

———— 4Q26 Investment Outlook

A narrower path





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CIO Thoughts

Foreword: Taking some risk off the table

We moved equities from Overweight to Neutral post Federal Open Market Committee (FOMC). This is a tactically cautious decision, not a strategic retreat. Earnings remain healthy, but the near-term balance between oil, inflation, interest rates, valuations and crowded positioning has become less forgiving. After a strong year-to-date advance, we would rather surrender a little upside than assume that good earnings can indefinitely outrun a higher discount rate.

Neutral, not negative

The earnings cycle is not ending. We still expect healthy growth through the second half, while US mid-term history remains constructive beyond the immediate volatility window. Yet good news is losing some of its punch. Beat-and-raise results have produced less consistent share-price rewards, suggesting that expectations are already demanding. When excellent news merely keeps a stock standing still, the hurdle for the next quarter has become uncomfortably high.

Regionally, we are moving US and Emerging Asia equities to Neutral, while retaining Neutral positions in Japan and Europe. Taiwan and South Korea remain central to the Artificial Intelligence (AI) infrastructure chain, but their AI infrastructure concentration has become a vulnerability. China, meanwhile, has tested investors' patience. Patience alone is not an investment thesis. We have also moved China to a Neutral stance.

Oil, yields and the Fed

The tension is that earnings remain strong, but the price investors will pay for those earnings is under pressure. Higher oil prices complicate the inflation outlook, while a Federal Reserve that leaves the door open to further tightening keeps the discount rate unsettled. Equities can live with relatively high rates. What they dislike is having the goalposts shift with every oil headline and data release.

Oil rarely stays politely within its assigned inflation weight. It seeps into freight, airfares, chemicals, packaging and margins. With the US Strategic Petroleum Reserve (SPR) near multi-decade lows, critical infrastructure under threat and replacement supply potentially slow to arrive, another spike may be harder to cushion. That does not make a lasting oil shock inevitable, but it widens the range of outcomes.

Positioning leaves little cushion

Crowded positioning is not an automatic sell signal. It does, however, increase the potential speed of any unwind. The dominant theme remains AI, so finding genuine hiding places is admittedly difficult. Investors wanting to retain exposure may be better served by AI beneficiaries that can raise productivity and margins, rather than hardware suppliers whose returns depend on another large wave of capital spending.

AI's thesis is intact, but its timetable is less certain. Safety, regulation and geopolitics may defer or redirect infrastructure spending. Yet if the US believes it is in an AI race with China, a prolonged unilateral slowdown appears unlikely. Competitive pressure should limit any retreat, even as scrutiny raises the hurdle for new projects.

Where we prefer to rotate

Cash flow will matter even more from here. We like profitable companies generating cash today over businesses promising cash tomorrow. Quality dividend equities may initially struggle if bond yields rise, but yield-driven weakness could improve long-term entry points. Banks can benefit from higher rates, provided recession and credit losses remain contained. Defence remains a long-burn theme, while healthcare offers earnings less tied to the technology cycle.

What would bring us back to Overweight?

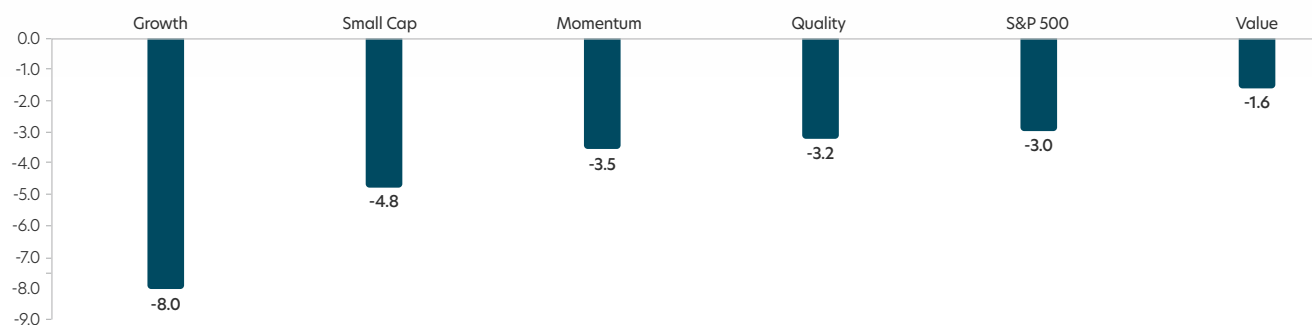
Three developments would improve the risk-reward balance. First, a sustainably lower oil price because supply conditions improve, not because demand collapses. Second, the Fed should place firmer boundaries around further tightening, allowing Treasury yields and inflation expectations to regain an anchor. Third, a market reset should leave earnings estimates intact. A correction with stable earnings revisions would be an opportunity. Falling prices alongside deteriorating profits would not.

Risks: Our caution may prove premature

The uncomfortable bull case is that crowded positioning becomes still more crowded. Oil could fall after a diplomatic breakthrough, the Fed could suddenly reverse to a dovish message, and strong earnings could again overpower valuation concerns. Major bull markets can remain expensive for longer than cautious investors expect. That is why we are moving to Neutral rather than Underweight. We are reducing risk, not abandoning the market.

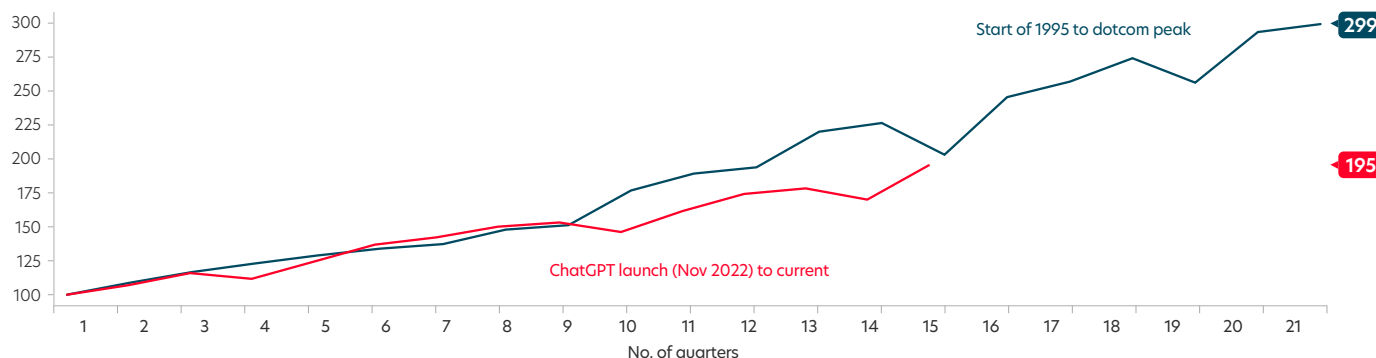
Our stance is tactically cautious but strategically constructive. The market is being asked to absorb expensive oil, elevated bond yields and renewed tightening risk while expectations remain demanding. That is too much optimism resting on too little room for error. Stay invested, rebalance towards cash-generative companies and preserve capacity to add when the risk-reward balance improves.

3 month average returns when Fed starts hiking



Source: LBMA, Nikkei Inc, SET, Nasdaq, S&P Global, SSE, Macrobond, ICE

S&P 500 since the ChatGPT launch versus the 1995-2000 dot-com rally



Source: Bloomberg, UOB Private Bank

US mid-term elections: Stay invested through the noise

Same issues, with AI thrown into the mix

Mid-terms usually matter less for markets than the campaign noise suggests. In the previous 19 mid-terms, the S&P 500 has not fallen in the 12 months after the election, as uncertainty fades and investors refocus on earnings. America's 3 November vote may change who controls Congress, but the more investable outcome could remain familiar: divided government, limited policy shifts and relief when campaigning ends.

Prediction markets now favour Democrats taking both the House and Senate. That would constrain the administration, but not give Democrats free rein. The President could veto legislation; an override requires two-thirds support in both chambers. Major bills may struggle to clear the Senate's 60-vote threshold. Gridlock is likelier than policy reversal.

That said, Polymarket and Kalshi can react faster than polls, but remain imperfect signals. We treat their pricing as positioning, not certainty.

This campaign still revolves around affordability, immigration, healthcare and the economy. AI matters because its physical footprint turns a national technology race into a local cost issue. Data centres

consume power, water and land, while tax incentives can leave voters wondering who receives the upside. Reuters/Ipsos found 77% worry data centres will raise electricity rates, while only 14% would willingly live near one.

For investors, the link is direct. Mid-term pressure is unlikely to stop AI, because Washington regards compute capacity as strategic against China. It can, however, change who pays. Slower permits, fewer tax concessions and tougher cost-sharing rules would raise project costs. Hyperscalers can absorb them; smaller developers cannot. Utilities, equipment suppliers and engineering contractors may gain if operators must fund more generation and transmission. Data centre landlords relying on cheap power, water and local incentives face weaker economics.

Markets like gridlock and seasonality

A Democratic Congress would create winners and losers. Defence spending has been resilient, making the sector less sensitive to congressional control. Banks could benefit from gridlock, although proposed caps on credit-card rates remain a threat. Energy producers may face greater scrutiny, but utilities cannot ignore voter anger over electricity bills. Companies expanding America's scarce power and grid capacity remain better positioned.



Markets have historically rallied after mid-term uncertainty

Mid-terms generate plenty of noise, but history says the bigger mistake is retreating to cash. In our study of the past 13 elections, US equities rallied afterwards as uncertainty faded and seasonal strength returned. The S&P 500 gained an average 14.3% in the eight months after a mid-term. BlackRock's longer horizon 31-election sample shows a 12.4% average twelve-month return. Elections can clear uncertainty; earnings still drive lasting returns.

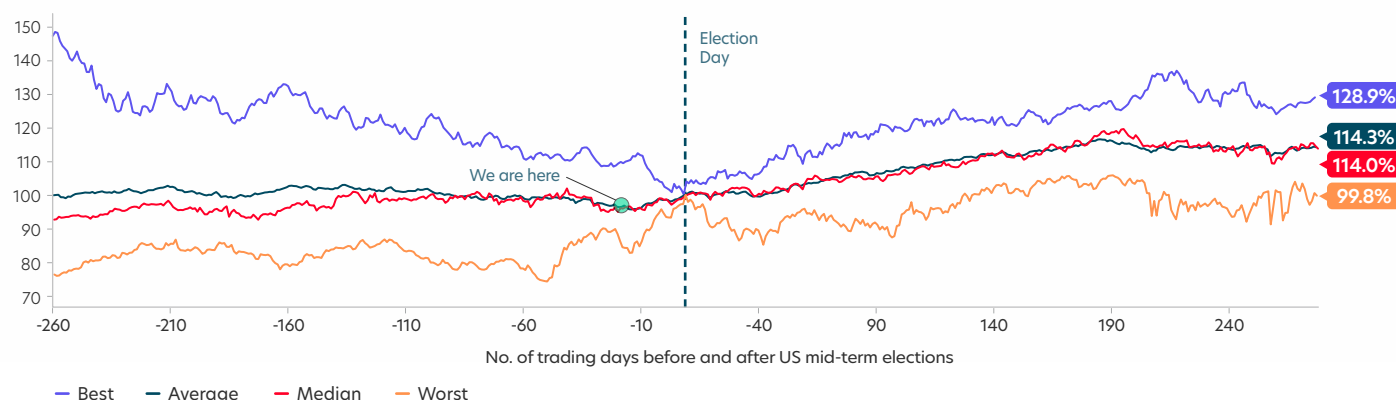
The real risks sit outside the ballot box

History is useful but not causal. It can fail if inflation reaccelerates, Treasury yields rise sharply, the Federal

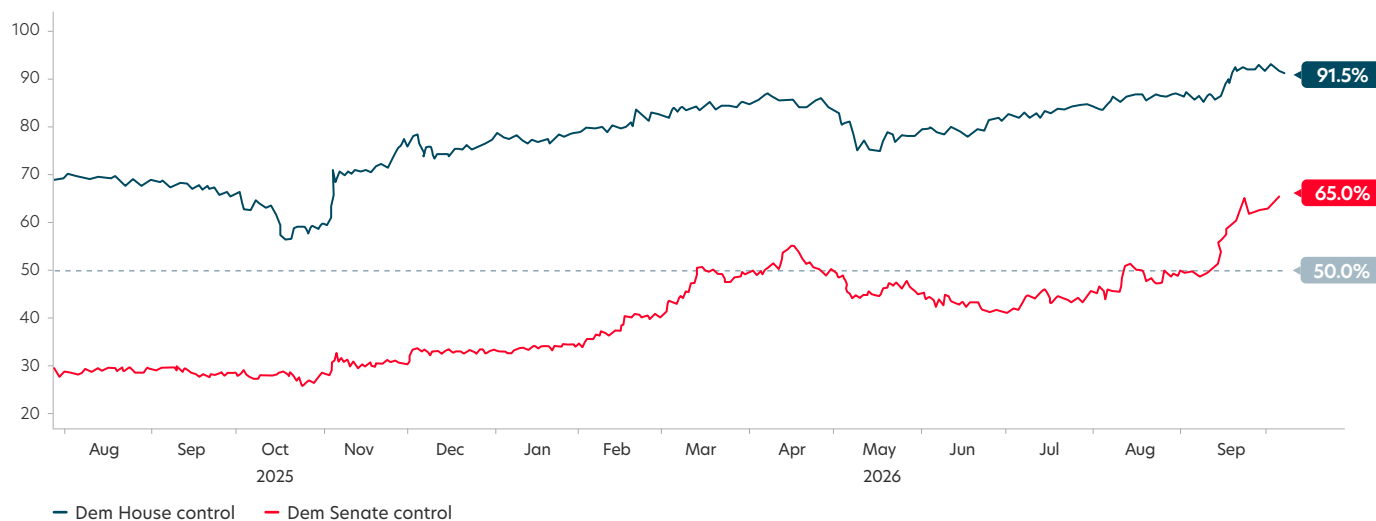
Reserve stays on a tightening cycle or AI-related capex disappoints. Democratic control of Congress could intensify investigations, budget disputes and uncertainty around taxes or regulation. Yet presidential veto power and narrow majorities would constrain sweeping change. Markets still depend on earnings, inflation and discount rates.

Our "stay invested" thesis breaks when politics changes the macro path, not when one party wins. Watch 10-year Treasury yields, inflation expectations, earnings revisions and hyperscaler capex guidance. Unless they deteriorate together, moving to cash before the vote remains worse than sitting through the noise. Fiscal standoffs may cause volatility, but should not derail broader AI adoption.

S&P 500 typically rises after mid-term elections



Prediction markets point to Democrats controlling both the House and Senate



AI's second act: The rise of corporate beneficiaries

The next AI winners may be its users

The first phase of the AI investment cycle was relatively easy to see. Demand for semiconductors rose, data centre construction accelerated and technology companies invested heavily in computing capacity. The next phase may be broader and less obvious.

AI is moving from technology laboratories into everyday business operations. Companies are using it to improve customer service, write software, detect fraud, manage inventories and automate administrative work. This creates opportunities beyond the companies building AI infrastructure.

Investors should ask not only who supplies AI, but also who can use it to improve profits. This distinction matters because announcing an AI product is not the same as making money from it. Many companies have launched AI tools and pilot programmes. Far fewer can show that these investments are raising sales, lowering costs or improving profit margins.

However, the latest earnings season offered encouraging signs. Investors increasingly rewarded companies that linked AI to measurable revenue, customer usage, productivity or margins.

"The first AI winners built the tools. The next winners may simply use them better."

Three pathways from AI to earnings

AI can sound abstract, but its financial impact is relatively straightforward. Companies can use it to sell more, spend less or lose less. These three pathways provide a simple way to identify potential AI beneficiaries.

Sell more: Increasing revenue

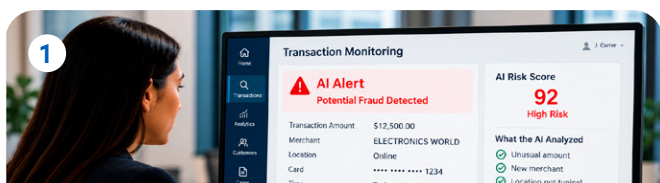
AI can help companies understand what customers want and offer them more relevant products and services. Digital platforms can use AI to improve advertising and product recommendations. Software providers can charge for new AI-enabled features. Healthcare companies can offer more useful clinical and workflow tools.

Spend less: Improving margins

AI can automate repetitive work and help employees complete complex tasks more quickly. An office employee can use an AI assistant to find information, prepare an initial report or summarise a large document. A clinician can use AI to create medical notes. The goal is not necessarily to replace employees. AI can also increase an organisation's capacity by allowing its employees to spend more time on higher-value work.

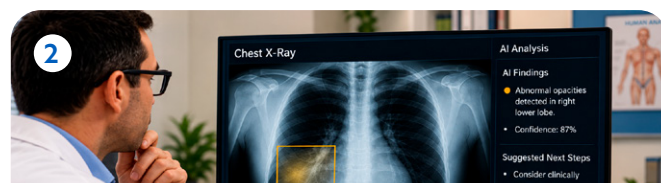
Lose less: Reducing risks and mistakes

AI can analyse large amounts of information and identify unusual activity earlier. A bank can use AI to flag a suspicious transaction. An insurer can use it to detect unusual claims. A retailer can improve demand forecasts and reduce excess inventory.



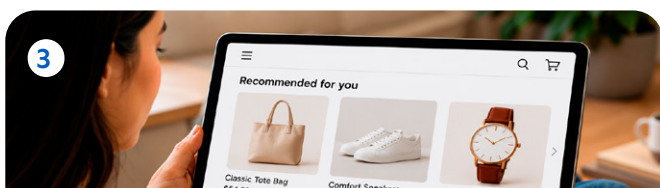
Bank employee reviewing a transaction alert

AI analyses transactions in real time to help protect customers and the bank.



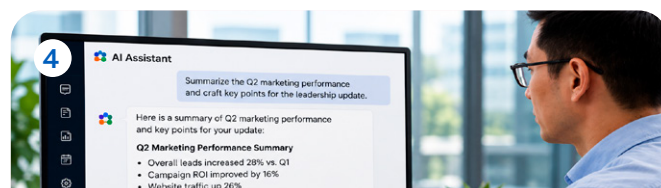
Clinician using an AI-supported medical image

AI highlights areas of concern and gives clinicians more confidence in their assessment.



Online shopper receiving product recommendations

AI personalises recommendations to help shoppers find products they'll love.



Office employee using an AI Assistant

AI helps employees save time, find information and get work done.

Intelligence is becoming cheaper

The growing use of AI is also being supported by falling costs. Large language models process information in small units called tokens. Companies generally pay according to how many tokens their AI applications process.

A simple way to understand tokens is to think of them like units of electricity. An AI application consumes tokens when it reads information, considers a question or produces an answer. A lower price per token makes the application cheaper to operate.

The LLM token expenditure index



Note: Unit is in USD / Million tokens
Chart: Alex Harring / CNBC

Advances in AI technologies and stiff competition have driven token prices lower. Silicon Data's token expenditure index measures the average price paid for one million tokens and the index has recently fallen to USD 0.97, its lowest level since launch.

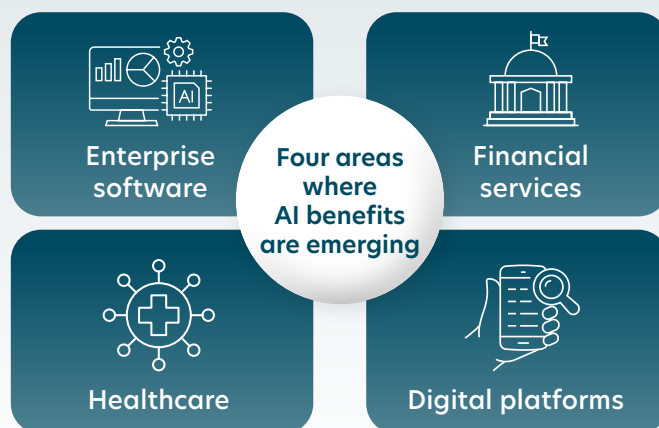
As intelligence becomes cheaper, more business uses become economically viable

Lower prices can make it economical to apply AI to more tasks. Companies may initially reserve AI for high-value work, such as detecting complex fraud or assisting specialist employees. As costs decline, they can extend it to more routine customer enquiries, document reviews and administrative activities. This can improve the potential return on AI investment and support wider adoption across software, financial services, digital platforms and healthcare.

AI beneficiaries are emerging in the real economy

Falling costs are making AI easier to adopt, but lower prices alone will not determine the investment winners. Companies must also possess valuable data, effective distribution and workflows where AI can make a measurable difference. The strongest beneficiaries should be able to show that adoption is contributing to revenue, margins or risk reduction.

We see four areas where evidence is beginning to emerge: Enterprise software, digital platforms, financial services and healthcare.



Enterprise software: Selling AI through existing workflows

Software companies can add AI directly to tools already used for sales, accounting, customer service and procurement. This provides a relatively short path from AI adoption to additional subscription or usage revenue.

Recent evidence is encouraging. ServiceNow's subscription revenue increased 24.5% y/y in the second quarter of 2026, Salesforce's Agentforce (Agentic AI) annual recurring revenue reached approximately USD 1.2 billion, and SAP reported strong growth in its cloud enterprise resource planning suite. These figures show rising demand, although they do not yet prove that every customer is achieving an attractive return.

Investment implication: Favour established platforms with proprietary data, strong customer relationships and software embedded in essential workflows.

Financial services: Lower costs and fewer losses

Banks can use AI to review documents, detect fraud, support customer service and assist software developers. AI can therefore help financial institutions spend less and lose less. JPMorgan said AI had enabled job reductions of up to 40% in certain roles, although many affected employees were redeployed. Banks are also benefiting from financing AI-related data centres, power projects and corporate transactions. Goldman Sachs and JPMorgan reported record quarterly revenue in July 2026, partly supported by trading and investment-banking activity linked to the wider AI investment cycle.

Investment implication: Favour banks with exposure to AI cycle through equity and debt offerings. We also see the potential for banks with strong digital capabilities to turn efficiency gains into a meaningful earnings impact.

Healthcare: Reducing administrative friction

Healthcare's clearest near-term opportunity lies in everyday workflows. AI can prepare clinical notes, automate medical coding, support imaging and reduce time spent on insurance administration.

Doximity, a US digital platform for medical professionals, reported more than 800,000 active prescribers using its workflow tools in its fiscal fourth quarter of 2026. Nearly half used its clinical AI, while prompts per user almost doubled between January and April. Full-year revenue increased 13% y/y, although AI was only one contributor.

Separately, an Oliver Wyman survey found that around 20% to 40% of healthcare providers had broadly deployed selected AI-enabled tools across documentation, coding, billing and prior authorisation.

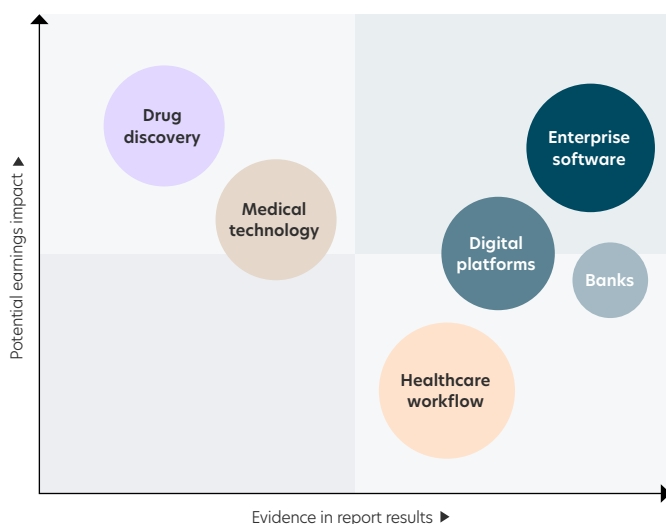
Investment implication: Prefer healthcare software, administrative automation and medical technology. AI-led drug discovery is another promising field that is currently in its early stage.

Digital platforms: Better recommendations, higher sales

Digital platforms already use AI to recommend products, personalise content and target advertisements. Better predictions can improve customer engagement and sales conversion, providing a clear "sell more" pathway.

Recent Big Tech results remained supportive, with AI contributing to cloud, advertising and platform growth. However, investment spending also remained substantial, leaving investors focused on whether future profits can justify the capital committed.

Current evidence and potential earnings impact vary by sector.



Investment implication: Prefer platforms with valuable customer data and established advertising or e-commerce networks.

High selectivity within beneficiaries remains essential

Risks: Although AI is likely to improve corporate earnings through one of the three pathways, we are not convinced that every company using AI will be a winner.

Companies may overstate AI-driven gains, while the costs of computing, integration, cybersecurity and workforce training can offset productivity improvements. Investors should also recognise that AI can disrupt today's winners as quickly as it strengthens them, particularly in software and outsourced services.

Finally, regulation, data security and trust requirements, especially in sectors such as banking and healthcare, may slow adoption but remain essential for sustainable long-term growth.

Conclusion: Follow the earnings

The AI investment opportunity is broadening beyond semiconductors, data centres and computing infrastructure. Falling usage costs and improving capabilities are making AI practical across a wider range of business activities.

Software companies can sell AI through established workflows. Digital platforms can improve advertising and customer conversion. Financial institutions can raise productivity and reduce losses. Healthcare companies can reduce administrative friction and improve clinical workflows.

However, adoption alone is not enough. The strongest investment opportunities should demonstrate a clear path from AI usage to additional revenue, lower costs, wider margins or reduced risk.

The emerging divide is not between technology and non-technology companies. It is between businesses that convert AI into measurable returns and those that convert it into another expense.

We expect AI benefits to broaden beyond infrastructure providers towards companies applying the technology within valuable products and workflows. Selectivity remains essential, with a preference for companies demonstrating measurable revenue, productivity or risk-management benefits.

Super El Niño:

Weather risks back on the radar

Getting hot

Major climate agencies currently indicate an elevated probability of a strong El Niño event (November 2026 to February 2027). If intensity reaches levels comparable to 1997-98 or 2015-16, macroeconomic and market impacts could become material. Ocean temperatures in the Pacific are already well above normal levels. If realised, it could surpass the strength of the 2015-16 event and become a significant macroeconomic as well as climate event.

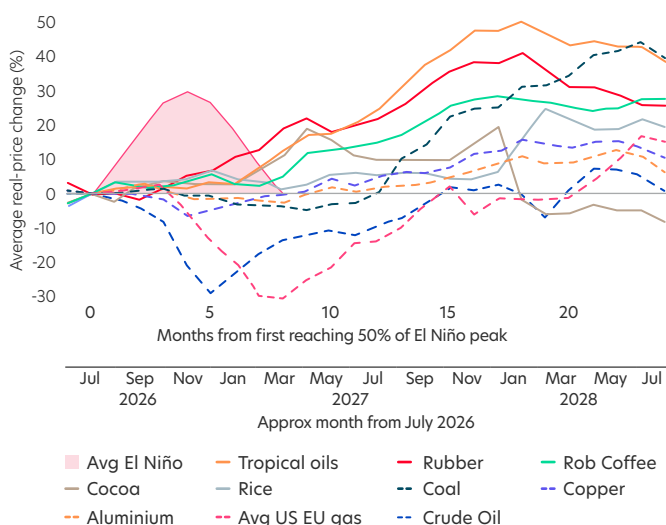
Historically, major El Niño episodes have disrupted agricultural production, altered energy demand and contributed to inflationary pressures, creating both risks and opportunities across global markets.

Commodity markets most exposed

Agricultural commodities have historically been among the clearest beneficiaries of El Niño conditions. Drought-related disruptions often reduce supply of palm oil, coconut oil, rubber, coffee and rice, supporting prices. Energy and industrial markets can also be affected through reduced water availability, lower hydropower generation and disruptions to industrial activity.

Importantly, industrial commodities tend to respond with a lag. Aluminium, copper and thermal coal have historically delivered stronger performance one to two years after El Niño emerges, reflecting the delayed transmission of weather-related supply disruptions into broader economic activity.

Average price moves from the current stage in El Niño



Analysis starts around 50% into historical El Niño events, similar to July 2026. Red shading indicates a typical El Niño that peaks around Oct-Dec. Price moves are based on events between 2005 and 2026, with an average peak El Niño index of roughly +1.5°C.

Source: NOAA, Bloomberg, World Bank, Barclays Research

Potential commodity beneficiaries

Potential beneficiaries	Expected direction
Palm oil	Strongly positive
Coconut oil	Strongly positive
Rubber	Strongly positive
Coffee	Positive
Rice	Positive
Aluminium	Positive (longer-term)
Copper	Positive (longer-term)
Thermal coal	Positive (longer-term)

The risk-reward profile currently favours selective exposure to agricultural commodities and related producers, while opportunities in industrial commodities may emerge over a 12-24 month horizon.

Regional winners & losers

The impact of El Niño is highly uneven.

Southeast Asia is among the most vulnerable regions globally due to its dependence on monsoon rainfall, agriculture and water resources. Drought conditions can affect food production, hydropower generation, commodity exports and water security. Central America and parts of northern Latin America face similar risks. Conversely, parts of South America may benefit from improved growing conditions, although excessive rainfall can increase flood risks.

ASEAN: An inflation story more than a growth story

For ASEAN and India, El Niño is likely to be felt primarily through inflation rather than growth.

Inflation risks

Food prices are expected to face upward pressure, particularly for rice, wheat, maize and vegetable oils. Food inflation could be amplified by policy responses such as export restrictions, stockpiling and food-security measures, which may further tighten supply. Headline inflation has already begun to drift higher across ASEAN-5 and India.

Growth impact

The impact on growth is likely to be more contained. As a supply-side shock, the economic damage should remain concentrated within agriculture and rural incomes. Manufacturing and services sectors are expected to remain relatively resilient unless drought conditions become severe enough to affect water supplies, electricity generation and broader supply chains.

Trade and external balances

Higher food prices could weaken trade balances and current accounts across much of Asia. The greatest vulnerabilities lie in rice, wheat, maize and vegetable oils. Net food importers such as the Philippines and Malaysia are particularly exposed, while Indonesia and Malaysia may partially offset pressure through stronger palm oil exports.

Policy implications

El Niño strengthens the case for a more cautious policy stance across the region. Central banks are likely to pay close attention to rising food prices given the risk that higher food inflation spills over into broader inflation expectations. UOB continues to expect a tightening bias across ASEAN and India, with further policy rate increases remaining possible through 2026 and 2027.

The policy response is likely to centre on protecting food security rather than broad economic stimulus. Measures such as stockpile releases, import diversification and targeted subsidies are more likely than large-scale cash assistance programmes, given fiscal constraints across the region.

Most exposed ASEAN economies

Philippines is the most vulnerable economy in the region, followed by India and Thailand.

Risk tier	Economy	Key vulnerabilities
Very high	Philippines	High food Consumer Price Index (CPI) weight, rice import dependence, production risks
High	India	Kharif crop exposure, food inflation, rural income sensitivity
High	Thailand	Rice and sugar exposure, agricultural dependence
Moderately high	Indonesia	Rice exposure partly offset by palm oil exports
Moderate	Vietnam	Concentrated agricultural risks
Moderate	Malaysia	Food supply risks offset by palm oil exports

Conclusion

A strong El Niño would represent an important macroeconomic event rather than simply a weather event. The clearest transmission channel is likely to be higher food prices and inflation, particularly across Southeast Asia and India. From an investment perspective, agricultural commodities appear best positioned to benefit in the near term, while industrial commodities may offer opportunities over a longer horizon. At the policy level, the prospect of persistent food inflation increases the likelihood that ASEAN and Indian central banks remain hawkish into 2027.

Portfolio Strategy

Asset Class Summary

Asset Classes	U/W	N	O/W	Comments
Equities				We downgrade Equities to Neutral, reflecting a less compelling near-term risk-reward profile amid rising market headwinds.
North America				Downgrade to Neutral. A prolonged Fed tightening cycle and higher bond yields are creating a less supportive backdrop.
Europe				Stay 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				Downgrade to Neutral. AI hardware exposure and China's uneven recovery cloud near-term outlook.
Fixed Income				Stay Neutral. Stay opportunistic on recent credit spread widening. Prefer an average duration of 4-5 years.
DM IG				Stay Overweight. Attractive all-in yields support portfolio income, although Fed tightening could generate near-term duration volatility.
DM HY				Stay Underweight. Risk-reward remains asymmetric with sector mix being unfavourable.
EM IG				Stay Overweight. Continue to favour ASEAN regional champion financials, Asian quasi-sovereigns and strategic SOEs.
EM HY				Stay Neutral. Selectivity is required given company-specific risks on the balance sheets.
Alternatives				Stay Neutral. Hold off on further allocation to private equity and credit until risk-reward improves.
Hedge Funds				Stay Neutral. Favour long-short equity strategies amid a volatile market environment.
Private Markets				Stay Neutral. Constructive on private real estate and infrastructure. Maintain prudence in private equity and credit.
Precious Metals				Stay Neutral. Beyond near-term inflation risks, Gold can thrive on safe-haven demand and continued central bank allocation.
Money Market				Upgrade to Overweight. Gradually deploy dry powder as market volatility presents opportunities.

 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 white dot indicates previous quarter's position.
- EM: Emerging Markets, DM: Developed Markets, IG: Investment Grade, HY: High Yield

Asset Allocation for 4Q26

Asset Classes	Very Conservative (%)		Conservative (%)		Balanced (%)		Growth (%)		Aggressive (%)		Comments
	Now	Chg.	Now	Chg.	Now	Chg.	Now	Chg.	Now	Chg.	
Equities			27.5	▼ -2.5	45.0	▼ -5.0	60.0	▼ -5.0	70.0	▼ -5.0	
North America			18.0	▼ -0.9	29.4	▼ -2.1	39.4	▼ -1.6	46.1	▼ -1.2	
Europe			4.2		7.0		9.1		10.5		
Japan			1.8		2.5	▼ -0.5	3.3	▼ -0.6	3.8	▼ -0.7	
EM Asia			3.8	▼ -1.3	6.1	▼ -2.4	8.2	▼ -2.9	9.6	▼ -3.2	
Fixed Income	90.0		65.0		32.5		12.5				
DM IG	45.0		29.2		14.6		5.6				Avg. duration: 4 to 5 years
DM HY			3.3		1.6		0.6				
EM IG	45.0		26.0		13.0		5.0				
EM HY			6.5		3.3		1.3				
Alternatives					10.0		15.0		17.5		
Money Market	10.0		7.5	▲ 2.5	12.5	▲ 5.0	12.5	▲ 5.0	12.5	▲ 5.0	

Notes:

- "Chg." refers to 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 may not sum to 100% due to rounding to one decimal place.



Our View of the World



Economy

- Global growth has remained more resilient than expected, led by a still-solid US economy and continued AI-related investment across technology, semiconductors and data centres
- The AI capex cycle remains the key structural theme supporting growth across the US, Taiwan, Korea and Singapore, helping offset weakness in traditional manufacturing and trade sectors.
- Key macro risks remain Federal Reserve policy uncertainty, elevated energy prices, geopolitical tensions in the Middle East, and increasing concerns over the sustainability of US fiscal policy.



Monetary policies

- UOB now expects two additional hikes, in December 2026 and 1Q27, thereafter on hold for rest of 2027. We do not think this is a "one-and-done hike" from the Fed, and as per previous rate hike cycles, the Fed usually does not stop at one. On the other hand, we do not believe this is the start of a long series of hikes
- Globally, several other central banks are still normalising policy. UOB expects further tightening from the Bank of Japan (BoJ), European Central Bank (ECB) and other Asian central banks as inflationary pressures firm while domestic growth remains relatively resilient.
- China remains the outlier as the People's Bank of China (PBOC) is maintaining an accommodative stance and is likely to rely on fiscal stimulus, targeted property support and liquidity measures to support growth.



Prices

- Global inflation has eased from its peaks, but higher energy prices and geopolitical risks are keeping headline inflation sticky across many economies.
- We expect inflation to average 3.5% in 2026 before easing to 2.0% in 2027, as shelter inflation cools and energy-related price pressures gradually fade. However, oil prices and geopolitical risks remain key upside risks.
- China's inflation remains very subdued, with CPI forecast at just 0.9% in 2026 and 1.1% in 2027, reflecting weak domestic demand and limited pricing power despite policy support.



Asset allocation

- Downgrade Equities from Overweight to Neutral. Earnings remain healthy but oil surge, inflation fears, Fed uncertainty and crowded positioning have weakened the near-term risk-reward balance.
- Stay Neutral on Fixed Income given reasonable all-in yields but tight spreads. Maintain duration at 4-5 years. Overweight on DM IG and EM IG.
- Stay Neutral on the less correlated Alternatives. Defer further allocation to private equity and credit until the risk-reward outlook improves.

Equities

United States

Constructive outlook, narrower risk-reward

Stance: We downgraded US Equities from Overweight to Neutral entering 4Q26. The shift reflects a less attractive near-term risk-reward balance rather than a bearish view on fundamentals. The economy and earnings remain resilient, while AI-related investment continues to support capital spending and productivity. However, renewed Fed tightening, elevated oil prices, high bond yields and crowded positioning have reduced the market's margin of safety.

Strong beat-and-raise results are generating less consistent share-price rewards, suggesting considerable optimism is already priced in. With the sharp 2026 earnings expansion creating a higher base for 2027, further gains should depend more on earnings delivery and broader profit growth than multiple expansion.

We favour increasing dry powder without abandoning the market. Pullbacks may offer opportunities to redeploy capital selectively if earnings estimates remain resilient and oil prices and bond yields stabilise.

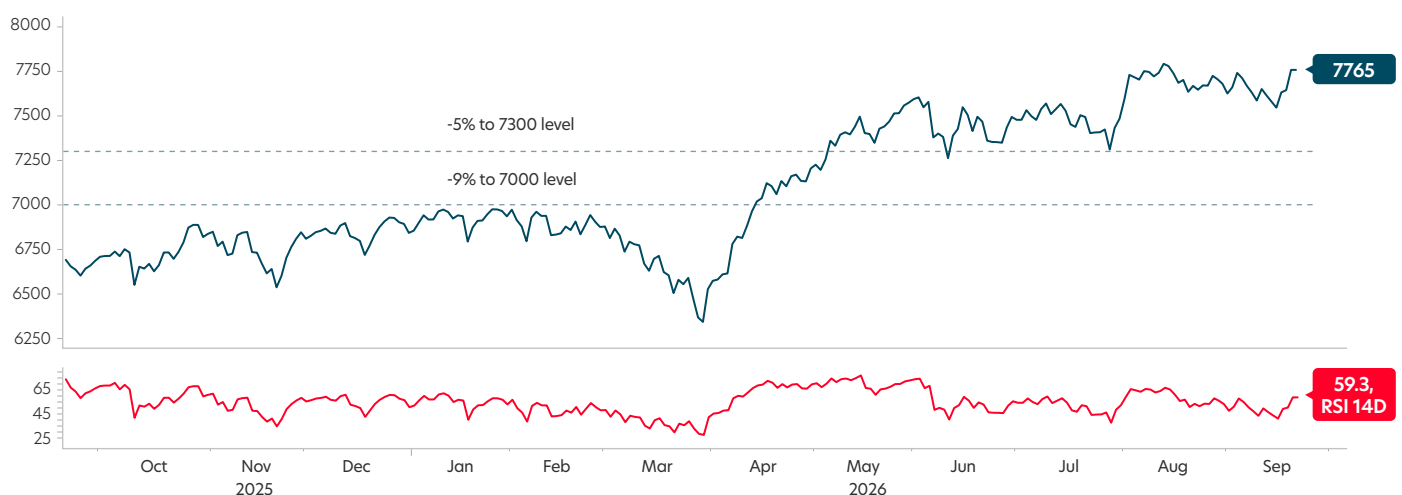
Macro and rates backdrop

Fed path: The Fed raised the Fed Funds Target Rate by 25 basis points (bps) to 3.75%-4.0% in September, its first hike since 2023. The decision and projections had a hawkish tilt as policymakers prioritised persistent inflation despite resilient growth. Our latest house view expects another 25bps hike in December 2026 and one in 1Q27, taking the upper bound to 4.5%, followed by a pause through the rest of 2027.

Inflation and growth: August headline CPI rose 0.4% m/m and 3.4% y/y, while core CPI rose 0.3% m/m and 2.4% y/y. The data reinforce the prospect of restrictive monetary policy and elevated bond yields. We forecast 2026 Gross Domestic Product (GDP) growth of 1.9%, but higher energy and tariff-related costs may pressure margins and lower-income consumption.

Politics and fiscal risks: The 3 November mid-terms may drive volatility. Divided government could limit major policy changes but may also impede fiscal consolidation and raise shutdown and debt-ceiling risks. Structurally large deficits and rising interest costs could keep the Treasury term premium and long-end yields elevated.

Use market pullback to add exposure. We expect key support levels at 7300 and 7000



Source: Bloomberg, UOB Private Bank

Earnings and valuations: Robust earnings, higher hurdle ahead

Earnings dynamics: US corporate reporting should remain robust into 4Q26, supported by resilient demand, AI-related investment, cost discipline and productivity gains. Consensus expects S&P 500 earnings to grow 28.9% y/y in 3Q26, potentially marking a third consecutive quarter of growth above 25%. However, growth is front-loaded into 2H 2026 and comparisons become more demanding in 2027 after the high 2026 base, particularly for technology and semiconductor leaders. This does not imply an earnings recession, but the hurdle for positive surprises and favourable share-price reactions is rising.

Valuations: The S&P 500 traded at 19.2x twelve-month forward P/E (as of 22 September 2026), slightly below its five-year average of 19.9x but close to its ten-year average of 19.1x. Index-level valuations are therefore decent, although Treasury yields near 5%, a higher fiscal term premium and uneven sector valuations limit the scope for broad multiple expansion. Markets may remain sensitive to oil, inflation and Fed signals.

Market positioning: AI remains a structural growth theme, supported by sustained data centre investment and widening enterprise adoption. However, crowded hardware and infrastructure exposures could face sharper pullbacks if spending slows or outlook misses demanding expectations. We prefer balancing infrastructure beneficiaries with profitable AI adopters, quality cash-generative businesses and selected cyclical or defensive exposures. Diversification remains important, as concentrated positioning and high earnings expectations can amplify volatility during market corrections.

Investment strategy: Build dry powder, redeploy selectively

Strategy: Following the downgrade to Neutral, we favour reducing excess risk and increasing dry powder rather than exiting the market. Investors should avoid chasing crowded or overextended names, prepare buy lists and scale into quality companies during pullbacks. A market reset could create a better entry point if earnings estimates remain stable, while easing oil prices, lower bond yields or clearer Fed guidance would improve the risk-reward balance.

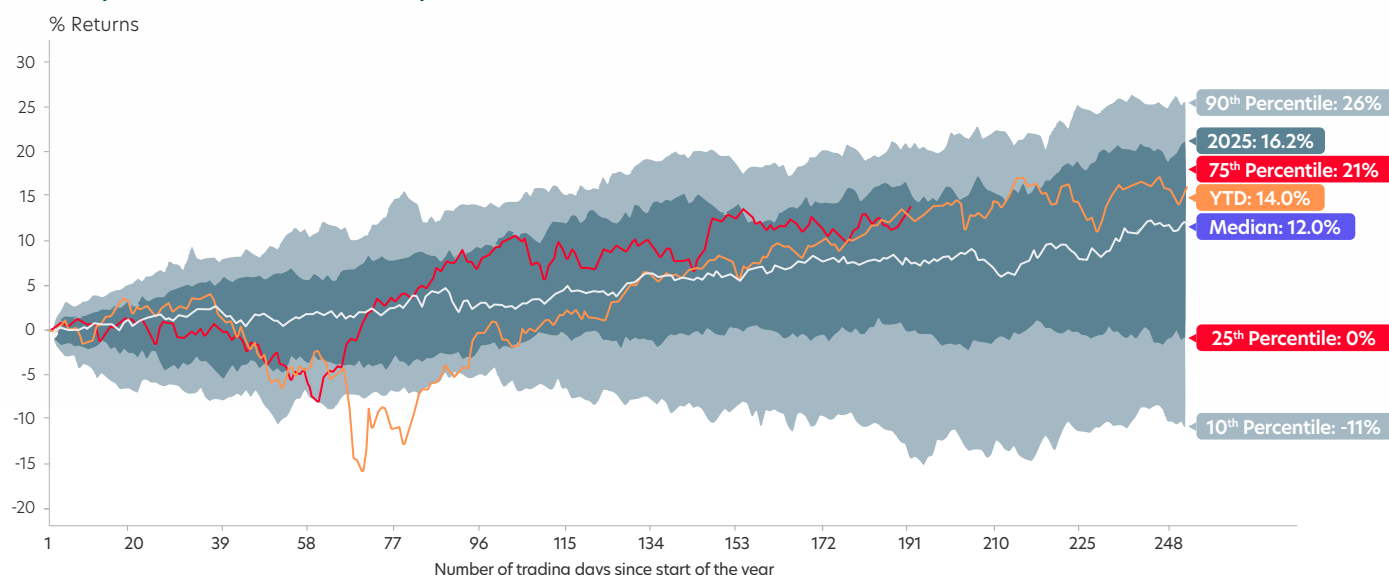
Within AI, investors may balance infrastructure holdings with profitable adopters that can use the technology to lift productivity and margins without equally heavy capital commitments. We also favour quality cash generators, banks that may benefit from higher rates absent a recession, healthcare for defensive earnings, and selected industrial and defence names supported by structural spending.

Risk flag: Key risks include additional Fed tightening, persistently high oil prices, rising Treasury yields, geopolitical shocks, crowded positioning and slower AI infrastructure spending. Large fiscal deficits, mid-term-related policy uncertainty, another government shutdown after 11 December and future debt-ceiling negotiations may add volatility.

Key takeaways

The outlook remains strategically constructive but tactically balanced. Robust earnings, resilient growth and AI adoption provide support, but the high 2026 earnings base, renewed tightening cycle and demanding expectations reduce near-term upside. Maintain diversified exposure, build dry powder and use pullbacks selectively rather than chase momentum.

Current-year and 2025 returns compared with the historical distribution since 1976



Source: Bloomberg, UOB Private Bank

CIO's View

We move US Equities from Overweight to Neutral entering 4Q26, balancing resilient fundamentals against a less compelling near-term risk-reward profile.

Europe

Neutral with selective opportunities

Stance: We enter 4Q with a Neutral stance on European equities. The macro backdrop has proven more resilient than anticipated, underpinned by solid labour markets, improving domestic demand, and a sustained step-up in fiscal spending on infrastructure and defence. Meanwhile, elevated energy prices and renewed inflation have kept the ECB in tightening mode, and richer valuations following a strong run have narrowed the scope for further broad-based multiple expansion.

This environment increasingly favours selectivity over market beta. The STOXX Europe 600 has advanced around 11% year-to-date, repeatedly setting record highs above the 650-660 level, with the DAX, CAC 40 and FTSE MIB all reaching all-time peaks of their own. Market leadership has broadened meaningfully, with banks, steel, industrials and semiconductor-equipment names joining, and in some cases overtaking, the luxury and pharmaceutical franchises that traditionally anchored the region's equity story.

Roughly three-quarters of index constituents now trade above their 200-day moving average, near the top of the decade-long range. Against this backdrop, we recommend balanced portfolio positioning, combining high-quality defensive franchises and dividend payers with selective exposure to structural growth beneficiaries.

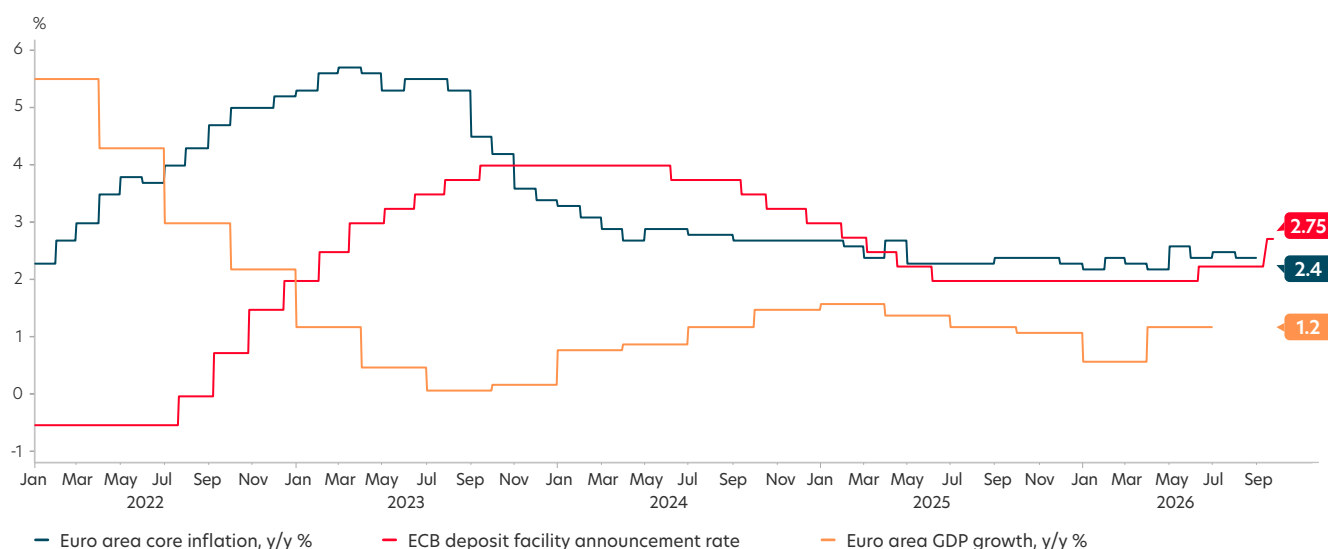
Macro and policy backdrop: Policy stays restrictive amid inflation

ECB path: The ECB has turned more hawkish as energy-driven inflation has resurged through 2026. Eurozone growth has held up better than feared, but headline inflation is expected to stay above target into 2027, with policymakers prioritising price stability over an uneven recovery. Following its September 25bps rate increase, we expect the Governing Council to maintain a restrictive stance through year-end, with rates remaining elevated until clearer evidence emerges that inflation is durably returning toward the 2% goal.

Eurozone growth: Economic activity has held up better than expected despite lingering geopolitical uncertainty. ECB projections point to eurozone GDP growth of 0.9% in 2026, supported by resilient labour markets, improving consumer confidence, and increased public investment in infrastructure and defence. Unemployment remains stable at 6.4%, while negotiated wage growth of around 2.6% suggests a tight rather than overheating labour market, though policymakers remain watchful for energy costs feeding into wage demands.

EUR consolidation: The euro has been supported by narrowing transatlantic rate differentials and improving confidence in Europe's growth resilience. That said, much of the policy divergence is now reflected in market pricing. We expect EUR/USD to remain broadly range-bound near current levels, with modest upside potential.

ECB needs to strike a balance in its rate management amid lacklustre Euro GDP growth



Source: Bloomberg, UOB Private Bank

Earnings and valuations: Improving backdrop, limited upside

Earnings dynamics: European corporate earnings have exceeded expectations through most of 2026, with growth stronger than anticipated despite energy-price volatility and geopolitical disruption. 2Q Earning Per Share (EPS) growth for the STOXX Europe 600 reached roughly 24% y/y, while consensus expects FY26 EPS growth in the mid-teens. Crucially, the improvement has broadened beyond index heavyweights, supported by bank profitability, infrastructure spending, and continued investment tied to AI and electrification.

Looking ahead, we expect the earnings outlook to remain constructive, though growth should moderate from this year's exceptionally strong levels. Consensus continues to support positive earnings revisions, underpinned by resilient domestic demand, defence spending, grid modernisation and AI-related capex.

Valuations: The STOXX Europe 600 currently trades near 14.5x twelve-month forward P/E (as of 22 September 2026), broadly in line with its historical average but toward the upper end of its range in recent years. The region continues to trade at a discount to US equities, but that gap has narrowed considerably. We therefore view current valuations as broadly fair rather than cheap, with future returns increasingly dependent on earnings delivery rather than further re-rating.

Market positioning: We continue to favour companies exposed to structural themes where earnings visibility is high and investment cycles remain intact. Key areas of conviction include AI infrastructure and digitalisation beneficiaries, power and grid investment, defence modernisation, and select financials.

Investment strategy: Structural winners over broad market exposure

AI infrastructure: As hyperscalers and enterprises continue to expand AI-related capex, European beneficiaries across semiconductors, data centre infrastructure and specialised equipment remain well positioned to capture sustained demand.

Utilities and power infrastructure: Grid modernisation, renewable investment and energy-security needs are driving infrastructure spending, while rising electricity demand from data centres and electrification initiatives should support long-term capex.

Defence and strategic autonomy: Rising geopolitical fragmentation and security concerns are driving a multi-year expansion in defence spending, supporting military modernisation, ammunition replenishment and greater strategic autonomy.

Financials: We remain constructive on select European banks, as higher-for-longer rates support net interest income and profitability, alongside healthy balance sheets and attractive capital returns.

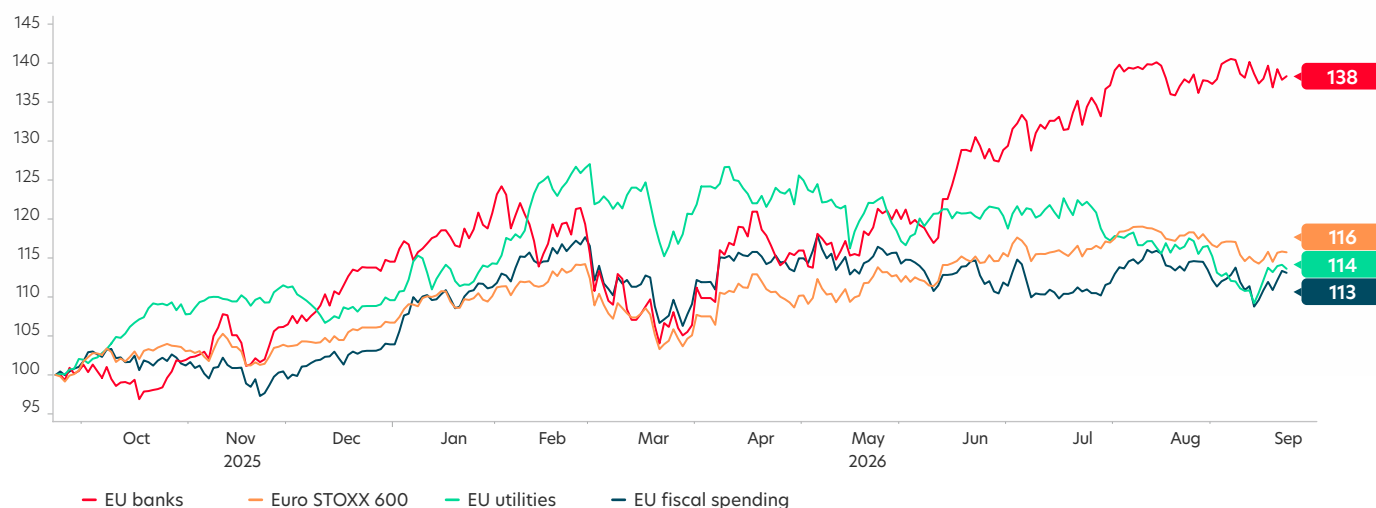
Risk flags: Key risks remain skewed toward policy uncertainty and geopolitical developments rather than fundamentals.

Investment takeaways

European equities are likely to remain a stock-picker's market heading into 4Q. Earnings momentum has improved, but tighter monetary policy and elevated energy prices limit the scope for broad market upside. We favour selective exposure to structural growth themes: AI infrastructure, power and grid investment, defence modernisation, and high-dividend financials.

Stick to the winning themes

Rebase, 1 year ago =100



Source: Bloomberg, UOB Private Bank

CIO's View

We stay Neutral on European equities going into 4Q26, balancing improving macro conditions against persistent inflation, policy constraints and elevated valuations.

Japan

Structural tailwinds intact, but earnings delivery matters more

Stance: We maintain a Neutral stance on Japanese equities into 4Q26. Structural reforms, stronger shareholder returns and strategic policy support remain constructive, but above-average valuations, slower economic growth, tighter monetary policy and Middle East-related oil risks warrant a selective approach.

Japan's investment case continues to shift from cyclical recovery toward structural transformation. Corporate governance reform, national resilience, economic security and supply-chain investment should support medium-term earnings quality and Return on Equity (ROE). However, after strong market gains, further upside should depend increasingly on earnings delivery, pricing power, cash generation and disciplined capital allocation rather than broad multiple expansion.

We favour quality companies aligned with defence, grid investment, infrastructure renewal and supply-chain security. Selected technology companies remain beneficiaries of AI investment, but their performance is increasingly correlated with US and global technology trends. We therefore prefer firms with durable earnings and multiple growth drivers rather than exposure based mainly on the AI narrative.

Macro & policy backdrop: Oil risks complicate gradual normalisation

The government's economic strategy prioritises national resilience, economic security, supply-chain investment, AI infrastructure and advanced manufacturing. These initiatives should support capex, although the near-term macro backdrop remains clouded by Middle East uncertainty and elevated oil prices.

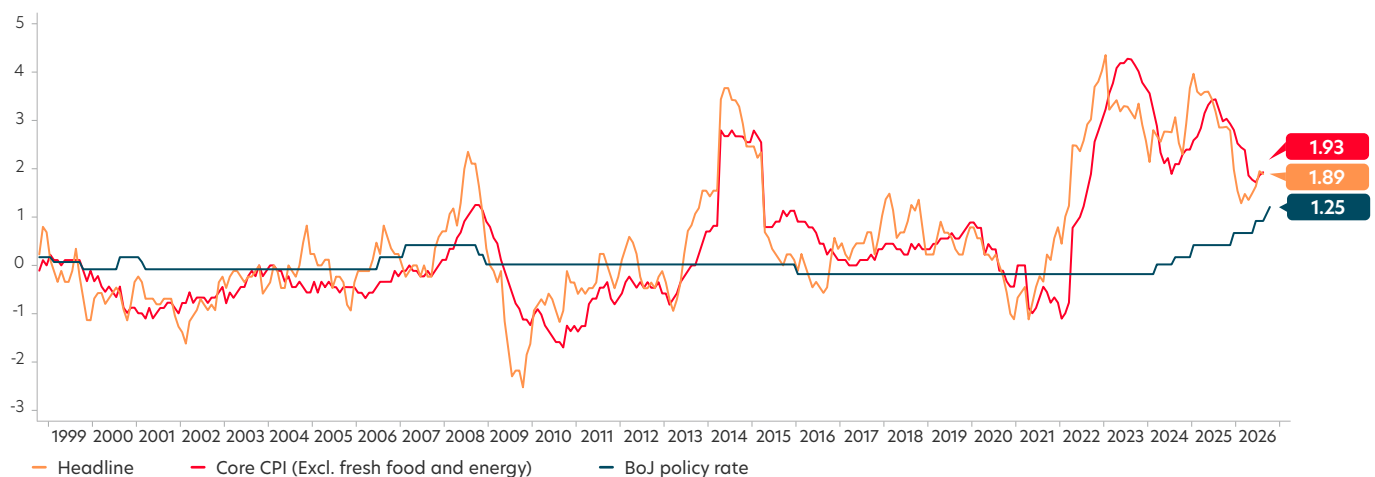
BoJ path: The BoJ raised its policy rate by 25bps to 1.25% in September, its highest level in 31 years. We expect a pause for the rest of 2026, followed by a final 25bps hike to 1.50% in late 2Q27. However, there is a meaningful 40% risk that the next hike is brought forward to 4Q26 if inflation risks rise, external pressure intensifies and a steeper rate path becomes more acceptable to the government.

Japan growth: We lowered our 2026 real GDP growth forecast to 0.7%, reflecting subdued consumption, softer business investment and elevated energy costs. Japan's reliance on imported energy leaves household purchasing power and corporate margins exposed to a prolonged Middle East conflict. Inflation is forecast to average 2.0% in 2026, with upside risks from oil prices, wage-price dynamics and yen weakness.

JPY trajectory: On balance, we revise our USD/JPY forecasts higher to reflect the delayed normalisation path: 159 in 4Q26, 161 in 1Q27, and 162 in both 2Q27 and 3Q27. The path may remain volatile amid intervention risk, policy repricing and shifts in global risk appetite.

BoJ has raised its policy rate to the highest level in 31 years

Policy rates vs CPI inflation %



Source: Goldman Sachs, Bloomberg, UOB Private Bank

Earnings & valuations: Resilient profits, narrower margin for error

Earnings dynamics: Japanese corporate earnings remain resilient, but leadership is broadening and dispersion is rising. Robust second-quarter results and a low incidence of guidance cuts point to potential upgrades during subsequent reporting seasons. However, Middle East-related oil risks could raise raw-material, electricity and transportation costs, pressuring margins where pricing power is weak. Exporters also face uncertainty from volatile yen moves and softer external demand.

Valuations: TOPIX trades at 16.1x twelve-month forward P/E (as of 22 September 2026), moderating from its 18.5x peak earlier this year in February but still above its longer-term norm. This reduces, but does not remove, valuation risk as BoJ normalisation and higher global yields could pressure multiples. Further upside should increasingly depend on earnings delivery and ROE improvement rather than broad re-rating.

Market positioning: We favour large-cap quality companies with pricing power, strong cash generation and credible capital allocation. Megabanks offer exposure to wider lending margins, robust corporate loan demand and diversified fee, trading and wealth income, backed by resilient credit quality and buyback capacity. In technology, we prefer selected AI beneficiaries with durable earnings, while recognising their sensitivity to US technology performance, global AI spending and interest rates.

Structural growth themes: Selectivity across AI, infrastructure and financials

AI-linked technology: Japan remains well positioned in semiconductor equipment, advanced materials, power systems and factory automation. However, investors are becoming more discerning about the durability of AI-related earnings. Selected Japanese technology stocks may increasingly move with US and global AI sentiment, making valuation discipline and earnings visibility essential.

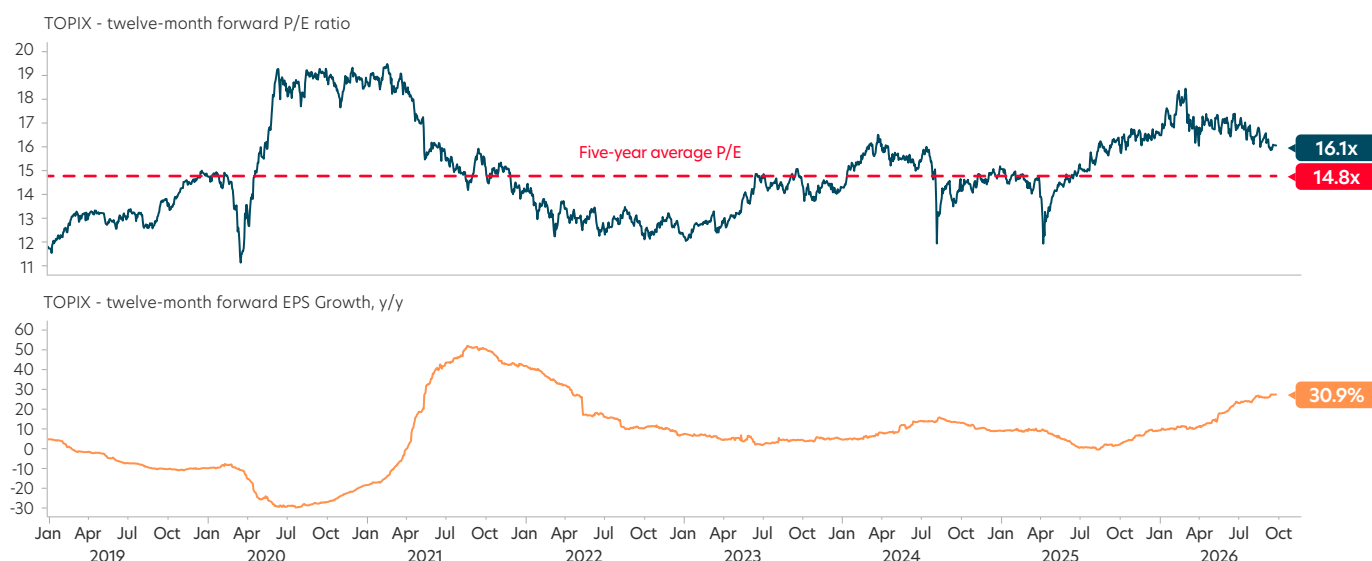
Infrastructure renewal: Ageing transport, utility and communications assets support a multi-year replacement cycle. Japan's FY2026 national-resilience budget is expected to exceed JPY 5 trillion, benefiting construction, engineering, grid and disaster-prevention companies.

Strategic industries: Policy support for defence, energy security, strategic technologies, communications and cybersecurity should sustain investment. Corporate governance reform and pressure to use corporate cash more productively provide additional structural support.

Investment takeaways

We stay Neutral and selective. Japan's structural reform case is intact, but modest growth, policy normalisation and valuation sensitivity limit broad-based multiple expansion. We favour quality firms aligned with national resilience, governance improvement and durable AI infrastructure demand, alongside megabanks benefiting from higher rates and strong capital returns.

Relatively rich equity valuations warrant a selective approach



Source: Bloomberg, UOB Private Bank

CIO's View

We stay Neutral on Japanese equities into 4Q26, as structural tailwinds are balanced by the need for greater selectivity.

Emerging Asia

AI Technology drives regional growth

Stance: We have a Neutral view on EM Asia equities entering 4Q26. While China's economic recovery has remained uneven, with real GDP growth slowing more than expected in 2Q26, resilient technology exports have helped offset some domestic weakness. The sustainability of export momentum, however, will likely depend on the pace and durability of global AI infrastructure investment.

North Asia, particularly Taiwan, South Korea, and China's AI ecosystem, continues to benefit from strong demand for semiconductors and AI infrastructure, supporting earnings growth and capex. Taiwan and South Korea remain key beneficiaries of the AI and semiconductor cycle, although elevated positioning in AI-related hardware stocks could leave parts of the market more sensitive to shifts in interest-rate expectations and global risk sentiment.

China's export resilience increasingly reflects its expanding role in the global AI supply chain, even as domestic growth remains subdued. Beyond North Asia, AI-driven investment is gradually extending to ASEAN through supply-chain diversification, technology spending, and manufacturing relocation. Singapore remains a high-quality gateway to ASEAN growth, supported by strong financial institutions, capital inflows, and rising demand for digital and infrastructure investment. While EM Asia continues to offer attractive valuation discounts relative to developed markets, a selective and bottom-up investment approach remains important.

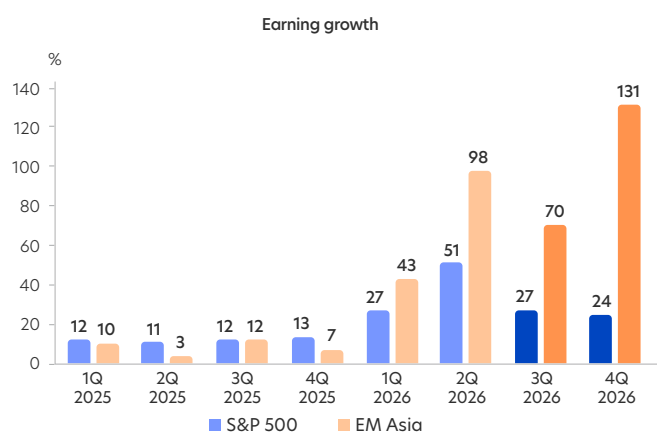
Macro backdrop: China growth moderates while export momentum remains resilient

China growth: China's real GDP growth slowed more than expected to 4.3% y/y in 2Q26, down from 5.0% y/y in 1Q26. While AI-related exports continue to support external demand, softer domestic consumption and investment remain headwinds to growth. As a result, our economist has revised the 3Q26 GDP growth forecast to 4.3% and now expects full-year 2026 GDP growth of 4.5%. Overall, resilient technology exports have helped offset some domestic weakness, highlighting the increasing contribution of AI-related industries to China's economic activity.

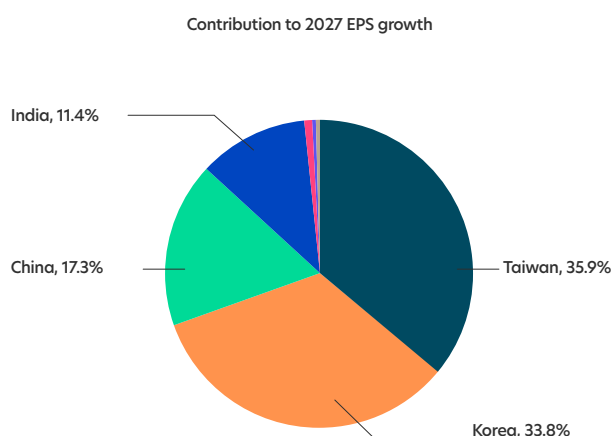
China exports: Exports remained a key source of support in August, rising 25.0% y/y in USD terms, driven by resilient global demand and continued investment in AI infrastructure. Technology-related products were the main growth engines, with semiconductor exports increasing 129.8%, followed by refined petroleum products (+80.5%) and computers (+76.5%). Ongoing AI-related capex and firmer technology pricing have supported both exports and imports, reinforcing China's role within the global AI supply chain. Meanwhile, the trade outlook has benefited from a more stable US-China relationship following the May summit.

Monetary policy: The PBOC continues to maintain an accommodative policy stance despite recent liquidity operations aimed at stabilising money market conditions. Moderating inflationary pressures and renewed growth headwinds could provide scope for further policy support.

EM Asia supported by solid earnings growth with heavy contribution by tech heavy countries



Source: Bloomberg, UOB Private Bank



Earnings & valuations: Technology-led earnings growth

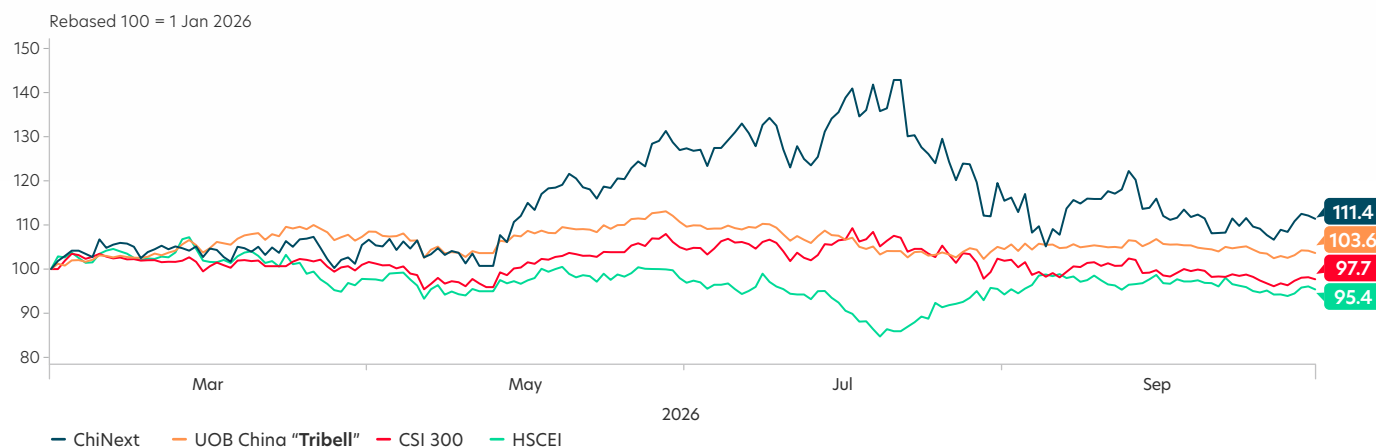
Earnings trajectory: Technology-related sectors remain key drivers of regional earnings growth, supported by the ongoing memory cycle and AI investment trend. Consensus forecasts approximately 59% EPS growth for MSCI EM Asia over the next 12 months. While regional earnings growth is expected to continue, the pace of expansion is likely to moderate from current levels.

China earnings: All-China earnings growth accelerated to 24% y/y in 2Q26, up from 6% in 1Q26, marking the strongest quarterly earnings growth in five years. Earnings sentiment remained constructive, with 45% of MSCI China constituents reporting results above consensus expectations. Although offshore internet companies delivered slightly softer-than-expected results, earnings trends showed signs of stabilisation, supported by easing competition in food delivery.

China's AI profit pool continued to shift toward hardware, particularly semiconductors, with semiconductor earnings surging about 150% q/q to US\$23 billion in 2Q26. AI investment momentum remained robust, supported by ongoing hyperscaler capex growth. Beyond semiconductors, China expanded its share of global AI profits across power, infrastructure, and physical AI segments in 2Q26. Overall, the market continues to benefit from policy support for advanced manufacturing and technology development, although growth trends remain uneven across sectors.

Valuations & market positioning: MSCI EM Asia trades at 9.7x twelve-month forward P/E while HSCEI trades at 9.3x twelve-month forward P/E (as of 22 Sep 2026); both are trading at a discount to developed markets despite their strong growth potential. We expect the recovery path across the region to remain gradual and uneven, supporting a selective investment approach. For China, we have moved to a diversified "Tribell" approach (with a strong focus on dividend stocks) to help balance opportunities and portfolio volatility.

Earnings & valuations: Technology-led earnings growth



Source: Bloomberg, UOB Private Bank, UOB China "Tribell", 50% dividend stock, 30% China onshore tech, 20% CSI 300

Structural growth themes: AI, advanced manufacturing & ASEAN growth

Semiconductor value chain: Taiwan and South Korea are home to leading semiconductor manufacturers and are well positioned to benefit from demand related to AI, high-performance computing, and memory chips. Continued growth in AI-driven compute demand, together with a gradual shift toward longer-term contracts, may support earnings visibility. However, elevated investor positioning in AI-related hardware stocks could leave parts of the market more sensitive to changes in interest-rate expectations and broader risk sentiment.

China tech and industrial transformation:

China continues to advance technological self-sufficiency and high-end manufacturing as key pillars of its long-term growth strategy. Key focus areas include AI, semiconductor localisation and advanced industrial automation.

ASEAN growth and financial hub expansion:

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

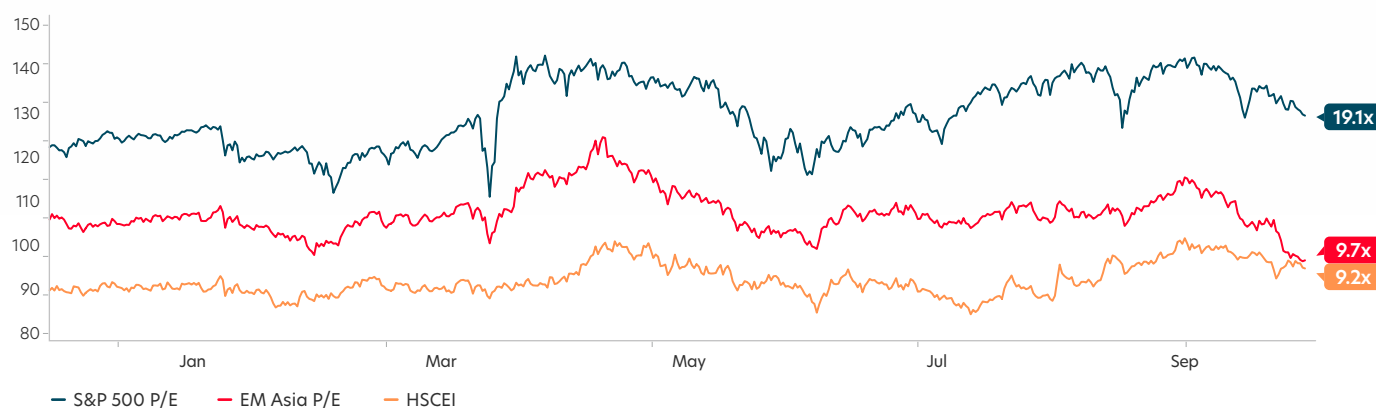
Risk flags: Geopolitical tensions and higher energy prices may drive volatility. Global tech demand could slow after the current investment cycle.

Investment takeaways

Overall, EM Asia continues to be supported by earnings growth, technology-related investment, and ongoing economic transformation. In China, we continue to see opportunities in areas aligned with national priorities, particularly technological self-sufficiency and advanced manufacturing. Within ASEAN we favour Singapore equities for their resilience and defensive characteristics.

Earnings & valuations: Technology-led earnings growth

Rebased 100 = 1 Jan 2026



Source: Bloomberg, UOB Private Bank

CIO's View

We have a Neutral view on EM Asia equities entering 4Q26. While EM Asia continues to offer attractive valuation discounts relative to developed markets, a selective and bottom-up investment approach remains important.

Fixed Income

Developed Markets Investment Grade

Prioritise quality carry amid higher-for-longer interest rate environment

Developed Markets Investment Grade (DM IG) entered 3Q26 at historical tightness and exits the quarter in a similar position from a spread perspective. Spreads (OAS) remained broadly stable, widening by 2bps quarter-to-date (as of 18 Sep 2026) and declining by 3bps year-to-date. Since Jun-2026, the DM IG Index has delivered a total return of -2.2%, with coupon income of 1.04% offset by a price decline of 3.3%. Importantly, the negative performance reflects a duration-driven repricing rather than a weakening of underlying credit quality.

The 10-Year US Treasury (UST) yield pushed above the 5% level as stronger-than-expected inflation data and resurgence of oil prices driven by the ongoing Middle East tensions overshadowed the Treasury Secretary's stated willingness to support long-end Treasury market liquidity. The UST yield curve bear-flattened as front-end yields rose by c.30-40bps since Aug-2026, while the increase in long-end (30-Year) yields was more modest as markets reassessed the Fed's commitment to restoring price stability following the September FOMC meeting.

The Fed delivered a unanimous 25bps rate hike in September and indicated that financial conditions have yet to become meaningfully restrictive. Chair Warsh's move away from forward guidance reinforces a more data-dependent and hawkish policy framework, suggesting a higher bar for future easing. The September dot plot indicates one additional rate hike by end-2026 and a gradual easing cycle beginning in 2028. UOB Global Economics & Markets Research now expects a more prolonged tightening cycle, with additional hikes in December 2026 and 1Q27, followed by a hold through 2027.

Despite rising UST yields, rate volatility remains subdued, while DM IG spreads remain broadly stable, trading in a tight range of c.87-95bps since July. Although AI-related issuance supply continues to rise which could challenge the technical backdrop, recent issuances have generally been well-absorbed by the market. The benign spread environment is also a reflection of resilient corporate balance sheets, healthy credit metrics and strong earnings growth.



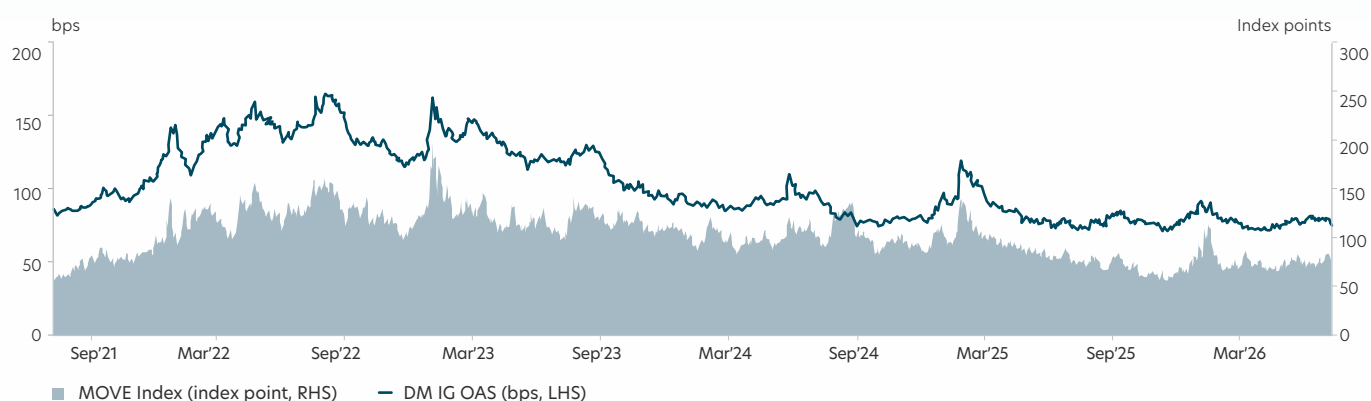
While continued volatility in oil prices and a more hawkish Fed remain live risks, a combination of elevated all-in yields, steady US economic growth and strong corporate fundamentals suggests DM IG credit spreads should remain well supported. Nonetheless, with spreads close to historical tights, future returns are likely to be driven primarily by carry income.

We remain cautiously constructive on DM IG credit and emphasise a disciplined approach to duration. The open-ended tightening path reinforces our preference for a modified duration of 4-5 years, which we see as the sweet spot for balancing carry and interest rate sensitivity.

We also remain disciplined on credit selection, favouring high-quality spread exposure that offers attractive carry while preserving portfolio resilience as the macro backdrop becomes more challenging amid ongoing Fed tightening.

Our sector preferences are driven by a combination of defensive resilience and structural growth opportunities. We favour AI electrification beneficiaries and leading US AI hyperscalers, defence leaders, regulated and integrated utilities, infrastructure, financials, insurers, telco, and select upstream oil & gas credits.

Spreads remain near historical tights with subdued rate volatility



Source: Bloomberg, UOB Private Bank

CIO's View

Cautiously constructive on DM IG, focusing on carry income, high-quality credit selection, and belly of the curve.

Developed Markets High Yield

Stay cautious amidst stretched valuations

Developed Markets High Yield (DM HY) bonds delivered a resilient year-to-date return of +1.73%, primarily driven by strong coupon income (+4.72%), underscoring income generation as a key value proposition of the asset class. The relatively shorter duration profile of the US HY market helped mitigate the impact of sharply higher UST yields, while spreads (OAS) remained broadly stable, trading in a tight range of c.257-289bps since May 2026.

Corporate balance sheets and credit fundamentals remain healthy. Net leverage at the index level was broadly stable at 3.8x in 2Q26, while default rates remained low at approximately 2.0%, broadly in line with the historical average. Overall, credit quality has remained stable despite the higher-rate environment. While all-in yields remain attractive and earnings continue to be supportive, we see limited scope for further spread compression. The current US HY index OAS of 267bps (as of 18 Sep 2026) remains well below the five-year average of 342bps, indicating valuations are rich relative to historical levels.

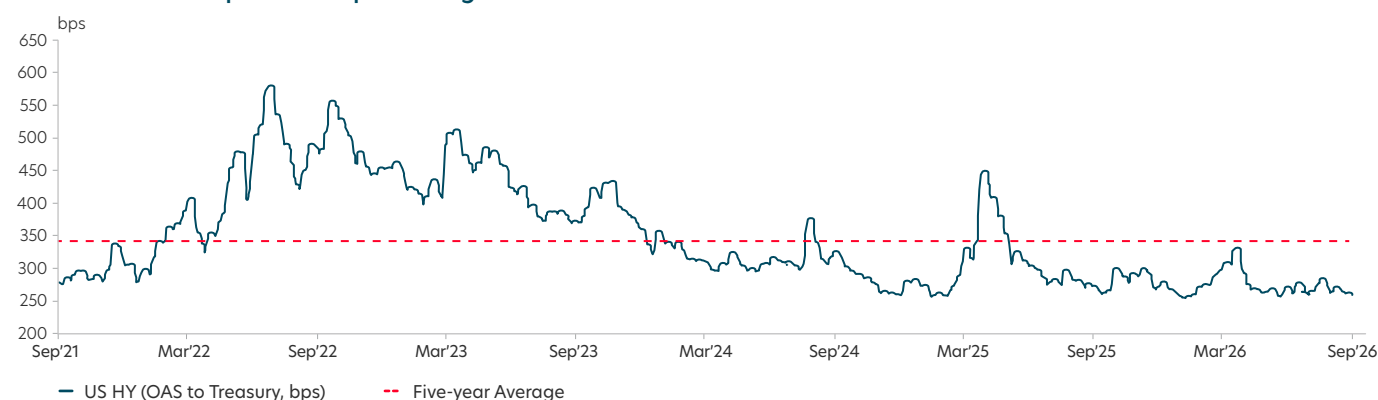
Beyond valuation concerns, geopolitical developments and AI-related issuance have contributed to increased sector dispersion within the asset class. The ongoing conflict in the Middle East has supported the energy sector, a meaningful component of the index, through higher oil prices.

In contrast, sectors such as communications, technology and transportation continue to trade at wider spreads relative to the broader index, partly reflecting the outsized representation of several distressed issuers. A disorderly increase in oil prices could further exacerbate inflationary pressures, potentially leading to tighter monetary policy and weaker economic growth, which may weigh on market sentiment and credit spreads.

Market technicals, however, remain supportive. The US primary HY market continues to exhibit healthy issuance activity, with gross issuance increasing +11% y/y during January - August 2026 as issuers maintain access to capital markets. Importantly, most financing activity has been directed towards refinancing existing debt rather than funding incremental leverage or balance-sheet expansion, which should help preserve overall credit quality.

We stay Underweight on DM HY bonds. While credit fundamentals remain resilient, tight spreads do not adequately compensate investors for the prevailing macroeconomic and geopolitical backdrop. Fiscal and monetary policy uncertainty in the US, prolonged tensions in the Middle East and elevated UST yields could adversely affect investor sentiment and corporate margins, potentially resulting in spread widening. While attractive all-in yields continue to provide carry support, valuations near historical tights suggest a more selective approach is warranted.

Limited room for spread compression given current stretched valuations



Source: Bloomberg, UOB Private Bank

CIO's View

Disciplined bottom-up credit selection remains key to avoiding idiosyncratic credit risks

Emerging Markets

Asia Investment-Grade

Defensive qualities underpin Asia IG resilience

EM Asia Investment-grade (EM Asia IG) credits faced a more challenging environment in 2026, delivering a year-to-date total return of -0.61% (as of 18 Sep 2026). Despite the negative absolute return, the asset class outperformed US IG bonds by 0.77%, underscoring its relative resilience amid a challenging rates backdrop. Performance was primarily weighed down by higher UST yields, with the 10-year yield rising above 5%.

Despite higher UST yields, credit spreads have remained resilient, tightening by 10bps to 74bps year-to-date (as of 18 Sep 2026). This resilience continues to be supported by healthy inflows to Asian markets as investors diversify away from US assets, strong issuer quality and solid corporate fundamentals. Corporate balance sheets remain a key strength, with MSCI AC Asia Pacific net leverage remaining relatively conservative at 1.6x net debt-to-EBITDA in 2Q26.

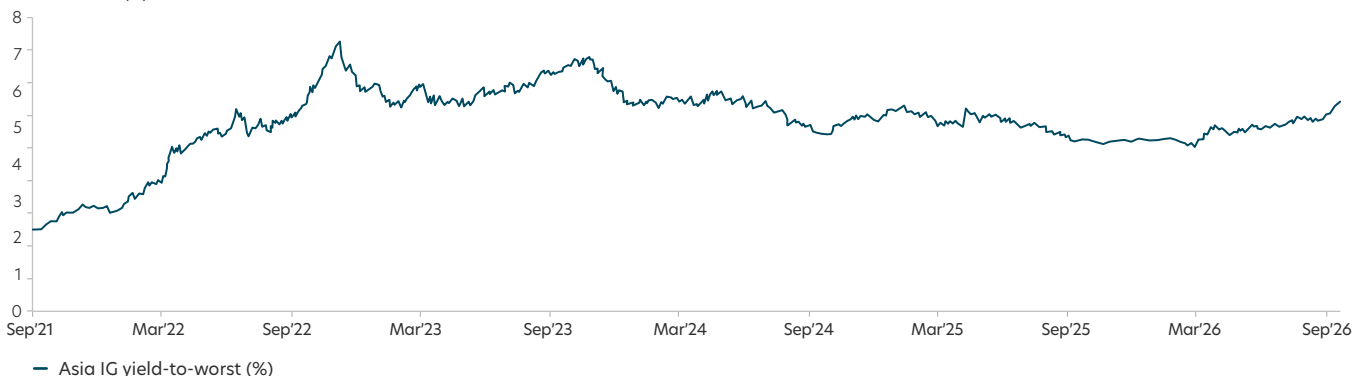
Supply-demand dynamics also remain supportive. While Asia Pacific gross issuance was relatively stable y/y at USD 164.8 billion (as of end-Aug 2026), maturities of USD 187.6 billion have left the market in a net redemption position of USD 22.8 billion (excluding coupons). This has created a supportive technical backdrop, with excess liquidity continuing to underpin secondary market demand and facilitate the absorption of new supply.

Looking ahead to 4Q26, returns are expected to be increasingly driven by carry rather than spread compression. Credit spreads are trading near historical lows, limiting further tightening potential. We expect greater sector dispersion as rising AI-related capex among Chinese technology issuers increases scrutiny of free cash flow generation and funding requirements. Meanwhile, elevated energy prices stemming from the Middle East conflict, persistent inflation uncertainty and continued upward pressure on yields could weigh on market sentiment. Nonetheless, we think the asset class will remain well-supported by robust credit fundamentals, continued negative net supply and attractive all-in yields.

We maintain our Overweight stance on EM Asia IG credit and continue to favour the asset class for its defensiveness, supported in part by its relatively higher exposure to sovereign-linked issuers. Attractive all-in yields, healthy fundamentals and supportive technicals should continue to underpin risk-adjusted returns, even as markets transition into a more carry-driven phase. That said, with spreads near historical tights, we continue to favour issuers with strong balance sheets, resilient business models and stable cash flows such as ASEAN regional champion banks, selected Asia-focused insurers, quasi-sovereigns, defensive consumer and infrastructure-related issuers.

Limited room for spread compression given current stretched valuations

Yield-to-worst (%)



Source: Bloomberg, UOB Private Bank

CIO's View

We believe EM Asia quality IG offers both resilience and diversification, supported by a broad investor base, healthy credit fundamentals and a supportive technical backdrop.

Emerging Markets Asia High Yield

Supportive fundamentals underpin carry, but tight valuations constrain upside

Emerging Markets Asia High Yield (EM Asia HY) delivered a resilient +4.6% total return year-to-date (as of 18 Sep 2026) despite a challenging rates environment. 2-Year UST yields rose above 4.7% as markets repriced the expected path of Fed policy higher. Nonetheless, c.60bps of spread tightening helped offset the drag from rising risk-free yields, supported by healthy corporate fundamentals, low default activity and favourable market technicals.

However, headline returns mask a more nuanced reality. Excess returns were concentrated in a small number of special situations, particularly China and Hong Kong property-related credits and select frontier sovereigns where recovery expectations improved materially. Outside these segments, returns were primarily driven by carry income, with only modest contributions from spread compression.

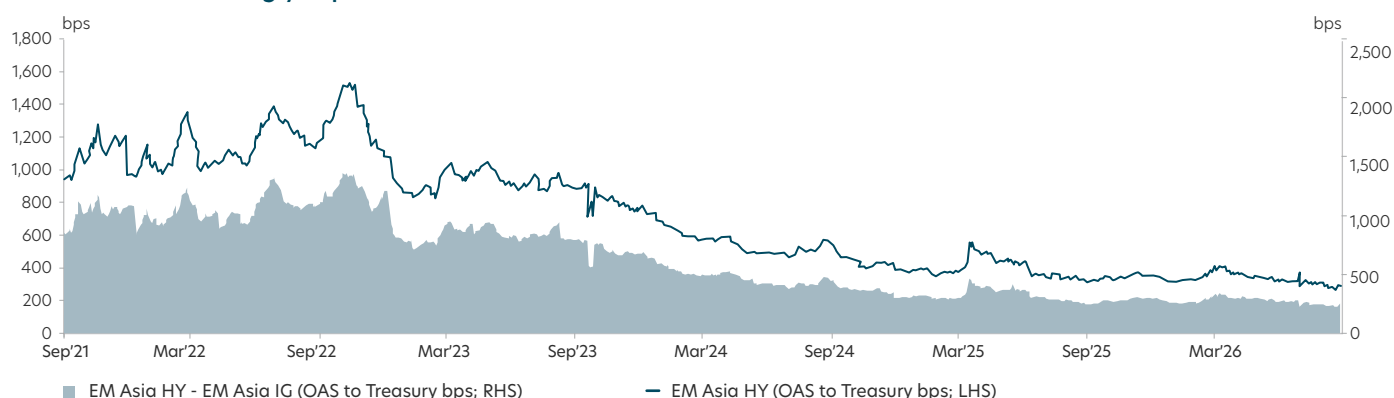
This distinction is important because the opportunity set is evolving. Many of the strongest-performing recovery trades have already repriced from distressed levels, while EM Asia HY spreads (OAS: 302bps) offer less scope for further compression. In our view, current valuations broadly reflect the improvement in corporate credit fundamentals, limiting the potential for another broad-based rerating cycle.

That said, we see limited risk of a disorderly widening in spreads. Corporate balance sheets remain resilient, default rates are contained, and net supply continues to be supportive as bond maturities and redemptions outpace new issuance. Importantly, many issuers have strengthened funding flexibility and reduced reliance on offshore USD markets, making the asset class less exposed to the refinancing pressures that historically drove periods of volatility.

As a result, we expect returns over the next 6 to 12 months to be driven primarily by carry income rather than capital gains from spread compression. In a market environment where broad beta-driven gains have largely been realised, excess returns will increasingly depend on disciplined credit selection.

We stay Neutral on EM Asia HY. While fundamentals and technicals remain supportive, the spread differential between EM Asia HY and EM Asia IG has narrowed meaningfully, leaving limited incremental compensation for moving down the credit-quality spectrum. We therefore favour selective exposure to issuers with durable cash flows, strong liquidity and refinancing flexibility. We also see better value in subordinated hybrids issued by high-quality IG corporates, while remaining cautious on idiosyncratic special situations where diminished valuation upside and persistent information asymmetries do not justify aggressive positioning.

EM Asia HY increasingly expensive vis-à-vis EM Asia IG



Source: Bloomberg, UOB Private Bank

CIO's View

Neutral EM Asia HY where supportive fundamentals and technicals are offset by rich valuations.

US Technology Credits and Issuance Supply

Look selectively to capture premia

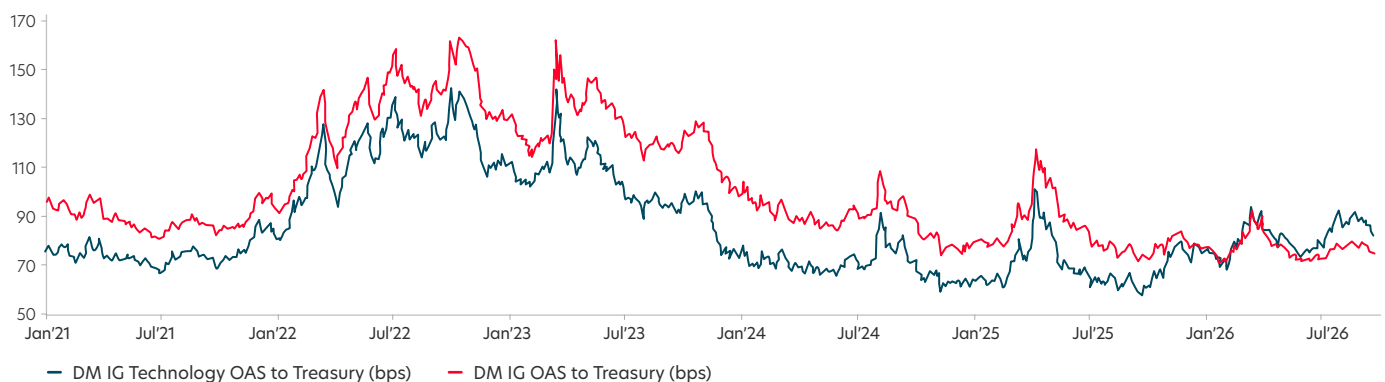
New bond supply from AI-related companies continued at a blistering pace over the summer months, pushing year-to-date 2026 issuance from hyperscalers alone to approximately USD 220 billion. In addition to Alphabet and Amazon, markets welcomed SpaceX's inaugural five-tranche issuance in June which raised USD 25 billion for refinancing existing debt and funding its AI infrastructure capex. Nvidia also returned to the bond markets after a five-year hiatus, raising USD 25 billion across seven tranches spanning 2028 to 2056 maturities. AI-related issuance is modestly steepening credit curves, as increased long-dated supply and uncertainty over the long-term returns of AI investments are prompting investors to demand additional spread compensation.

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 credit spreads have remained wider than the broad Bloomberg US Corporate Index – reflecting an inflection point that has persisted from earlier this year. In our view, this presents a compelling entry point for investors seeking quality exposure to high-grade hyperscaler credits. Anchored by stronger issuer ratings on average, we continue to favour hyperscalers with strong balance sheets, consistent free cash flow generation, and durable core business models. Separately, chip and memory producers have benefited from record organic profitability with many having been upgraded and/or are currently on positive outlook. Stronger free cash flow generation reduces reliance on external funding markets which in turn should provide meaningful credit buffers as we progress through the capex monetisation cycle.

Beyond hyperscalers and chipmakers, the AI theme also presents opportunities through industrials and utilities. As digitalisation accelerates and the energy transition gathers pace, 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 favour 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)

Safe-haven demand to drive gold higher

Across June and July, gold had struggled around the USD 4,000/oz level, dropping temporarily below that key support on multiple occasions. Then in late August, gold staged an explosive rally to USD 4,600/oz following the news by US Treasury Secretary Scott Bessent to expand Treasury repurchases. But by early September, gold pulled back below USD 4,400/oz as US treasury yield climbed anew.

In hindsight, there were two key negative drivers for gold's sharp correction from its USD 5,500/oz high in January. First was the pricking of the retail FOMO bubble. Chinese authorities did their part by shutting down various excessive on-line speculative schemes, removing a key demand for gold. Second was the onset of the Iran war, which diverted many central banks attention away from gold accumulation to provision of emergency.

Looking ahead, barring a renewed intense escalation of the Iran War, it is likely that central banks, especially those in Emerging Markets and Asia will likely revert back strong allocation into gold.

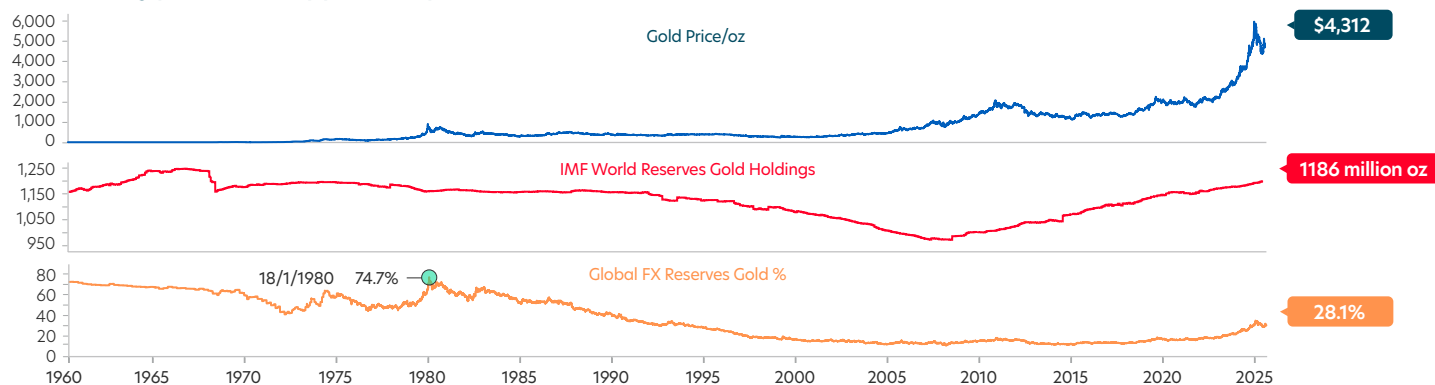
Case in point, the PBOC has been ramping up its gold purchases across 2Q amidst the price correction to USD 4,000/oz. The increasing concerns over US fiscal malfeasance is likely to be another long-term positive driver.

Over the near term, the most direct negative driver against gold remains that of US interest rate outlook amidst increasingly opaque Fed monetary policy bias. The further climb in US Treasuries yield risk dampening any strong rebound in gold. A hike during the September FOMC is also weighing on gold's price recovery.

Overall, we stay positive on gold over the long term. That said, it is indeed likely that we have seen a tentative bottom around USD 4,000/oz. Going forward, we forecast gold to consolidate in the near term before resuming its climb higher.

Commodity	4Q26F	1Q27F	2Q27F	3Q27F
Gold (USD/oz)	4,500	4,800	5,100	5,400

Gold: Rising prices are supported by safe-haven needs



Source: Bloomberg, UOB Private Bank

CIO's View

We stay Neutral on gold, as higher US rates and Treasury yields may weigh on prices near-term, though rising central bank allocations provide longer-term support

Brent Crude Oil

Growing inflation risk on the back of energy and commodities price surge

On the surface, financial markets seem to have adjusted well to the on-going closure of Hormuz. Hostilities between US and Iran have somewhat cooled down and unconfirmed industry reports suggest that various contingency and creative solutions helped to ship as much as 10 million bpd of crude oil out of the Persian Gulf. Thus, Brent crude oil is "deceptively calm" as it climbed "only" USD 10/bbl across August to USD 90/bbl. The easing backwardation and normalisation of dated Brent also suggests that some normalcy has returned.

However, beneath the surface, not all is well. There are increasing worries that the world has drawn down excessive oil and energy inventory. That inventory drawdown has played a key role in mitigating the energy supply crunch in 2Q26 but this inventory buffer is increasingly thin. Specifically, the excessive drawdown of crude oil inventory in the US has seen its commercial inventory at Cushing, Oklahoma down to about 20 million bbl and pushed its Strategic Petroleum Reserve (SPR) below the critical 300 million bbl level.

The distillate market is increasingly volatile and tight. Jet fuel prices have bounced back up, recovering about half of its correction, US diesel prices stay elevated after a modest correction and Asian Liquefied Natural Gas (LNG) prices rally further to new heights. The sharp spike in US 3-2-1 crack spread is a warning sign of dangerous tightening in distillate market.

Overall, Brent crude oil is not out of the woods yet in terms of supply disruption, especially when a peace deal remains elusive. Compared to our previous quarterly forecast, we raise our forecasts by USD 10/bbl across the board to USD 90/bbl in 4Q26, USD 85/bbl in 1Q27 and USD 80/bbl in 2Q and 3Q27. A further climb in Brent crude oil towards USD 100/bbl could not be ruled out.

Commodity	4Q26F	1Q27F	2Q27F	3Q27F
Brent crude oil (USD/bbl)	90	85	80	80

Brent crude has hit over USD 100/bbl, reflecting supply risks directly linked to inflation and tighter monetary policy



Source: Bloomberg, UOB Private Bank

CIO's View

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

Currencies

USD

Shifting to constructive view as the Fed starts tightening cycle

The September FOMC rate hike marks a significant shift from our prior framework and challenges our medium-term bearish USD outlook. It signals a renewed US tightening cycle, which was not in our base case. We now expect two further 25bps hikes, in December 2026 and 1Q27, followed by a hold through 2027. This front-loaded path should support a recovery in US rate differentials versus G10 peers, many of which are further along their tightening cycles and likely to deliver fewer hikes.

We therefore upgrade our near-to medium-term USD view from bearish to constructive and expect DXY to rebound after its decline since 2Q25. The strength of the recovery will depend on whether improved rate support can offset structural headwinds, including fiscal deterioration, debasement concerns, and weaker safe-haven demand.

FX	4Q26F	1Q27F	2Q27F	3Q27F
DXY	102	102.8	103.6	103.6

Dollar index x policy rate divergence



Source: Bloomberg, UOB Private Bank, Intercontinental Exchange (ICE), Federal Reserve

EUR

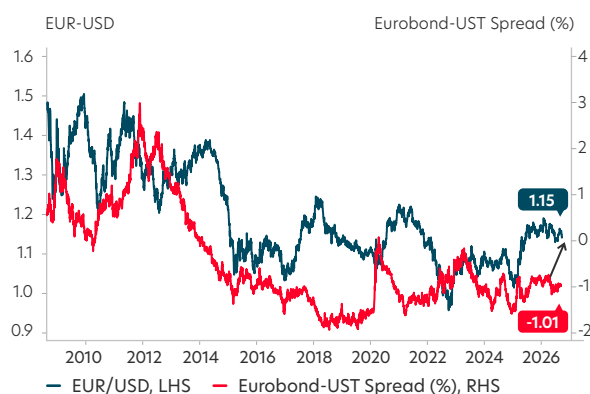
Projecting a gradual depreciation path for EUR

The ECB raised its deposit rate by 25bps to 2.50% at its 10 September meeting, its second hike since the Iran war, while revised projections pointed to more persistent inflation. Despite this, we expect just one final 25bps hike in December, taking the deposit rate to 2.75% and marking the peak of the current tightening cycle. This is more conservative than market pricing, which implies three additional hikes by April 2027.

We expect the Fed-ECB rate differential to widen further in favour of the USD as the Fed continues tightening while the ECB approaches its terminal rate. Positioning also supports a weaker EUR/USD outlook, with persistent net shorts likely to amplify downside pressure. We therefore lower our forecasts to 1.12 in 4Q26 and 1.10 by 2Q27.

FX	4Q26F	1Q27F	2Q27F	3Q27F
EUR/USD	1.12	1.11	1.10	1.10

Rate differential and positioning dynamics reinforce bearish view



Source: Bloomberg, UOB Private Bank

CNY

Shifting to a cautious medium-term outlook for the CNY

The immediate spillover from the Fed's renewed tightening cycle to Chinese Yuan (CNY) appears contained. The PBOC fixed the yuan at 6.7459 on 22 Sep - the strongest fixing against the USD since Feb 2023 - signalling the authorities' continued commitment to currency stability. Spot CNY continues to trade at a premium to the daily fixing, reflecting underlying investor preference for the currency. This is corroborated by flows data indicating that Chinese banks have been selling USD and buying CNY on behalf of clients for an eighth consecutive month in Aug, underscoring the persistence of domestic and institutional demand for the yuan at current levels.

That said, the FX calculus is shifting against the CNY over the medium term. As the Fed's tightening cycle takes shape in the coming months, the resulting broad-based USD strength is likely to eventually spur a reversal of the USD/CNY downtrend - a dynamic that closely mirrors the 2022 episode, when a similarly aggressive Fed tightening cycle catalysed a sharp CNY depreciation. Against this backdrop, it may be prudent from a risk management standpoint to establish upside USD/CNH hedges at current levels, given the attractive entry point afforded by low spot and the recent decline in swap points - the latter reflecting markets pricing in an increasing monetary policy divergence between a tightening Fed and an accommodative PBOC.

FX	4Q26F	1Q27F	2Q27F	3Q27F
USD/CNY	6.75	6.80	6.85	6.85

Pace of depreciation expected to be measured



Source: Bloomberg, UOB Private Bank

While we shift to a cautious medium-term outlook on the CNY, the pace of depreciation is expected to be measured rather than disorderly. The PBOC's 2026–2030 five-year plan reaffirmed yuan stability and internationalisation as structural policy priorities, providing a credible anchor that is likely to constrain the pace and magnitude of any CNY weakness. The PBOC retains both the intent and the tools - daily fixing management, reserve requirement adjustments, and FX intervention - to ensure that any depreciation remains orderly and consistent with its broader policy objectives.

We revise our USD/CNY forecasts higher to reflect the shifting rate differential and the gradual unwinding of the CNY's recent outperformance: 6.75 in 4Q26, 6.80 in 1Q27, and 6.85 in 2Q27 and 3Q27.

JPY

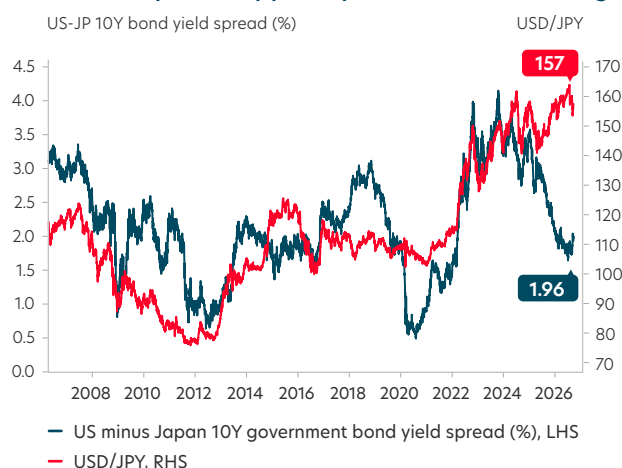
Higher USD/JPY supports carry trade and delays yen normalisation

Japanese Yen (JPY) presents a more nuanced outlook despite our constructive USD view. The BoJ raised rates by 25bps to 1.25% in September, and our base case is for one further hike in 2Q27, although an earlier move remains possible if inflation pressures persist. The Fed-BoJ rate differential remains among the widest in the G10, and further Fed tightening is likely to keep USD/JPY biased higher, supporting carry-trade demand and delaying yen normalisation.

However, upside may be limited as USD/JPY approaches previous intervention levels near 160. Authorities have already signalled heightened vigilance, increasing the risk of intervention if yen weakness accelerates. A faster BoJ tightening cycle, while not our base case, could also provide meaningful support for the yen and partially offset broader USD strength.

FX	4Q26F	1Q27F	2Q27F	3Q27F
USD/JPY	159	161	162	162

Near-term upside capped by differential widening



Source: Bloomberg, UOB Private Bank

AUD

AUD has limited downside relative to peers

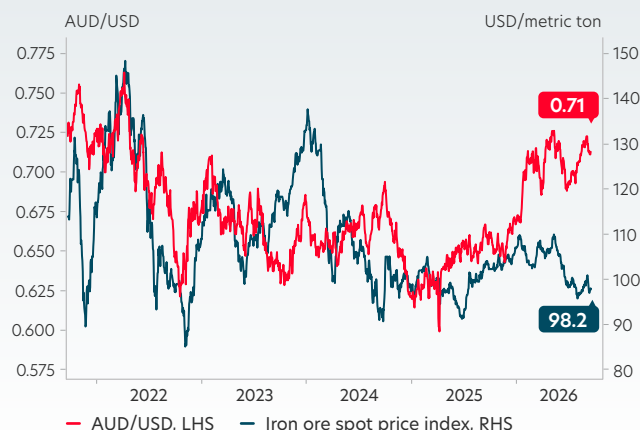
The Australian Dollar (AUD) has been the strongest-performing G10 currency in 2026, supported by the Reserve Bank of Australia's (RBA) ongoing tightening cycle. Since February, the RBA has delivered three consecutive rate hikes and is expected to raise rates once more, supported by resilient growth, a tight labour market and above-target inflation.

Despite our more constructive USD view, AUD/USD should prove more resilient than most G10 peers. The relatively narrow Fed-RBA rate differential limits the extent to which higher US rates can weigh on the currency, distinguishing AUD from more vulnerable currencies such as EUR, GBP and NZD.

That said, AUD remains exposed to external risks. A deterioration in global risk sentiment or a sharper slowdown in China could outweigh rate support and accelerate AUD weakness. Overall, while AUD/USD may retreat, its downside is likely to be shallower than that of most G10 peers.

FX	4Q26F	1Q27F	2Q27F	3Q27F
AUD/USD	0.70	0.69	0.68	0.68

Commodity support could limit downside



Source: Bloomberg, UOB Private Bank

SGD

SGD to be supported by hawkish MAS and AI-led growth

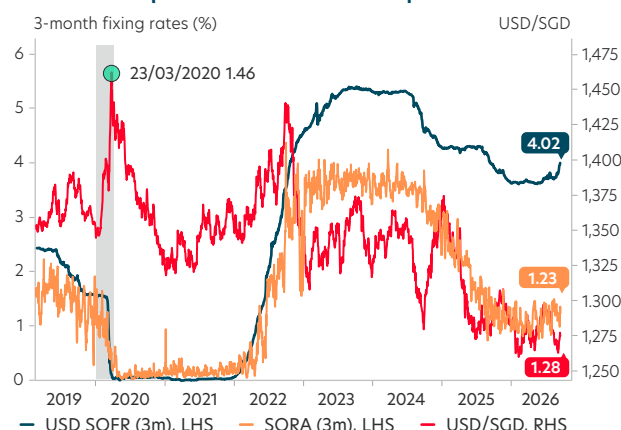
The Singapore Dollar (SGD) is expected to remain resilient despite the Fed's renewed tightening cycle. Successive Monetary Authority of Singapore (MAS) policy tightenings in 2026 have reinforced the appreciation bias of the S\$NEER framework, providing a structural buffer against USD strength. We expect a further policy tightening in October, which should help cap USD/SGD upside in the near term.

Beyond policy support, the SGD continues to benefit from strong structural fundamentals, including fiscal prudence, a persistent current account surplus and AI-driven growth. These factors reinforce its status as Asia's preferred safe-haven currency and support demand that is largely independent of short-term rate differentials.

As a result, while USD/SGD may rise alongside broader USD strength, SGD weakness should remain measured and relatively modest compared with other regional currencies.

FX	4Q26F	1Q27F	2Q27F	3Q27F
USD/SGD	1.28	1.29	1.30	1.30

SGD's anticipated weakness is expected to be measured



Source: Bloomberg, UOB Private Bank

Alternatives

Private Equity: Liquidity improving, but outcomes will diverge

Private equity enters 4Q26 on firmer footing, supported by improving exit activity and a gradual recovery in dealmaking. However, the recovery remains uneven. While larger, high-quality assets continue to find liquidity, a substantial backlog of portfolio companies remains. As of 1Q26, the US private equity inventory stood at over 13,000 companies, with more than a quarter held for seven years or longer, highlighting the industry's ongoing challenge of converting paper gains into cash distributions¹. Recent improvements in exit activity have also been concentrated in larger transactions rather than broad-based asset turnover.

Against this backdrop, secondary transactions have become an increasingly important source of liquidity. Continuation vehicles and GP-led secondaries remain active, allowing sponsors to extend ownership of high-conviction assets while providing investors with optionality. Once viewed as a niche segment, secondaries are now an established part of the private equity ecosystem, helping sponsors manage longer holding periods while addressing investor demand for liquidity.

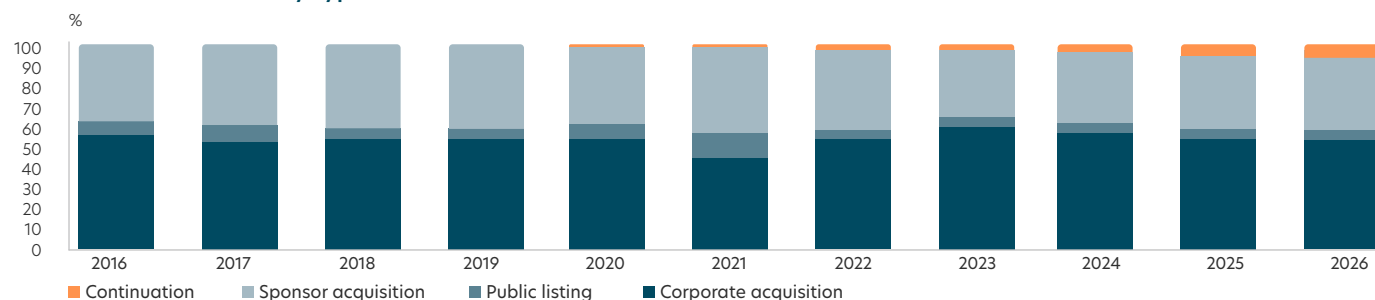
Within venture capital, conditions are stabilising but remain highly selective. Investor enthusiasm continues to centre on AI-related opportunities, but concentration risk has increased materially.

Research estimates that AI accounted for approximately 65% of US venture deal value in 2025², while a handful of large transactions now drive a significant share of industry valuations. As a result, manager selection and portfolio diversification are becoming increasingly important as markets distinguish between durable beneficiaries of the AI investment cycle and more speculative exposures.

A second defining trend is growing dispersion among managers. Fundraising remains challenging, with capital increasingly concentrated among large, established firms, reflecting investors' preference for scale, track record, and operational capabilities in a more uncertain environment.

Looking ahead, the long-term case for private equity remains intact. However, returns are likely to be driven less by multiple expansion and leverage, and more by operational value creation, sector selection, and manager expertise. Moreover, increasing concentration across fundraising, valuations, and performance suggests that manager selection may become an even stronger determinant of outcomes. In a market characterised by slower exits, uneven liquidity, stale valuations, and widening performance dispersion, access to the right managers is likely to matter more than exposure to the asset class alone.

Share of PE exit count by type



Source: Pitchbook as of 30 May 2026

¹ Pitchbook: 2026 US Private Equity Outlook: Mid-year Update

² Pitchbook: 2026 US Private Equity Outlook: Mid-year Update

Private Credit:

Dispersion rather than distress

Private credit enters 4Q26 with fundamentals that remain broadly resilient despite rising scrutiny of the asset class. While concerns around software disruption, elevated redemption requests, and increasing credit stress have weighed on sentiment, current pressures appear concentrated in specific sectors and borrower cohorts rather than indicative of a broader deterioration. Importantly, income continues to be the primary driver of returns, with realised losses remaining modest relative to the level of interest income generated across private credit portfolios.

The environment is, however, becoming increasingly differentiated. Software remains a key area of focus given its outsized representation in private credit portfolios and growing concerns around AI-driven disruption.

At the same time, companies with recurring cash flows, strong competitive positions, and mission-critical products continue to attract financing on attractive terms. This widening divergence reinforces the importance of manager selection, underwriting discipline, and active portfolio monitoring.

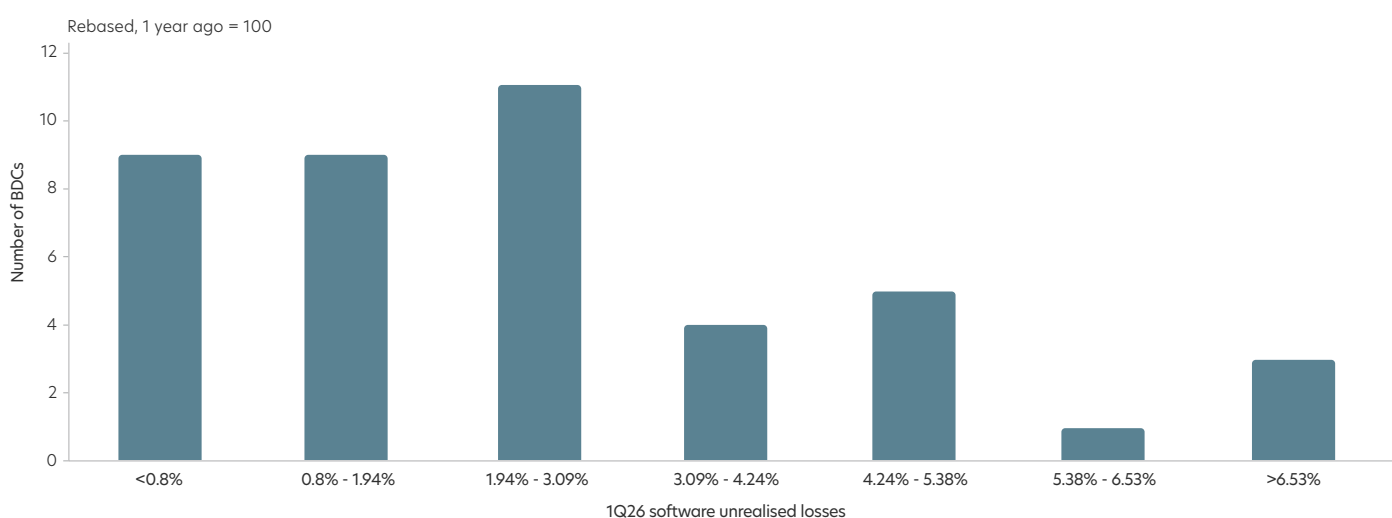
Beyond traditional sponsor-backed lending, private lenders are increasingly funding public companies, founder-owned businesses, corporate carve-outs, acquisition financings, and refinancing transactions. These situations often require customised structures, speed of execution, and specialist underwriting capabilities, enabling experienced managers to earn a premium from complexity rather than from taking greater credit risk.

Credit stress warrants monitoring but should be viewed in context. While unrealised losses have risen, headline default statistics often overstate their eventual impact on portfolio returns, given the mitigating effects of recoveries, position sizing, covenant protections, and active creditor engagement.

Looking ahead, we expect dispersion rather than distress to remain the defining theme. A broader opportunity set, continued demand for bespoke financing solutions, and growing differentiation among borrowers should favour managers with strong sourcing networks, disciplined underwriting frameworks, and restructuring expertise. In an increasingly selective market, manager quality is likely to become a more important driver of returns than asset-class beta.

Most of 1Q26 software unrealised losses were between 0 and 5%

Distribution of Business Development Companies (BDCs) by 1Q26 software unrealised loss range, for select BDCs in Cliffwater Direct Lending Index



Source: Cliffwater Direct Lending Index, BlackRock. As of 1Q26. Unrealised loss values represent negative changes in investment fair values. The markdown in software loan valuation is categorised as an 'unrealised loss' for accounting purposes, akin to 'reserve' accounting used by banks. The BDC sample is comprised of 43 BDCs that report software loans as a separate industry classification, representing \$378 billion in total assets at cost value, including \$72 billion in software loans. Cost values are adjusted for amortisation of assorted accruals and payments.

Private Infrastructure: Positioned for the next investment cycle

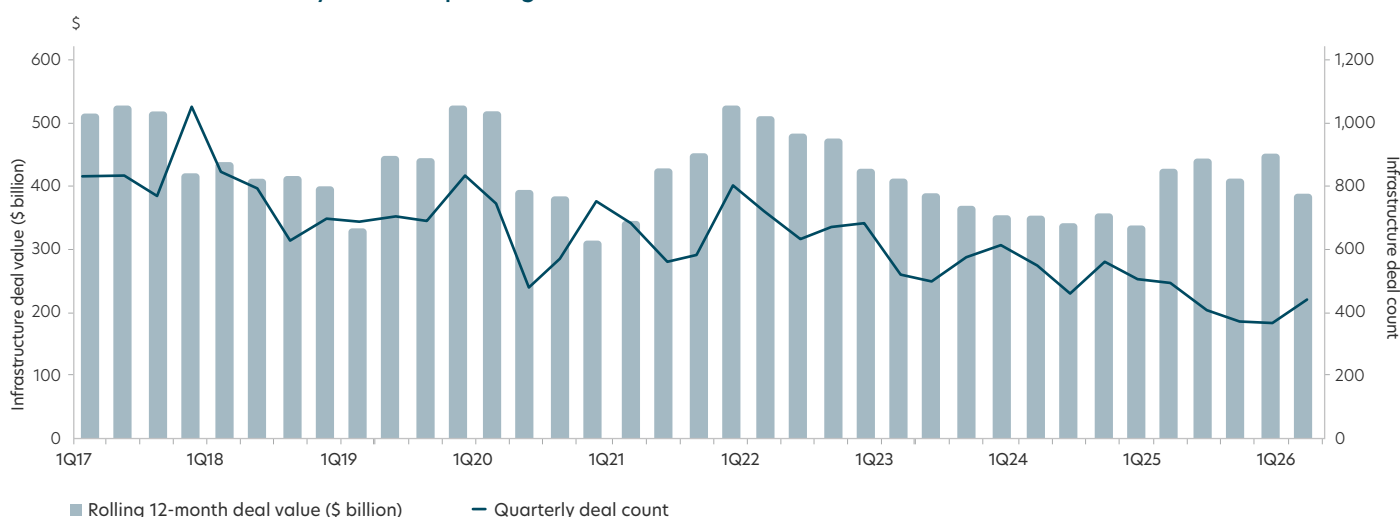
Private infrastructure remains one of the most compelling opportunities within private markets heading into 4Q26. While geopolitical tensions, policy uncertainty and evolving interest-rate expectations continue to influence markets, the asset class is increasingly benefiting from long-term structural demand drivers rather than cyclical economic growth. Supported by stable cash flows, inflation-linked revenues and essential-service characteristics, infrastructure continues to offer a compelling blend of resilience and growth.

The most attractive opportunity set lies at the intersection of AI, digitalisation and electrification. While data centres remain a key beneficiary of AI adoption, investors are increasingly focused on the broader ecosystem required to support AI expansion. Industry participants now view power generation, transmission networks, grid modernisation, cooling infrastructure and fibre connectivity as critical bottlenecks to future growth. As AI workloads become more energy intensive, electricity availability is emerging as a greater constraint than computing hardware itself, creating investment opportunities across the physical infrastructure underpinning the digital economy.

The energy transition remains a second major driver of capital deployment. Continued investment in renewable generation, battery storage, grid upgrades and energy-efficiency solutions is being complemented by growing focus on energy security, energy independence and grid resilience across North America and Europe. Many of these assets retain infrastructure's traditional defensive qualities through contracted or regulated revenues and inflation-linked cash flows.

While fundraising remains healthy, capital is increasingly concentrated among established managers with proven sourcing, operational and asset-management expertise. Although digital infrastructure continues to attract significant investor interest, elevated valuations reinforce the importance of disciplined underwriting and selectivity. In our view, diversified strategies spanning digital infrastructure, utilities, energy transition and transportation assets remain better positioned than narrowly focused thematic approaches. For long-term investors, private infrastructure continues to offer a compelling way to access structural growth while enhancing portfolio resilience.

Infrastructure deal activity shows improving momentum



Source: Goldman Sachs, Preqin, as of 6 May 2026

Private Real Estate:

Selective opportunities in a recovering market

Private real estate enters 4Q26 with fundamentals continuing to stabilise after a prolonged repricing cycle. While higher-for-longer interest rates and macroeconomic uncertainty remain key considerations, improving transaction activity, firmer valuations and stabilising cap rates suggest that the sector is moving from recovery toward a more constructive investment environment. Importantly, valuations in many segments remain below prior peaks, creating opportunities for investors able to look beyond short-term market volatility.

The investment backdrop is increasingly being shaped by structural demand trends rather than broad market beta. Digitalisation and AI are driving demand for data centres and related real estate, while supply-chain reconfiguration continues to support logistics and industrial assets. Residential sectors in supply-constrained markets also remain supported by favourable long-term demographics and affordability challenges that have limited new housing supply.

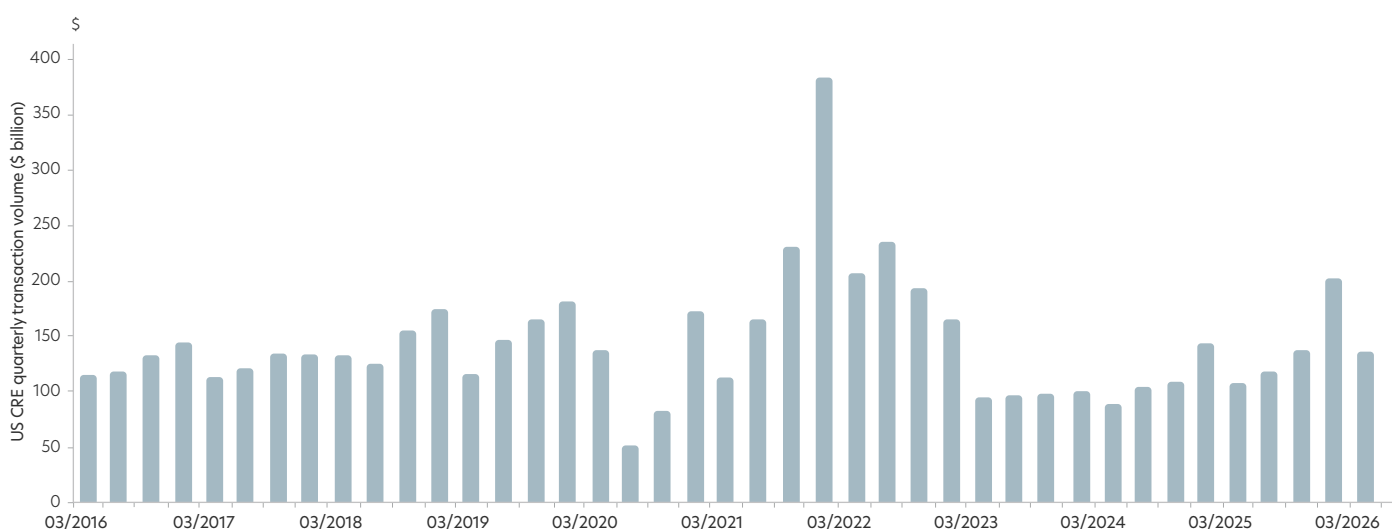
We also see growing opportunities arising from market dislocations. A significant volume of commercial real estate debt is due to mature over the coming years, creating refinancing needs across the sector.

As traditional lenders remain selective, private capital is increasingly stepping in to provide financing solutions, presenting attractive opportunities in real estate debt alongside equity investments. At the same time, elevated construction costs and slowing new supply are improving the competitive position of high-quality existing assets.

Selectivity remains critical. While certain areas of the office market continue to face structural headwinds, sectors supported by strong occupancy trends, pricing power and secular demand drivers appear better positioned. We favour strategies focused on high-quality assets in sectors such as industrial, residential, logistics, data centres and other technology-enabled real estate.

For long-term investors, private real estate continues to offer attractive portfolio characteristics, including stable income, diversification benefits and potential inflation protection. As capital markets normalise and transaction activity improves, we believe the current environment presents an increasingly attractive entry point for disciplined investors focused on quality assets and experienced managers.

US commercial real estate deal volume climbed



Source: Goldman Sachs Asset Management, MSCI RCA, as of 21 April 2026

Hedge Funds: Built for a more fragmented market

We remain constructive on hedge funds heading into 4Q26 as investors navigate an environment characterised by heightened macro uncertainty, geopolitical fragmentation and structurally higher market volatility. While headline equity indices have remained resilient, market leadership has narrowed and performance dispersion across sectors, regions and individual securities has widened meaningfully.

We continue to favour strategies that can capitalise on elevated dispersion and changing market leadership, including equity long/short and multi-strategy funds. As economic outcomes, policy responses and corporate fundamentals diverge, experienced managers have a broader opportunity set to identify both winners and losers. The ability to dynamically adjust exposures and manage risk may prove increasingly valuable in a market

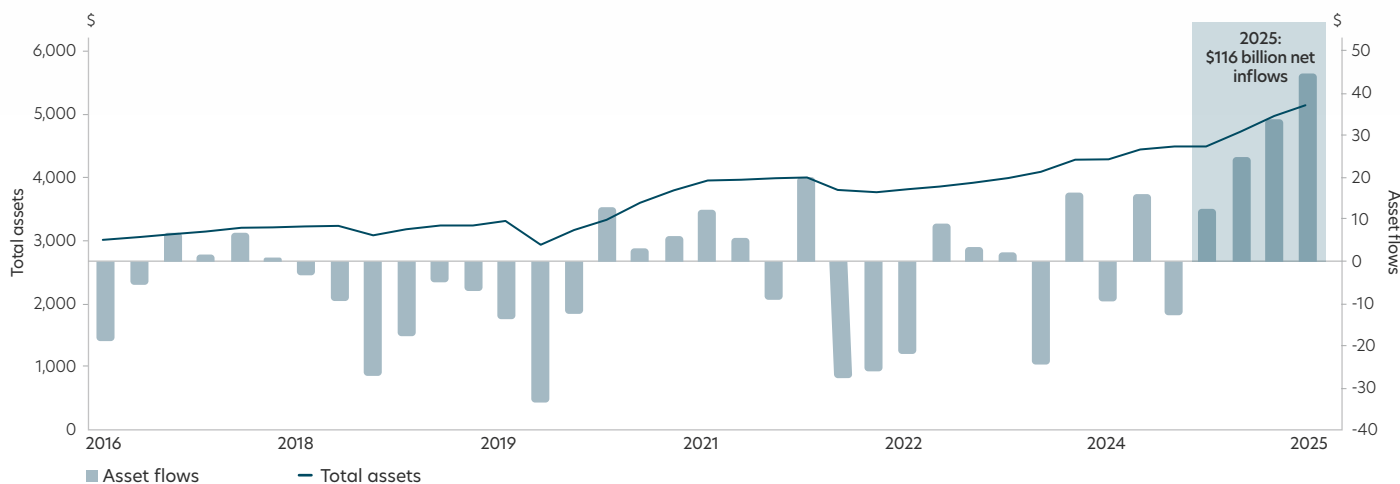
environment where volatility is becoming a structural feature rather than a temporary disruption.

Investor demand for hedge funds has also continued to strengthen. Industry inflows reached their highest level in nearly two decades in 2025, reflecting growing recognition that return streams driven by manager skill and alpha generation can play a larger role in portfolios.

For long-term investors, hedge funds continue to offer attractive diversification benefits, lower portfolio volatility and the potential for more resilient risk-adjusted returns. In an environment characterised by persistent market dispersion, policy uncertainty and shifting leadership, we believe hedge funds are increasingly earning a place as a core portfolio allocation rather than a tactical complement.

Hedge funds saw \$116 billion in net inflows in 2025, the most since 2007

Hedge fund asset flows by quarter and total cumulative assets (USD billions)



Source: Hedge Fund Research (HFR), iCapital Alternatives Decoded, with data based on availability as of April 2026
Data is subject to change based on updates to the source(s) database

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