for managing longer hold periods. They allow sponsors to reset timelines, recapitalise high conviction assets, and provide LPs with a choice between liquidity and continued exposure. In a market where traditional exits are improving only gradually, these vehicles give managers a structured way to balance both the needs of legacy investors and the potential upside of holding assets through a more supportive environment.

In this landscape, secondary managers that can operate across both LP and GP-led transactions have a meaningful advantage. They can address portfolio level liquidity needs while also underwriting concentrated positions that require deeper analysis and alignment structuring. This combination allows them to engage earlier when sponsors consider alternatives to traditional exits and positions them as preferred partners in situations that require flexibility and clarity around future economics.

Looking ahead, the pace of future rate adjustments will influence how quickly traditional exits improve. Until that inflection occurs, secondary capital and in particular GP-led strategies and continuation vehicles will remain essential tools for maintaining liquidity and supporting DPI across the private equity market.

## Global buyout distributions as a percentage of net asset value



Source: MSCI

**Note:** Buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; 2007-2024 as of year-end; 2025 represents the 12-month period from Q4 2024 to Q3 2025.

# Private Credit: The First Stress Test

The private credit market enters 2Q 2026 under the weight of several high-profile credit events that have intensified scrutiny of the asset class. The bankruptcies of Tricolor and First Brands continue to cast a long shadow, as both cases revealed material fraud and collateral misrepresentation, including double-pledging of assets and inflated receivables, which prompted lenders to freeze credit lines and accelerated liquidation proceedings. While neither of these situations involved private credit loans, their prominence in financial headlines has nonetheless created a symbolic flashpoint that has fueled broader concerns about underwriting standards, valuation transparency and the overall resilience of private credit portfolios.

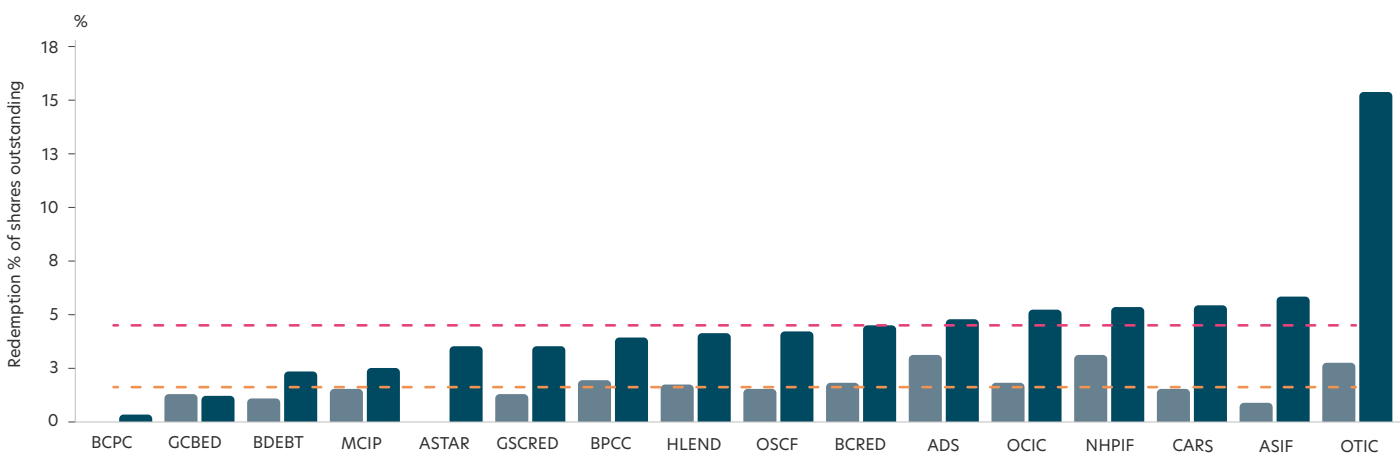
Adding to the pressure, the proposed combination of two large business development companies ultimately unraveled after significant investor pushback, prompting a broader reassessment of liquidity management across the platform. In the aftermath, the affected fund executed a sizeable loan-asset sale and moved to a return-of-capital framework intended to stabilise liquidity and establish a more orderly approach to distributions. The vehicle was never designed to operate as a perpetual fund, and the shift away from regular redemption windows, although intended to strengthen liquidity, ultimately restricted investor access to capital and heightened unease by drawing attention to the limitations of semiliquid private credit structures.

Redemption activity has remained elevated across the private credit landscape, particularly among non-traded semiliquid vehicles. Requests rose sharply in late 2025, with perpetual non-traded BDCs recording about 4.5% of NAV in Q4 redemptions, nearly triple the prior quarter. This momentum has continued into 1Q 2026, where some funds have opted to gate redemptions while others have chosen to meet all requests, reflecting a wide divergence in liquidity management approaches and ongoing investor caution.

We are closely monitoring the evolving situation and continue to evaluate its potential impact on portfolio performance. Across the key indicators we track, conditions remain broadly reasonable for the funds on our platform. PIK utilisation has not shown any signs of rapid acceleration, non-accrual levels remain contained, and interest coverage ratios generally indicate adequate debt-servicing capacity. EBITDA growth across portfolio companies also continues to hold up, providing an additional buffer against volatility. Although headline noise and liquidity pressures have increased, the underlying credit metrics within core direct lending portfolios continue to demonstrate resilience.

## Perpetually non-traded BDCs have seen outsized redemptions

Redemption percentage was 2.8x higher in 4Q 2025 vs 3Q 2025



Source: Fitch Ratings, Company Reports

**Note:** NAV - Net asset value. Antares Strategic Credit Fund (ASTAR), Apollo Debt Solutions BDC (ADS), Ares Strategic Income Fund (ASIF), Bain Capital Private Credit (BCPC), Barings Private Credit Corp. (BPCC), BlackRock Private Credit Fund (BDEBT), Blackstone Private Credit Fund (BCRED), Blue Owl Credit Income Corp. (OCIC), Blue Owl Technology Income Corp. (OTIC), Carlyle Credit Solutions, Inc. (CCARS), Goldman Sachs Private Credit (GSCRDE), Golub Capital Private Credit Fund (GCREED), HPS Corporate Lending Fund (HLEND), Monroe Capital Income Plus Corporation (MCIP), North Haven Private Income Fund (NHPIF), Oaktree Strategic Credit Fund (OSCF).

# Private Infrastructure: Scaling the Next Wave

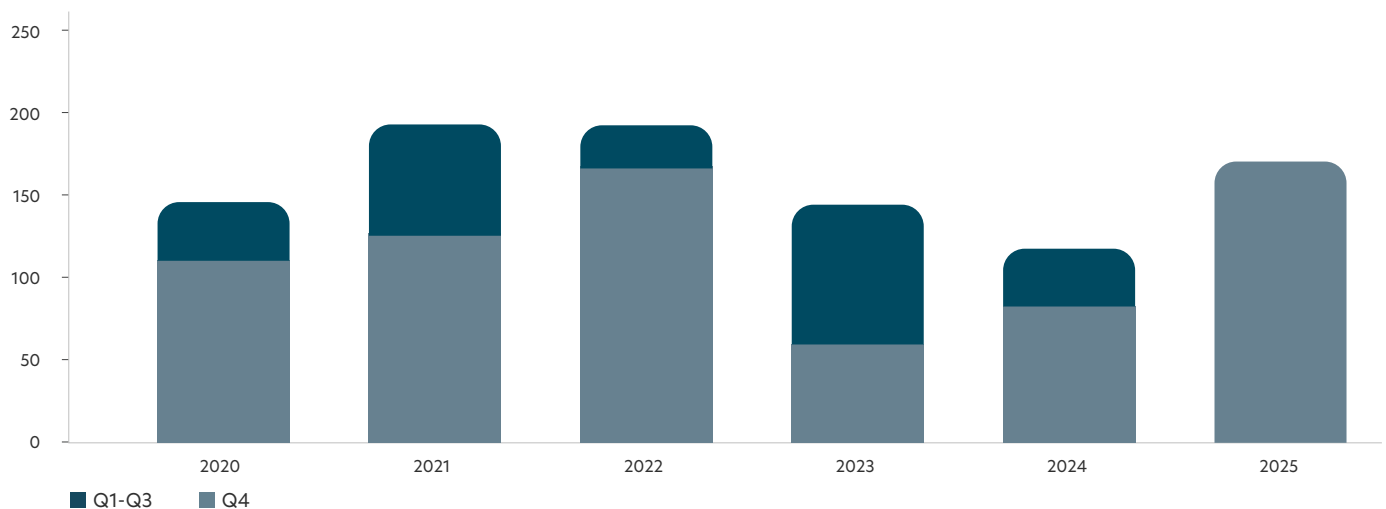
Fundraising momentum accelerated through the end of 2025, with infrastructure standing out as the strongest segment in private markets. According to Infrastructure Investor's fundraising reports, the asset class raised approximately USD 200 billion by Q1-Q3 2025, already surpassing the fundraising totals of the previous peak years in 2021 and 2022, and ultimately reached a record USD 289 billion for the full year. This surge was driven primarily by mega funds that captured a disproportionate share of new commitments, reinforcing the continued concentration of capital among the largest managers. Their long performance track records, broad sourcing networks, and proven capability to execute complex transactions have made them the preferred partners for many LPs. As capital consolidates toward these established platforms, smaller managers are finding it more challenging to attract commitments as investors apply stricter standards around due diligence, risk management, and demonstrable value creation.

Private infrastructure in 2025 was shaped by several defining themes. The acceleration of digital infrastructure continued to dominate activity, supported by AI related growth in compute requirements and ongoing cloud adoption. CBRE's Q4 2025 report highlighted how AI advancement influenced capital allocation, with data centers and power networks

becoming central pillars of the investment landscape. Energy transition remained another major theme, with sustained investor interest in renewable generation, battery storage, and grid modernisation despite mixed policy signals in the US and Europe. These structural forces strengthened the investment case for assets that underpin electrification, digital connectivity, and long duration contracted cash flows.

Large scale transactions underscored the depth of activity across these themes. One of the most notable deals of the year was Macquarie's exit from Aligned Data Centers, valued at approximately USD 40 billion, with a GIP and MGX-led consortium committing USD 21 billion in equity for the hyperscale platform. Additional major financings, including multibillion dollar LNG expansion projects and BlackRock's USD 22.8 billion acquisition and expansion of Panama Canal port assets, reflected strong demand for essential energy and transport infrastructure. Closer to home, Southeast Asia saw one of its largest digital infrastructure transactions when a KKR and Singtel consortium agreed to acquire the remaining 82% of ST Telemedia Global Data Centres for SGD 6.6 billion, valuing the platform at SGD 13.8 billion. The deal cemented Singapore's role as a regional data center hub and reinforced the growing strategic importance of Asia Pacific digital infrastructure.

## Infrastructure fundraising, USD in billions



Sources: Infrastructure Investor, Fundraising report Q3 2025. Closed-end funds

# Real Estate: Stabilisation and Selective Opportunities

The private real estate outlook for 2Q 2026 is broadly constructive, supported by stabilising fundamentals and a meaningful improvement in market liquidity. After several challenging years, the market entered a recovery phase in 2025, marked by a clear pickup in transaction activity and deal volume as capital-market conditions strengthened.

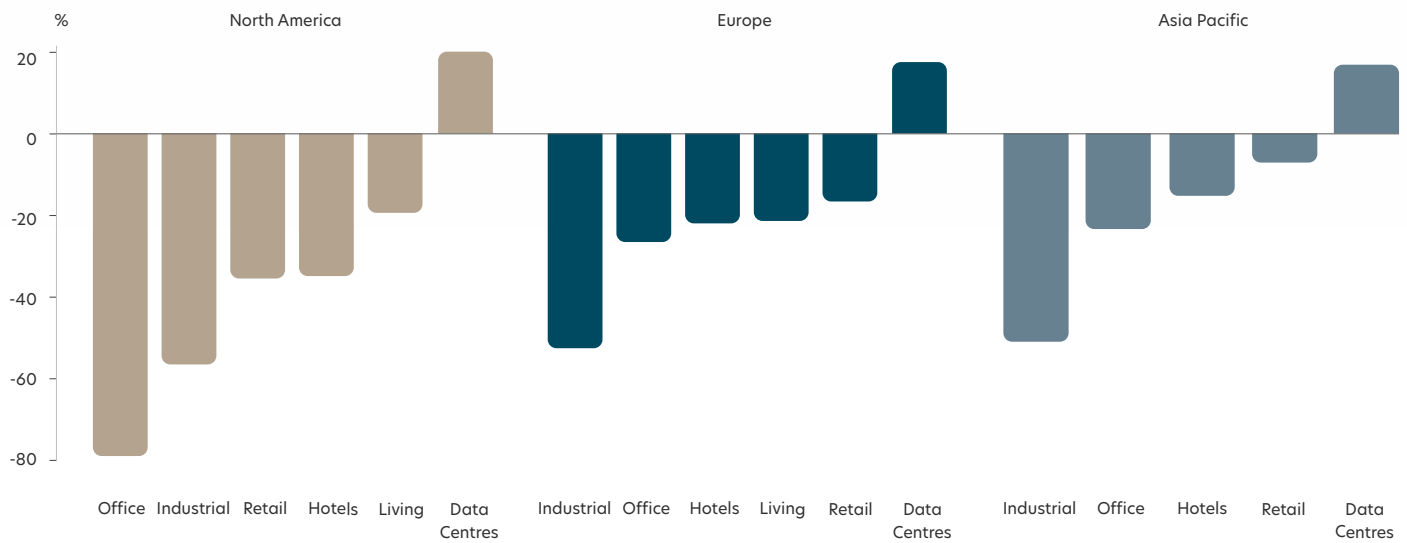
Looking ahead, three key tailwinds are expected to support the sector.

First, financing costs are easing with interest rates expected to trend lower, contributing to overall lower cost of debt compared with the 2023 peak. Second, liquidity has returned to the market, underscored by record Commercial Mortgage-Backed

security issuance in 2025. Third, supply remains structurally constrained across most subsectors. High construction and financing costs have pushed development starts to multi-year lows across US and Europe, while US tariffs and immigration constraints are likely to keep building costs elevated. Supply shortages are particularly acute in housing and logistics, where demand continues to outpace new deliveries, supporting stronger rent growth and reinforcing asset values due to rising replacement costs.

Overall, 2026 offers an attractive environment for private real estate investors, defined by stabilising pricing, constrained supply, improving liquidity, and strong secular demand across key growth sectors.

## 2026 forecast completions vs 2021-25 peak



Source: JLL Research, 2025

# Hedge Funds: Opportunities Amid Volatility and Dispersion

Total global hedge fund industry capital surpassed the historic USD 5 trillion milestone for the first time in 2025, supported by the strongest calendar-year inflows since 2007<sup>1</sup>. The outlook for hedge funds heading into 2Q 2026 remains broadly constructive, underpinned by strong allocator appetite, a macro environment characterised by persistent volatility and elevated global equity valuations.

The escalation of the Iran conflict at the end of February 2026 has further intensified market volatility across asset classes, particularly within commodities. Historical correlations across major asset classes have become less reliable, with traditional safe-haven assets such as the US dollar, sovereign bonds, and even gold increasingly moving in tandem with equities rather than providing the diversification typically seen in past risk-off periods. This breakdown in conventional defensive behavior raises the importance of manager skill, as navigating volatility now requires a far deeper understanding of macro dynamics and cross-asset relationships.

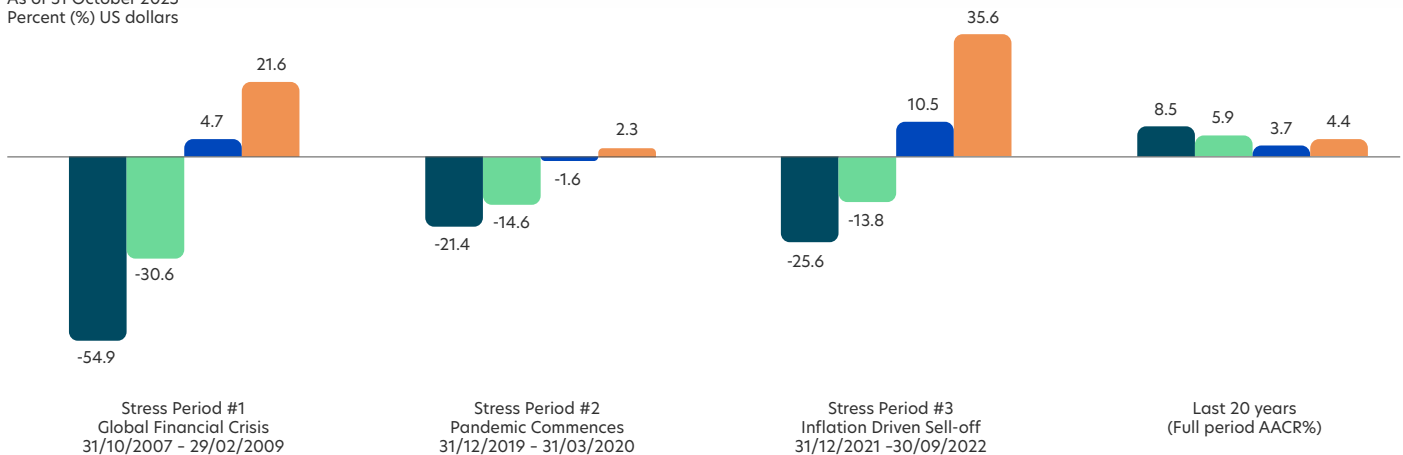
In this environment, global macro managers with demonstrated expertise in interpreting policy shifts, responding to geopolitical shocks, and tactically reallocating across asset classes are particularly well positioned to capture opportunities created by these market dislocations.

At the same time, elevated valuations, widening dispersion and a narrow market rally have created a highly fertile landscape for equity long/short strategies. In this backdrop, managers with deep sector-specific insight, particularly in areas where scientific expertise or language capabilities offer informational advantages, may be well positioned to capture emerging opportunities.

Overall, today's combination of heightened volatility, geopolitical uncertainty, and valuation dispersion forms a constructive backdrop for both global macro and equity long/short strategies, which are uniquely equipped to navigate and benefit from these dislocations.

## Certain hedge funds have offered better downside protection, but sacrifice upside capture

As of 31 October 2025  
Percent (%) US dollars



■ Global Equities ■ Trend Following ■ Global Macro ■ Long/Short

Source: Bloomberg Index Services Limited, S&P Dow Jones, iCapital Alternatives Decoded, with data based on availability as of November 30, 2025

**Note:**

<sup>1</sup> Data through September 2025 and is subject to change based on potential updates to source(s) database.

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