

Focus back to macro after solid 1Q earnings

2 June 2026

Key Takeaways:

- Equity markets have rallied strongly after 1Q earnings, helped by AI-driven profit growth and revived risk appetite. But the 19.5% rally from 30 March lows could leave markets vulnerable to disappointment as investors focus back on macro like inflation.
- We expect the Fed to stay neutral but the 10 June US CPI print is a key risk. A hot inflation reading could invoke rate hike narratives, lift yields, and pressure equity valuations.
- Positioning also looks crowded after investors redeployed cash and reduced hedges. This does not imply a crash, but it weakens market shock absorbers and makes consolidation likely after the sharp rally.
- We maintain constructive on our medium-term equity exposure and would buy-the-dips. Preferred areas include semiconductors, data centres, power, cooling, selected software, Taiwan, South Korea, and China A-shares.

Solid 1Q results done, focus back on macro

Equity markets have done what they usually do once the worst-case scenario is taken off the table: they have rallied first and asked questions later. Since the ceasefire, market action has been very strong. Risk appetite has returned, volatility has cooled, and investors who were hiding in cash have been forced to re-engage.

The first quarter has shown that AI has turbocharged earnings for some companies. For example, among the megacap companies globally, the South Korean memory giants are expected to make the highest absolute net profits, exceeding even their US listed Megacaps, driving down their forward P/E to single digits. All the stocks (ex Apple) are also trading below their 5-year high P/Es.

That is the good part. The awkward bit is that prices have moved faster than the macro facts. Valuations are not wildly stretched, but they have jumped back up quickly. Markets are now pricing in very little disappointment. That is always a slightly dangerous place to be. When expectations are low, good news is a bonus. When expectations are high, even “fine” can feel like a let-down.

Our **PPE** framework remains: **P**olicy, **P**ositioning and **E**arnings. On that basis, the medium-term equity outlook remains positive. But the near-term setup is less comfortable. After such a strong move, the market may need to wobble before it can move higher again.

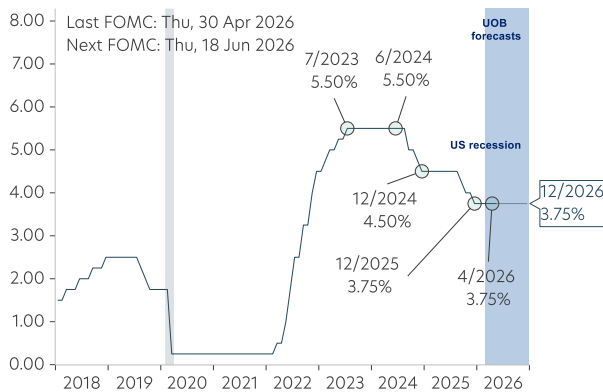
Figure 1: Global Megacap companies

| Company | Mkt Cap (USD tn) | 12M Fwd P/E (x) | 5Y Peak Fwd P/E (x) | Peak P/E Date | 2026E Net Profit (USD bn) |
|--------------------|------------------|-----------------|---------------------|---------------|---------------------------|
| NVIDIA | 5.11 | 21.2 | 71.1 | Nov 8, 2021 | 113.9 |
| Alphabet | 4.59 | 28.3 | 30.4 | May 13, 2026 | 174.7 |
| Apple | 4.58 | 35.7 | 35.2 | Dec 26, 2024 | 128.4 |
| Microsoft | 3.34 | 24.2 | 36.8 | Nov 19, 2021 | 129.3 |
| Amazon | 2.91 | 27.3 | 64.2 | Nov 18, 2021 | 95.3 |
| Broadcom | 2.12 | 33.8 | 48.7 | Dec 10, 2025 | 43.3 |
| TSMC | 1.95 | 22.6 | 26.6 | Jul 14, 2021 | 80.5 |
| Saudi Aramco | 1.80 | 14.1 | 20.2 | Mar 8, 2022 | 127.3 |
| Tesla | 1.64 | 220.1 | 246 | Dec 22, 2025 | 4.5 |
| Meta Platforms | 1.61 | 17.9 | 28 | Feb 14, 2025 | 84.4 |
| Samsung Elec | 1.24 | 6.5 | 39.2 | Apr 21, 2023 | 181.2 |
| SK Hynix | 1.11 | 7.1 | 111.4 | Nov 11, 2022 | 133.9 |
| Micron | 1.10 | 10.1 | 1,003.80 | Dec 19, 2022 | 66.9 |
| Eli Lilly | 1.04 | 29.3 | 73.3 | Oct 16, 2023 | 31.7 |
| Berkshire Hathaway | 1.02 | 23.3 | 29.6 | Mar 3, 2022 | 47.3 |
| Walmart | 0.92 | 38.7 | 46.7 | Feb 13, 2026 | 23 |

Source: Bloomberg, UOB Private Bank. Dated 30 May 2026.

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Figure 2: Fed funds rate forecast to be on hold



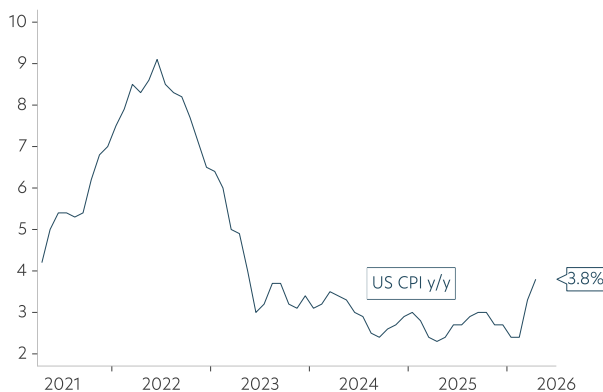
Source: Bloomberg, UOB Private Bank

Policy: Neutral Fed, but CPI maybe the tripwire

The Federal Reserve is unlikely to become aggressively hawkish again. Our base case is that the Fed stays neutral through the end of the year, rather than returning to rate hikes. That matters. A neutral Fed gives equities room to digest higher valuations, especially if growth remains resilient and earnings keep improving.

But the next inflation print is a clear risk event. The US CPI release on 10 June 2026 could matter more than usual. If the number comes in close to 4%, markets may have to rethink the comfortable idea that policy risk is safely contained.

Figure 3: CPI could hit 4%

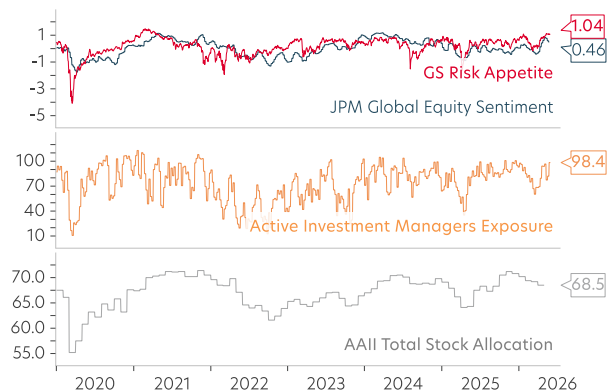


Source: Bloomberg, UOB Private Bank

The issue is not necessarily that the Fed would immediately hike. That still looks unlikely. The problem is that a hot CPI print would push rate-cut expectations further out, lift bond yields, and tighten financial conditions at exactly the point when equities are already priced for smooth sailing. A market that has just rallied hard does not need much of an excuse to take profits. Historical studies have shown that the S&P500 could retrace 3-6% in the short term after the first 4% CPI print.

So, policy is not bearish. But it is also not a free pass. The Fed may be neutral, but inflation can still throw a chair across the room.

Figure 4: Equity sentiment indicators



Source: Bloomberg, UOB Private Bank

Positioning: Everyone is brave again

Positioning is now probably the most fragile part of the setup. Indicators suggest investors have moved back into risk-on mode. Cash has been put to work. Hedges have been reduced. The market is no longer climbing a wall of worry. It is now jogging along a ledge with a fairly large crowd behind it.

That does not mean a sell-off is inevitable. It does mean the market's shock absorbers are weaker. When investors are under-positioned, dips are often bought quickly. When most capital has already been deployed, dips can become more awkward. There are fewer marginal buyers, and more investors looking for a reason to lock in gains.

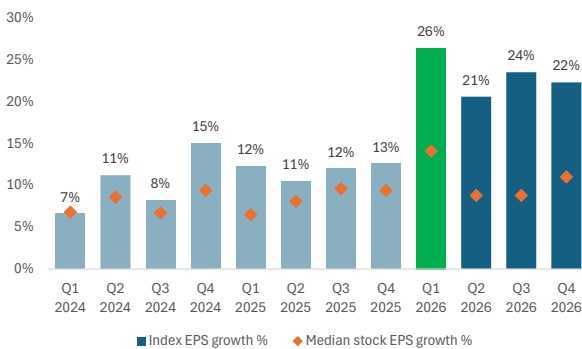
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This is why consolidation would be normal, not alarming. After a sharp rally, markets often need to pause, rotate, and test whether recent gains are durable. Some of the strongest areas, particularly technology and AI-linked names, may need to digest gains before the next move higher.

The key question is whether consolidation stays orderly. If inflation surprises on the upside, or yields jump, positioning could turn a modest pullback into a sharper air pocket. That would be uncomfortable, but not necessarily thesis-breaking.

Figure 5: Solid earnings growth = buy-the-dip

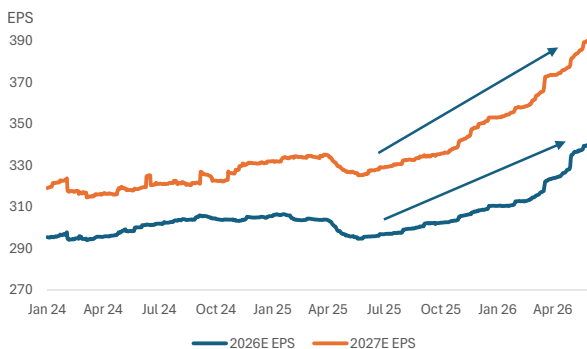


Source: Bloomberg, UOB Private Bank

Earnings: Still the solid anchor

The key pillar of the equity story remains earnings. First-quarter results were solid, and the outlook for the rest of 2026 looks constructive. More importantly, earnings revisions have been strong, keeping this rally from being just another valuation-led sugar rush.

Figure 6: S&P500 earnings revised higher



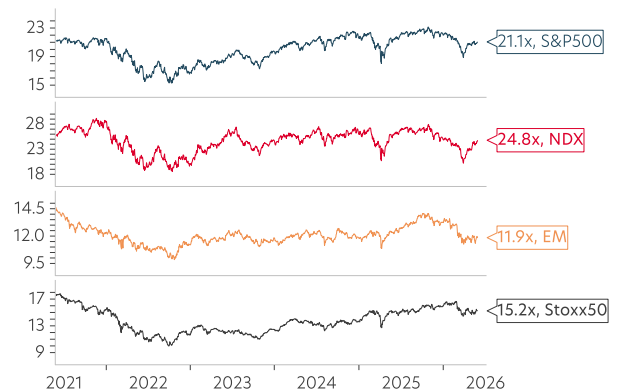
Source: Bloomberg, UOB Private Bank

The AI capex cycle remains central. The rule of thumb is simple: wherever hyperscaler capital expenditure is being spent, that is where returns are likely to show up. Semiconductors, cloud infrastructure, data centres, networking, power, cooling, and selected software enablers remain the obvious beneficiaries.

This is important because the market is getting more selective. It is no longer enough to wave an AI flag and expect the share price to levitate. Investors are starting to separate companies with actual revenue, margin and earnings leverage from those merely selling a good story. That is healthy.

If earnings revisions continue to move higher, valuations can remain supported. A higher multiple is easier to defend when the earnings denominator is rising. This is the main reason we remain positive on equities over the medium term.

Figure 7: Valuations higher but below peak



Source: Bloomberg, UOB Private Bank

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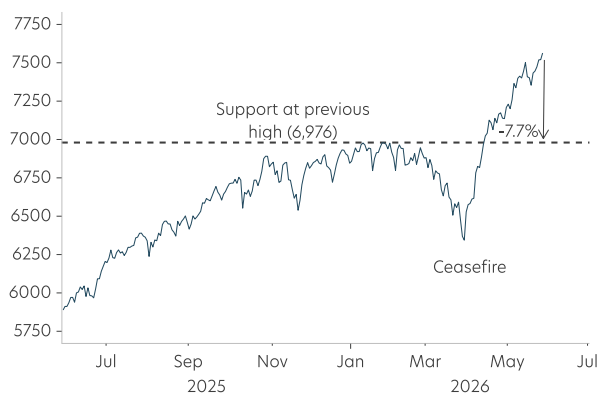
Bottom line

The rally is real, but the easy phase is probably over. Policy is neutral, positioning is crowded, and earnings are still strong. That combination argues for staying invested, but not blindly chasing.

Near term, the market is vulnerable to a wobble, especially if the 10 June CPI print comes in hot. Medium term, the equity backdrop remains constructive, led by earnings growth and the hyperscaler capex cycle.

In short: keep the equity exposure, but do not confuse a strong market with an invincible one.

Figure 8: S&P500 near term technicals



Source: Bloomberg, UOB Private Bank

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