

Top 10 questions from clients

11 February 2026

Overview

- **Investment outlooks and client interactions:** We interacted with many clients during our investment outlook roadshows and summarise their top questions about markets below.
- **Investor vibes:** Investors were generally receptive to our view of K-shaped economy, broadening growth opportunities and being selective in the current Artificial Intelligence (AI) boom cycle.
- **Investment implications:** We remain risk-on as the US corporate earnings stay robust. We advocate allocating additional funds to international stocks and select laggards, diversifying from the winners in the last 24 months.

Our top 10 client questions (details page after)

1. AI Bubble? - Only ~11% see AI as a bubble; most think we are two thirds through the cycle. Today's mega-caps have stronger margins, cash flow and balance sheets versus dot-com. Alphabet's USD20bn bond was 5x covered, signaling robust demand.

2. What is AI's End Game? - Heavy hyperscaler capex will compress margins as depreciation charge rises. We expect more data-centre sale-and-leasebacks as firms shift balance-sheet risk. With ~USD4tn private-market dry powder, these assets can be readily absorbed. Data-centre ownership remains strategic as "data becomes the new oil."

3. USD Outlook - UOB expects a softer USD into 2026 with DXY gradually drifting lower. Despite narrowing rate spreads, there is unlikely to be broad exit from the USD assets given the US' dominant global equity and bond share.

4. What is the next black swan event? - Biggest risk is a major AI accident prompting rapid regulation, disrupting monetisation. Current rules remain light due to global competition for AI leadership.

5. Fed Independence - Kevin Warsh is historically rate-dovish but balance-sheet-hawkish. His nomination suits a President favouring lower rates, though silence since nomination leaves room for policy surprises.

6. EM Still a Buy? - Maintain Overweight. EM gains from cheaper valuations, rate cuts, weaker USD and an EPS upcycle. China (~25% of EM) is key; a credible consumption push could mean continued valuation rerating. AI capex shifts pricing power to EM suppliers across tech, industrials, power and commodities.

7. Beyond Mega-caps - Look to small-mid caps (size), value ex-US (style), and industrials/financials (sector) as market leadership broadens beyond concentrated the US mega-caps.

8. US Policy Turbulence - The "Trump Always Chickens Out" (TACO) pattern persists as aggressive policy threats often fade. The bond market is helping to keep excesses in check. Buying the dips worked well after COVID, but after three years of strong returns, further gains will depend more on earnings growth.

9. Is Software Dead? - Margin risk is rising as AI adoption widens, especially for labour-intensive and data-heavy service firms. Software platforms with strong pricing power should stay resilient. Cybersecurity remains mission-critical and is unlikely to be displaced by early-stage, AI-first challengers.

10. "Out-of-System" Assets - Gold's pullback reflected retail FOMO unwinding; long-term central bank and institutional demand remains strong. Digital asset interest is rising with generational wealth transfer, though UOB does not provide advisory coverage.

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1. AI bubble? Not yet, but market is more discerning

Audience polling indicates that only about 11% believe we are already in a bubble; most see AI roughly two-thirds of the way to its peak, and only 5% would avoid US/China AI entirely. Our view: we are not at “peak AI”. Unlike 1999–2000, today’s leaders have stronger net margins, healthier balance sheets, and solid operating cash flow, though sentiment at the edges is clearly exuberant. Alphabet’s recent USD20bn multi-tranche bond (3–40 years) attracted more than USD100bn in orders (~5x covered), underscoring investor appetite for hyperscaler balance sheets funding AI capex. **Investment action:** Stay selectively long AI via profitable platform leaders and suppliers with visible AI-driven revenue; avoid pre-revenue or low-moat “AI-only” names.

Figure 1: Investors more discerning on AI plays



Source: Bloomberg, UOB Private Bank

2. What is the AI end-game: A shift to balance-sheet light models via data-centre monetisation

We remain in the heavy-investment phase. Expect margin pressure at hyperscalers as depreciation rises, followed by portfolio optimisation. This likely includes sale-and-leaseback arrangements or greater use of leased capacity to lighten balance sheets while retaining long-duration compute access. We believe there is absorption capacity when these datacentre assets are offloaded: global private-market dry powder exceeded ~USD4.6tn by mid-2025 and continued rising into 2026, implying ample capital to acquire hyperscaler-anchored assets.

Investment action: We favour companies which are able to integrate AI quickly into existing product suites to drive incremental revenue, rather than those reliant on a single AI-only product line.

Figure 2: Potential game plan for hyperscalers



Source: Bloomberg, UOB Private Bank

3. USD path: lower, but gradual—watch event risk

UOB’s house view clearly signals a softer USD into 2026; a reasonable reference path is DXY drifting toward 94.5 by end-2026 under a benign rate-cut cycle. We do not expect a wholesale rotation out of USD assets. Goldman Sachs estimates show that the US maintains a structurally high share of investable assets, keeping capital allocations “sticky”. **Investment action:** Tilt portfolios to non-USD earners and EM beneficiaries, while maintaining US core holdings given benchmark dominance; hedge selectively around policy-driven event risks.

4. Black swan to watch: A high-profile AI “catastrophic accident” triggering rapid regulation

What drives markets higher can also break them. This was true in the 2000 tech bust (Internet bubble) and 2008 Global Financial Crisis (housing bubble). In AI, the key left-tail risk is a catastrophic accident or misuse prompting rapid, restrictive regulation that disrupts monetisation timelines. Legal and policy scholars have highlighted “algorithmic black swans” as under-appreciated systemic risks and have called for “algorithmic preparedness” frameworks which could quickly tighten compliance burdens. **Investment action:** Maintain AI exposure but insure the tail: (i) diversify across infrastructure, tools, and applications; (ii) hold quality cybersecurity stocks given regulatory-driven demand.

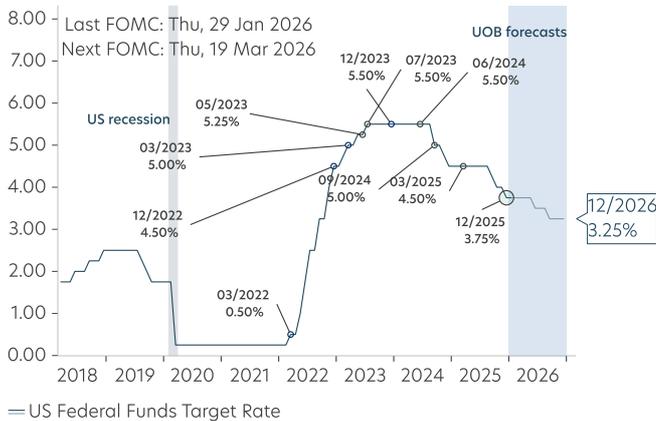
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5. Fed independence: Potential shifts under Kevin Warsh

President Trump has nominated Kevin Warsh to succeed Fed Chair Powell when Powell's term ends in May 2026. Warsh historically leaned rate-dovish but hawkish on the balance sheet. Confirmation dynamics remain fluid amid concerns over Fed independence. **Investment action:** Keep core duration 5-7 years to balance easing risk with term-premium shocks. We prefer DM IG over HY, and own gold as hedges against any independence scare that spills over into risk assets.

Figure 3: UOB forecast for US fed fund rates

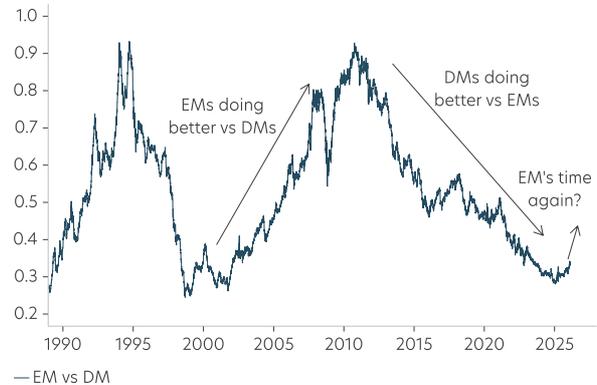


Source: Bloomberg, UOB Private Bank

6. Emerging Markets (EM): Still a buy, with earnings the next driver

We reiterate Overweight on EM equities due to cheaper valuations, easier policy, and a weaker USD. Valuation gaps remain wide (EM forward P/E ~12x vs US ~21x), and investor positioning is still light. Capital-flow trackers also show improving momentum into 2026, including a rebound in EM inflows. The AI capex land-grab continues to shift pricing power to suppliers across semiconductors, power equipment, industrials and commodities—areas where EM has significant representation. **Investment action:** Barbell EM: (i) North Asia tech/semis and power-grid OEMs; (ii) select LATAM/EMEA commodity-linked cyclicals. For China: emphasise dividend/value and policy-sensitive names; credible consumption-related measures would be a rerating catalyst.

Figure 4: EM due for durable outperformance?

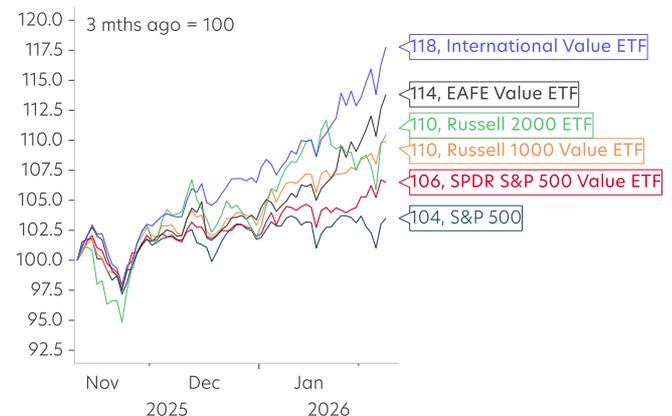


Source: Bloomberg, UOB Private Bank

7. Beyond the "Mega"s: Small-mid caps, ex-US value; industrials & financials

After three years of double-digit US gains, broadening should be reasonably expected. Macro outlooks for 2026 favour selective risk-taking and diversification beyond US mega-cap concentration. The current cycle argues for industrials (AI-infrastructure, power, automation) and financials (normalising curves, improving credit). EM and ex-US value screens offer the strongest valuation support. **Investment action:** Size: Small-mid caps (US & developed ex-US). Style: Value ex-US. Sector: Overweight industrials (electrification, grid, datacentre supply chain) and financials.

Figure 5: Size, Style and Sector



Source: Bloomberg, UOB Private Bank

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8. US policy turbulence: TACO trades work

The so-called TACO trade has continued to work because, in practice, Trump often “chickens out” at moments of peak policy tension, ultimately stepping back from the most aggressive measures. This pattern was evident again during Liberation Day, when the bond market acted as the true disciplinarian, preventing policy from veering into destabilising territory. Since COVID, buying the dips has consistently rewarded investors, though after three straight years of double-digit US equity returns, the upside from here is naturally more constrained. Ultimately, earnings growth remains the fundamental driver, even as political noise rises and falls. **Investment action:** Buy high-quality assets on dips and pair with defensive carry (DM IG) as portfolio ballast.

9. Is software “dead” under AI disruption? No—margins are the battleground

Market concerns centre on margin compression as AI spreads across the software stack. We expect dispersion: services-heavy and people-intensive models (consulting, data analytics) face greater pressure; platform software with pricing power, sticky retention and AI-enhanced workflows should defend margins more effectively.

Cybersecurity, in particular, appears mispriced: it is mission-critical, and CTOs face career risk if they replace entrenched incumbents with loss-making AI-first challengers. Sector checks and 2026 outlooks indicate continued cybersecurity demand and increased use of AI to offset talent shortages. **Investment action:** Overweight cybersecurity leaders and platforms with clear AI monetisation pathways; people-intensive services without pricing power or proprietary IP will likely remain challenged.

Figure 6: Cybersecurity vs software



Source: Bloomberg, UOB Private Bank

10. Out-of-system assets: gold & digital assets

The recent correction in precious metals has flushed out FOMO-driven retail flow. We continue to view gold as a core hedge against policy and geopolitical risk. Long-term demand remains supported by central banks (structural buyers) and institutions, even as tactical volatility persists.

On digital assets: while we do not provide advice on them, allocator interest is rising as wealth transfers to younger cohorts who are more open to this asset class. Alternatives continue to play a growing role in diversified portfolios. **Investment action:** Maintain a 3%–7% strategic allocation to gold.

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