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1H 2026 Market Outlook

# Navigating Global Divergences: Opportunities Amid Shifts



Right By You



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# CIO Thoughts



## 2026 Outlook

### Introduction

The global investment landscape is entering a new phase shaped by structural shifts in economic recovery, technological innovation, and market reforms. Investors face a complex backdrop where uneven growth patterns, transformative technologies, and evolving policy frameworks converge to create both opportunities and risks. Our outlook highlights three critical themes: the K-shaped nature of the US recovery, the promises and pitfalls of Artificial Intelligence (AI)—including its next frontier in physical applications—and the case for going global, with emerging markets (EM), China, and Singapore offering differentiated investment prospects.

This dynamic is disinflationary, paving the way for further Federal Reserve rate cuts in 2026 without overheating risks. For investors, this environment favours extending bond portfolio duration and focusing on sectors resilient to uneven demand—such as AI infrastructure and niche consumer plays—while avoiding deep cyclicals tied to global trade or lower-income spending.

### AI: From Digital to Physical

AI continues to dominate headlines, but the narrative is shifting from hype to monetisation. Markets now reward companies that demonstrate tangible profit contributions rather than vague roadmaps, as seen in sharp corrections for firms with aggressive, debt-funded AI capex. While US innovation leads, China's policy-driven AI strategy is accelerating execution across data, compute, and deployment layers.

The most compelling opportunities lie in bottlenecks—AI chips, high-bandwidth memory, and power infrastructure—where supply remains tight. Beyond software, AI's next phase is “Physical Intelligence,” embedding cognition into the real world through frictionless interfaces, autonomous systems, and mobility solutions. This hardware renaissance spans semiconductors, sensors, batteries, and robotics, driven by demographics and demand for accentuating human senses. Risks include high capex and regulatory hurdles, but the structural growth potential appears significant.

### A K-shaped economy

The US recovery remains distinctly K-shaped, marked by a divergence between booming corporate profits and AI-linked capital expenditure on one hand, and persistent weakness in lower-wage segments on the other. Employment lags pandemic trends by roughly 5%, while wage disinflation has hit the lower-income cohort hardest, deepening sentiment gaps across households. Consumption, however, is supported by high-income earners benefiting from wealth effects.



## Going Global: Emerging Market (China and Singapore)

Global diversification remains critical as competitive dynamics evolve. China's ascent as a manufacturing and innovation hub is underscored by its growing Fortune Global 500 presence and leadership in sectors like EVs and telecoms. Overseas expansion offers Chinese firms margin uplift and reduced sensitivity to domestic cycles, with foreign revenues now exceeding 11% for CSI300 companies. Meanwhile, Singapore's equity market is in early innings of reform-led upside, supported by the Monetary Authority of Singapore's SGD 5 billion Equity Market Development Programme. Measures such as dual listings and market-making incentives aim to unlock value and attract global capital. With undemanding valuations and light institutional positioning, Singapore equities should do well, particularly in banks, REITs, and industrials benefiting from governance reforms and global monetary easing.

## Conclusion

Investors should prepare for a world defined by uneven growth, technological disruption, and shifting global flows. The K-shaped US recovery supports a constructive stance on risk assets amid disinflation and policy easing. AI remains a secular driver, but selectivity is key—focus on monetisation leaders and physical AI enablers. Finally, global allocation to China, EM, and Singapore offers diversification and exposure to structural reforms and competitive advantages. In this environment, disciplined portfolio construction—balancing duration, quality, and thematic growth—will be essential to capture upside while navigating volatility.



# A K-shaped Economy

## Uneven prosperity

### The US recovery has been K-shaped

Not enough is said about how K-shaped the US economic recovery is: profits, asset prices and AI-linked capex are booming, while large parts of the consumer economy and lower-wage segments are struggling.

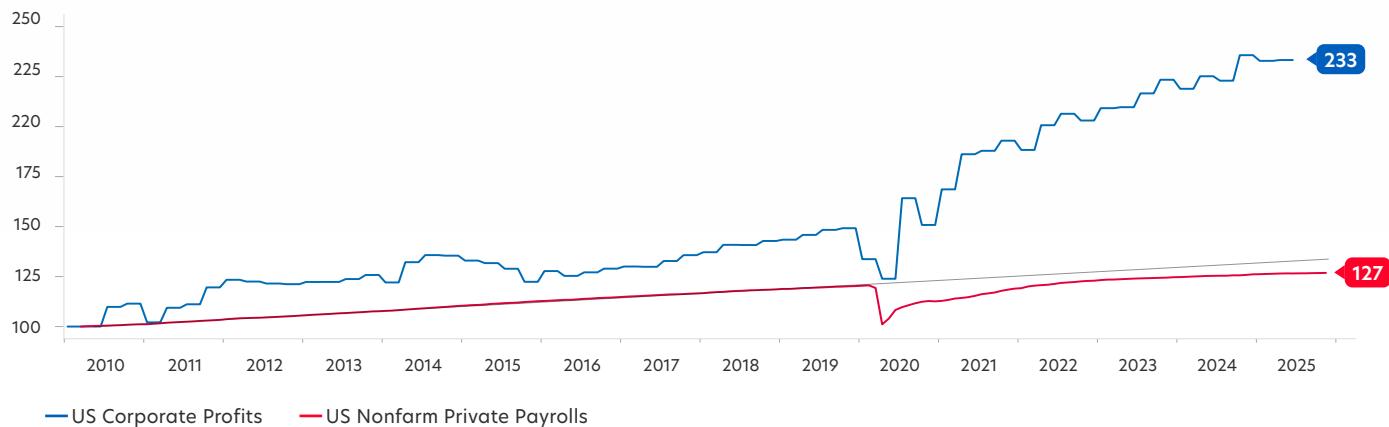
This mix is decidedly disinflationary, sets the foundation for further Fed rate cuts in 2026, and has profound investment implications which will be outlined later.

### What does K-shape mean?

It is worth noting that rising US corporate profits since the pandemic has been “jobless”. Corporate profits saw tremendous growth, but US employment sits ~5% below its pandemic trend.

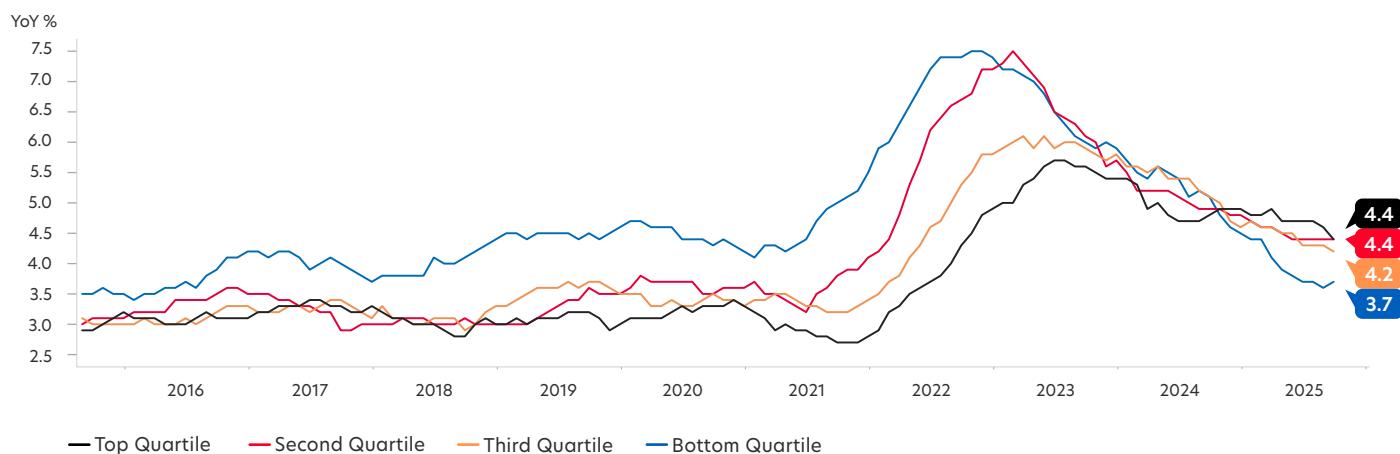
### A US jobless boom in profits

Rebase, 2010 = 100



Source: Bloomberg, UOB Private Bank

### Wage disinflation, with low-income segments feeling it the most



Source: Bloomberg, UOB Private Bank

In addition, the lower-wage sectors saw the steepest wage disinflation after reaping the benefits of post-pandemic shortages. This also manifests as divergences in consumer sentiments between the high- and low-income earners. Against this backdrop, US consumption could be well-supported by high-income earners amid strong wealth effect.

Finally, the economic expansion in the past two years has been unusually reliant on tech investment, which comprises only 4.5% of GDP. For perspective, 69% of US economic activity stems from consumer expenditure. Taken together, the K-shape recovery suppresses broad inflation, rendering it easier for the Fed to ease rates in 2026 without the US economy overheating.

## Policy and rates: K-shape points to easier money

**Fed path:** Following the 25bps rate cut in December 2025, the Fed dot-plot suggests only one rate cut in 2026, which is shallower than expected. Given the slack in US labour market and continued disinflation, our economics team expects two rate cuts in 2026, bringing the upper-bound Fed Funds Target Rate to 3.25% by the end of the third quarter of 2026.

**Extending duration:** We recommend increasing average bond portfolio duration to 5-7 years, from 3-5 years previously, especially as long-end yields climb (i.e., as the US 10-year treasury yield rises towards 4.5%).

## Investment implications

As for investment strategy, lower interest rates raises the odds that the overshoot in AI winners, including utility stocks, could last longer than expected. We favour AI bottlenecks—companies in chip design, memory and lithography. Energy and other AI infrastructure plays with pricing power and clear backlog remain viable.

Certain niche consumer sectors will benefit from lower interest rates and high-income spending on the back of strong wealth effect. We avoid deep cyclicals tied to global trade and tariffs, as well as companies which are highly dependent on lower-income consumer demand.

Overall, we remain constructive on risk assets. Inflation may be structurally suppressed amid the US productivity boom. Coupled with a softer US labour market, the Fed has scope to cut interest rates further in 2026.

## K-shaped capital spending



Source: Bloomberg, UOB Private Bank

## Divergences in US consumer sentiments



Source: US Morning Consult, Bloomberg, UOB Private Bank

# AI

## Promises and pitfalls

### Cycle and discipline

AI is tracking the classic tech cycle: user growth is front-loaded, monetisation back-loaded as network effects and dependency build. Markets have already pivoted from "announce AI" to "prove AI", rewarding companies that quantify profit contribution rather than vague roadmaps. At recent industry forums and in earnings language, monetisation has become the watchword as investors model tangible returns from agentic workflows and productivity gains. Private-market data echo the shift: capital is flowing to teams with scale and operating discipline, not just hype.

### Bubble fears beneath the surface

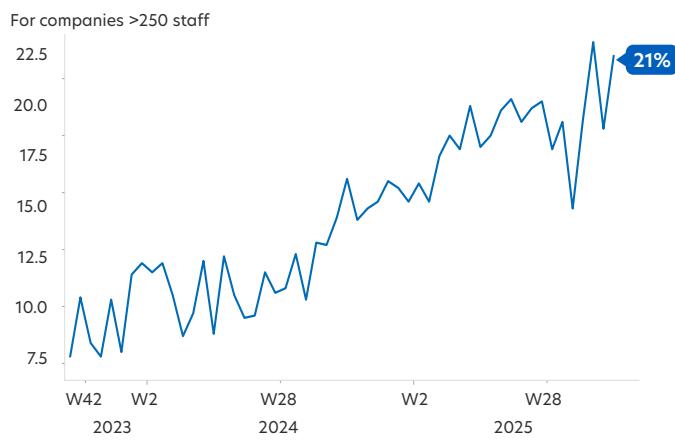
The technology is real; exuberance is mostly financial -driven by unprecedented capex and leverage. Rotation is visible: Meta fell 11% in a single day after lifting 2025 capex to USD 70-72 billion, a sign that investors will not underwrite aggressive spend without clear payback.

Oracle's sharp sell-offs on debt-funded AI data-centre buildouts have turned its story into a "show-me" trade, as the Street questions ROI and margin durability despite a hefty backlog.

### "Ready player 2": China

While the US still leads on frontier innovation, China's coordinated, policy-driven push across the AI stack (data, compute, deployment) is improving execution speed and resource allocation—backed by national targets for compute and unified data markets.

### AI adoption rate next 6 months



Source: US Census, UOB Private Bank

We opine risk is higher in the private model cohort than in cash-generative listed incumbents: OpenAI's path implies meaningful profitability only near 2030 amid titanic cash burn, while Anthropic guides to earlier break-even (~2027-28) but still requires heavy funding. We expect markets to tolerate user growth over profitability through 2026, but demand explicit AI profit by 2027 or they will rotate away from unclear stories.

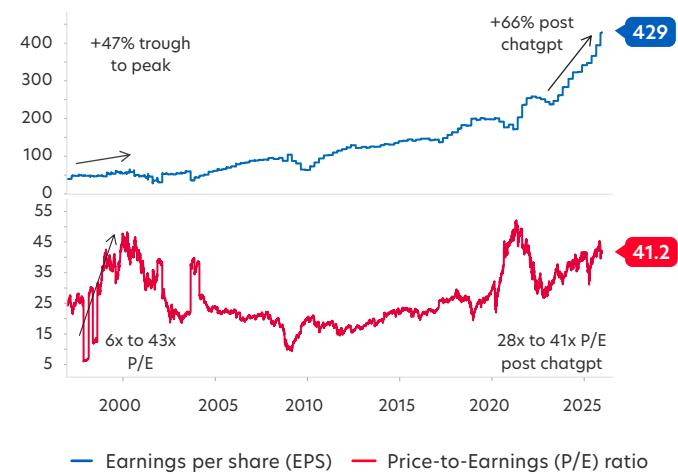
### Buy the bottlenecks

The most resilient opportunities sit where supply is tight: AI chips, HBM memory, power/utilities, and equipment/industrials. HBM has become the scarce fuel for accelerators, reshaping DRAM leadership and profit pools. On the infrastructure side, AI data-centre load is now the gating factor: US power demand tied to AI could surge 30x by 2035, making grid capacity, interconnection and on-site generation central to returns.

### Conclusion

Near-term macro effects look modest: leading work suggests small, cumulative boosts to productivity/GDP over the next decade, meaning AI improves welfare (time saved, service quality) more than it solves sovereign balance-sheet realities—no silver bullet for debt. Portfolio takeaway: overweight bottlenecks (AI chips, HBM, advanced packaging, grid-linked utilities, power equipment), insist on companies reporting AI monetisation metrics, and stay invested in China's coordinated AI strategy.

### Valuation and earnings growth beats dot-com



## The next phase of AI: Physical Intelligence

We foresee Artificial Intelligence (AI) is moving beyond screens and algorithms into the physical world. This evolution—Physical AI—will redefine how we live, work, and interact with technology. We see three major themes shaping this future:

- **Frictionless Tech:** Tomorrow's interfaces will be auditory, sensory, and intuitive, replacing keyboards and touchscreens with voice, gesture, and environmental cues. Homes, offices, and vehicles will respond seamlessly to human intent. OpenAI terms this the "Third Core Device" where it is "peaceful and calm" productivity without all the noisy notifications we now are bombarded with. This shift will drive demand for advanced sensors, microphones, haptic feedback systems, and edge AI chips capable of real-time processing.



No touch, no screen. OpenAI's 'Third Core Device' is designed to bring peace and calm.

- **Invisible Tech:** Physical AI will take over repetitive, low-value tasks—cleaning, maintenance, and restocking—without human intervention. Robots and autonomous systems will operate quietly in the background, transforming logistics, hospitality, and home automation. Picture finishing dinner and heading straight to the cinema—while AI quietly clears the table, washes the dishes, and resets your home without you lifting a finger. These solutions require high-efficiency batteries, precision actuators, and specialised ASICs (Application-Specific Integrated Circuits) to deliver performance at scale.



Doing the grunt work.

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- **Mobility Tech:** With ageing populations in developed markets and China, mobility becomes an economic imperative. Physical AI will augment human strength and endurance through exoskeletons, smart wearables, and rehabilitation devices. Industrial applications will reduce injuries and extend an experienced workforce's productivity. This theme demands lightweight materials, power-dense batteries, advanced memory modules, and AI accelerators to enable real-time motion control.



Ageing with power. Companies like Kenqing are enabling seniors to live strong.

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## Investment implications

Physical AI is not just a software story—it's a hardware renaissance. Every theme above relies on a foundation of semiconductors, sensors, batteries, and specialised manufacturing capabilities. Key opportunity sets include:

- **Semiconductors:** ASICs and AI accelerators for edge computing.
- **Energy storage:** High-density batteries for robotics and wearables.
- **Sensors and actuators:** Vision, LiDAR, haptics, and motion systems.
- **Memory and connectivity:** Low-latency modules for real-time AI processing.

**Growth drivers:** Ageing demographics, labour shortages, and automation demand.

**Risks:** High capex, supply chain constraints, and regulatory adoption curves.

Physical AI represents a structural shift—from digital convenience to physical empowerment. Investors should focus on companies innovating in robotics hardware, semiconductor design, and advanced energy systems, as these will underpin the next decade of AI-driven growth.

# Going Global China equities

Despite ongoing trade uncertainties, we maintain that global expansion for Chinese companies remains a critical investment theme.

## Growth and profitability

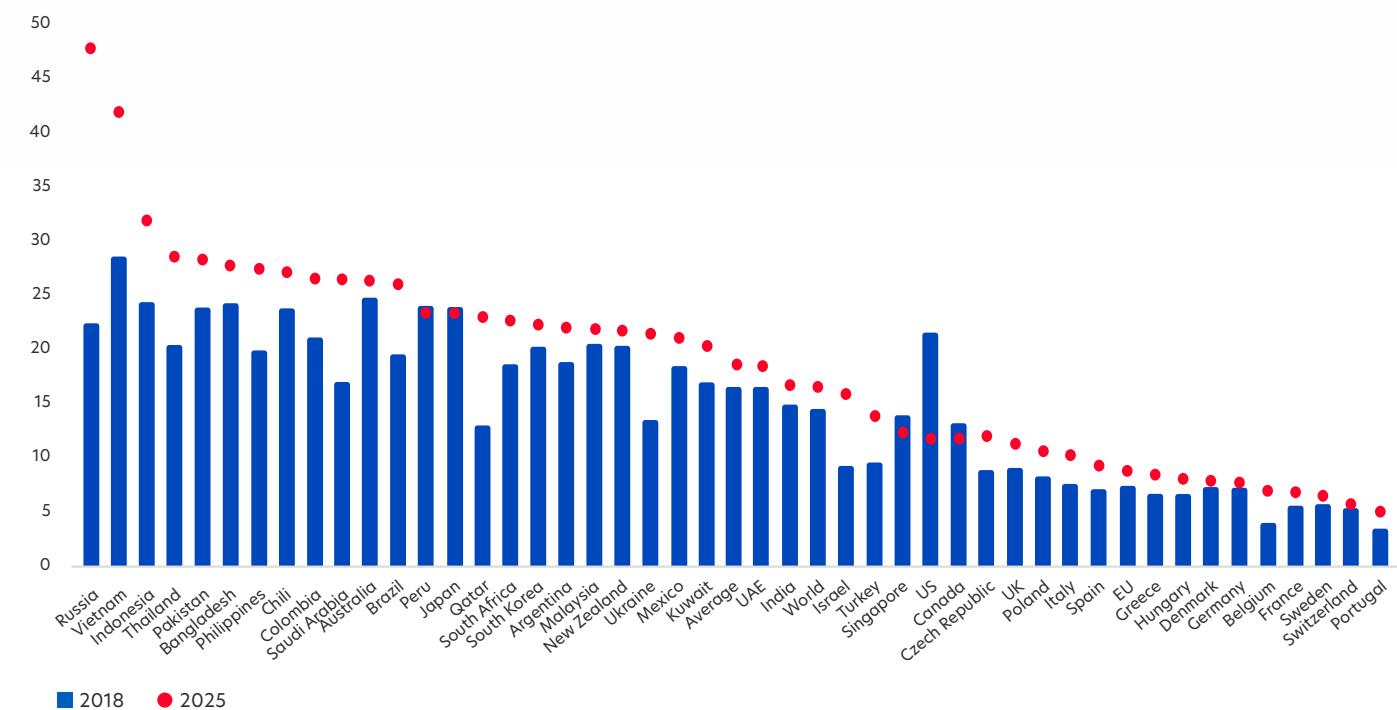
Chinese companies are increasingly pursuing international growth, creating opportunities for overseas revenue gains. Overcapacity, intense competition, and persistent disinflation have weighed on corporate earnings in recent years. With domestic demand constrained, pursuing opportunities in less saturated international markets is emerging as a strategic priority for enterprises seeking to preserve overall growth and profitability.

Overseas operations offer revenue streams and cost structures that are less correlated with domestic economic cycles and more aligned with global trends. As foreign revenues grow to a meaningful share, overall market dependence on domestic growth decreases. In a bull-case scenario where overseas margin premiums remain strong, this could unlock re-rating potential for export-oriented firms relative to purely domestic players.

In 2024, overseas revenue accounted for 11.7% of CSI300 companies' total revenue, marking a 1.4% increase YoY. At the industry level, electronics and home appliances recorded the highest share of overseas revenue. Moreover, in most sectors, overseas gross profit margins (GPMs) surpassed domestic margins - particularly in media, healthcare, computers, and communication services - reinforcing that global expansion contributes to margin enhancement.

## China exporters have steadily been increasing their market share across all countries

China export market share in different countries (%)



### Note:

- All series are shown as 12-month moving average

Source: Alpine Macro

## Growing competitiveness and global reach

Chinese products have evolved significantly over the years, combining cost efficiency with improved quality that strengthens their competitiveness on the global stage. Indeed, China has emerged as a leading producer of technologically advanced goods, including telecommunications equipment, solar panels, and drones, driven by robust investment in research and development. Across multiple sectors, Chinese products offer a compelling value proposition, reflected in the rapid global adoption of Chinese brands.

This growing competitiveness is underscored by corporate scale: in 2024, 130 Chinese companies were listed in the Fortune Global 500, compared to 100 a decade ago. Notably, firms in the automotive, high-tech, and internet sectors continue to demonstrate strong growth momentum, reinforcing China's position as a global manufacturing and innovation hub.

## A competitive currency

A highly competitive Renminbi on an effective trade-weighted basis is expected to remain a tailwind for Chinese exporters in the coming quarters. UOB expects a gradual appreciation of the CNY vs USD, driven by expectations of a US-China trade deal and continued USD softness amid the Fed's rate cutting cycle. Our USD/CNY forecasts are at 7.04 in 1Q 2026, 7.00 in 2Q 2026, 6.98 in 3Q 2026 and 6.95 in 4Q 2026. Indeed, policymakers, mindful of lessons from Japan's lost decades, appear inclined to maintain currency competitiveness to support external demand, putting Chinese exporters at a competitive edge for global expansion.



# Going Global

## Singapore equities reform-led upside in early innings

### Policy backdrop: What has changed?

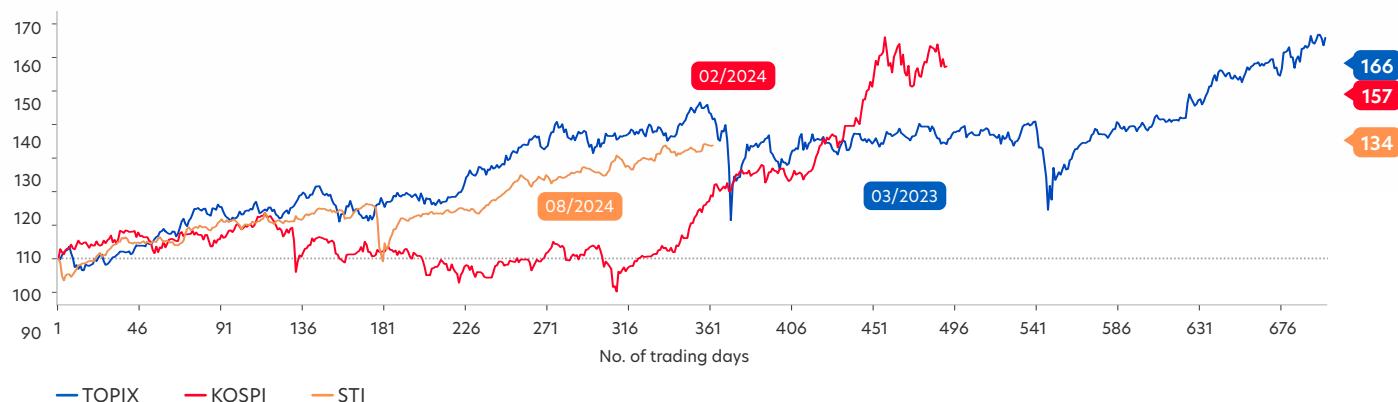
Singapore's equity market is entering a transformative phase, driven by the Monetary Authority of Singapore (MAS) Value Unlock Programme and the broader SGD 5 billion Equity Market Development Programme (EQDP).

These policy initiatives aim to sharpen corporate focus on shareholder value, improve disclosure standards, and deepen investor engagement. Specific measures include an SGD-Nasdaq bridge for dual listing, smaller board lot size as well as market-making incentives.

While Singapore endeavors to mirror successful governance/value-up drives in Japan and South Korea, additional details and good execution will be needed for a broad, sustained equity re-rating.

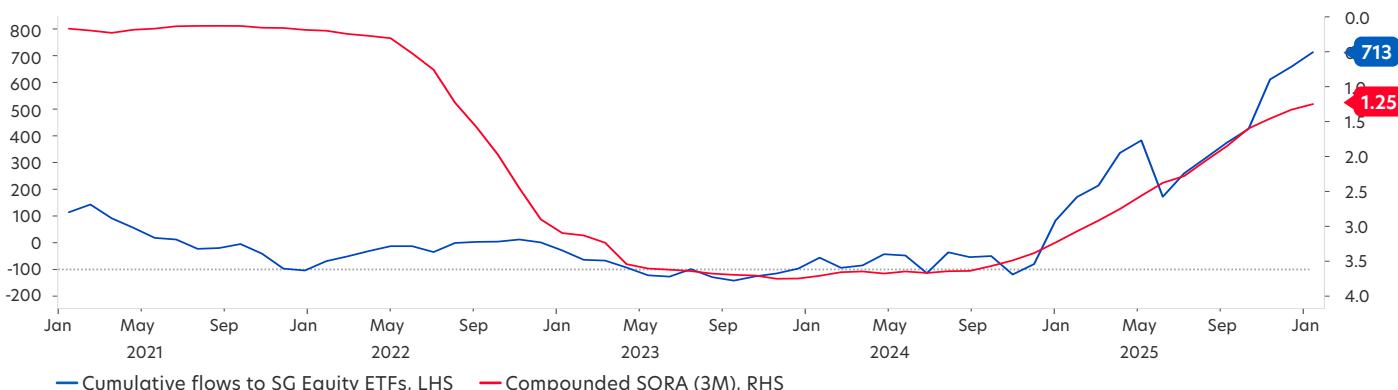
### STI still trails peers in post-reform gains

Rebased, Start of Value-Up Date = 100



### SG equity ETF\* flows vs. SORA^

USD millions



#### Note:

\*An Exchange-Traded Fund (ETF) is an investment fund that holds a mix of assets and trades on a stock exchange like a stock.

<sup>^</sup>Singapore Overnight Rate Average (SORA) is the volume-weighted average rate of unsecured overnight interbank SGD borrowing, commonly used for floating-rate home loans.

Source: Bloomberg, UOB Private Bank

### Where markets stand

Since the equities review group was formed in August 2024, the Straits Times Index (STI) has rallied ~30%, outperforming regional peers in Southeast Asia, but still trails Japan/Korea's >55% surge since announcement of the first sets of governance or equity reforms.

The next leg of upside for Singapore's equities depends on observable corporate actions—such as buybacks, higher dividends, and strategic asset recycling—supported by regulatory clarity and incentives.

## Catalysts and macro tailwinds

- **Regulatory initiatives:** EQDP fund allocation (SGD 2.85 billion second tranche) and upcoming asset manager appointments.
- **Global monetary easing:** Low interest rates support valuations and risk-taking.
- **Sector drivers:** Real estate benefits from lower rates and governance reforms; industrials and telcos positioned for asset recycling and buybacks; banks committed to capital returns; utilities supported by energy transition.

## Risk and headwinds

- **Execution risk:** Lack of enforcement and incentives may limit corporate participation in reforms, while delay in regulatory clarity could stall momentum.
- **Global uncertainties:** Geopolitical tensions, commodity volatility, or reversal in monetary easing could weigh on sentiments.
- **Domestic challenges:** Labour cost pressures and slower earnings rebound could affect certain sectors. In turn, there may be heavy reliance on banks and property for index performance.

## Investment implications

Over the last three years, there has been a net cumulative outflow of SGD 5.2 billion from Singapore's equities by the institutional investors. It is also worth noting that these institutional investors booked profits in Singapore's banks and REITs in 2025.

Against this backdrop of light positioning by global funds, Singapore's equities could play catch-up to Japan and South Korea on signs that the reforms show tangible progress. Rising retail participation and SGD's above-trend deposit growth also adds liquidity for domestic equity flows, supporting further returns.

We expect continued earnings recovery to be supported by domestic strength and global monetary easing. Meanwhile, Straits Times Index's (STI) current valuation, 12-month forward Price-to-Earnings (12MF P/E) ratio at 14.1x (as of 18 December 2025), is undemanding relative to global peers.

We favour companies which are likely to be strong beneficiaries of these reforms. Specifically, we like firms with dividend upside supported by strong balance sheets, and improving return on equity (ROE) amid better capital allocation. Finally, REITs with good payout track records backed by fundamentals and banks with strong capital return commitments remain preferred.



# Macro Views

## Our View of the World



### Economy

- Global gross domestic product (GDP) rose 2.3% in 2025 despite trade tensions. Yet, signs of imbalance have surfaced as demand shifted towards tech investment while jobs growth slowed. Economic growth is expected to be supported in the first half of 2026 by fiscal stimulus, particularly in the United States (US) and China.
- We have revised our US GDP growth forecast for 2026 to 1.7% (from 1.5%), reflecting expectations that President Trump's tax cuts and deregulation could offset the tariff fallout.
- We maintain our forecast for China's GDP growth at 4.7% in 2026, with industrial production and exports to remain key growth drivers in the coming years.



### Monetary Policy

- After the 25 basis points (bps) rate cut at the December Federal Open Market Committee (FOMC) meeting, the Federal Reserve (Fed) is expected to pause early this year before resuming policy easing with two further cuts, bringing the Federal Funds Target Rate (FFTR) down to 3.00-3.25%.
- The Bank of Japan (BOJ) remains an outlier in the developed market, with further policy tightening anticipated. Following the 25bps hike to 0.75% in December, we expect a final interest rate hike to 1.00% in the third quarter of 2026.
- For most Asian economies, there remains more room to cut rates, as policy rates remain higher relative to inflation while there remains a need to stimulate demand.



### Inflation

- Concerns about tariff-driven inflation globally proved unfounded, as resilient supply chains and businesses absorbed the cost pressures.
- In the US, while there are signs of rising inflation across key food and grocery items, overall price growth remains under control.
- Across most ASEAN economies, inflation has been easing as strong currencies and competitively priced Chinese goods limited cost pressures.



### Portfolio Strategy

- Go global, diversify your portfolio to seek opportunities in both stock and bond markets. Meanwhile, continue to participate in the artificial intelligence (AI) trend by exploring other areas within the technology sector rather than solely focusing on mega-cap stocks. Seeking income through quality bonds and dividend-paying stocks is equally important.
- Anchoring your investment portfolio with Core allocations such as multi-asset strategies and investment grade bond funds before considering Tactical investments. An allocation in Gold can help to hedge against uncertainty and diversify your portfolio.
- Investors with higher risk appetite can consider Tactical opportunities in the technology sector, developed market financials, quality dividend stocks, Asia ex-Japan stocks, and Chinese stocks.

# Equities

## United States

### Macro backdrop and interest rates: Supportive for US equity

**Economic growth:** The US economy is expected to maintain a steady pace of growth in 2026, with real GDP projected at 1.7%. This resilience is underpinned by several factors such as improving labour productivity, higher fiscal spending, accelerating corporate investments, and a lower interest rate environment. At the same time, core personal consumption expenditures (PCE) inflation is anticipated to trend lower, signaling a gradual normalisation of price pressures.

While the economic outlook remains constructive, investors should keep a close watch on a cooling labour market and tariffs which could dampen consumer demand. Nevertheless, we do not foresee a technical recession under current assumptions.

Fiscal policy will play a pivotal role in sustaining growth momentum. The One Big Beautiful Bill Act (OBBA) is expected to deliver a substantial fiscal boost in 2026, reducing corporate tax liabilities by approximately USD 129 billion.

This measure, combined with ongoing monetary and regulatory support, should help cushion demand and reduce recession risks. Together, these dynamics reinforce the case for cyclical growth alongside structural themes such as AI-driven growth.

**Monetary policy:** UOB projects two 25bps rate cuts by the Fed in 2026. If the economy or job market weakens more than expected, there could be even more rate cuts. The prospect of lower rates can help cushion stock prices and supports a buy-on-dips approach for investors.

**Currency impact:** The Fed's rate-cut cycle is likely to exert downward pressure on the US dollar (USD) in the near term, which has historically provided support for global risk assets.

### US stocks can grind higher amid Fed rate cuts in the absence of a recession

S&P 500 (Rebased, start of Fed rate cut = 100)



Source: Bloomberg, UOB Private Bank

## Earnings and valuations: Earnings growth likely a core driver for stock returns

**Earnings:** US corporate earnings have accelerated even as employment remains below its pre-pandemic trend. This divergence reflects a higher productivity but "jobless profit boom", which is likely to persist through 2026. Against this backdrop, earnings per share (EPS) growth is likely to be the primary driver of respectable US stock returns.

While technology and AI-related sectors remain central to market leadership, we anticipate the rally will broaden to selected cyclical sectors where earnings will be supported by fiscal and monetary policy boosts.

**Valuations:** US stock markets remain expensive relative to the past 20 years, and this warrants a disciplined and selective approach towards investing in the US. That said, valuation alone does not necessarily imply weaker future returns, and US stocks typically trend higher when companies demonstrate the ability to deliver earnings surprises.

## Be selective in the AI cycle

The growing use of vendor financing and circular investments, where leading technology companies invest in other businesses which then uses that capital to buy the former's products, echo patterns observed during the Dotcom bubble of the late 1990s.

While today's leading technology companies are profitable and maintain disciplined capital expenditure funded by internal cash flows, the risk of overbuilding cannot be entirely dismissed. Any signs of excessive capacity expansion could signal emerging vulnerabilities in the sector, and this warrants careful monitoring.

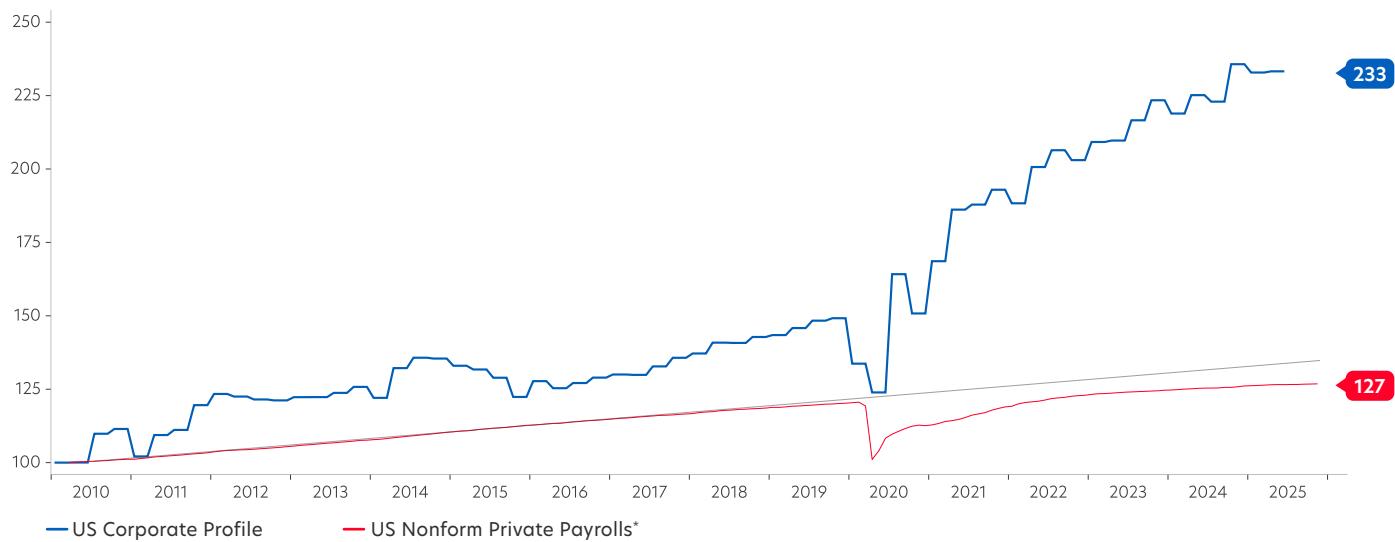
While investors need to be selective and avoid companies with a weak path to profitability, the AI cycle is not over. Opportunities can be found in areas exhibiting supply chain bottlenecks like chip design, memory chips and lithography machines, and AI-related infrastructure like data centres and energy with pricing power.

## Investment Views

Overall, while there is a possibility of short-term consolidation, we maintain a positive view for US stock markets through the first half of 2026 due to the imminent fiscal policy boost and potentially lower interest rates. Investors should accumulate quality stocks on dips, while avoiding concentration risk through diversification. Beyond the AI theme, investors can consider gaining exposure to cyclical sectors like developed market financials.

## A US jobless boom in corporate profits

Rebased, 2010 = 100



### Note:

\* Nonfarm private payroll measures monthly US jobs growth in the private sector, excluding farm workers, government employees, private household staff, and non-profit workers.

Source: Bloomberg, UOB Private Bank

# Eurozone

## Macro backdrop and rates: Neutral to mildly supportive

The Eurozone economy is expected to grow modestly, with GDP projected at 1.1% in 2026. Key downside risks include trade-related headwinds, persistent manufacturing woes stemming from stiff Chinese competition, and political uncertainty in France. Consumer confidence may remain fragile, as geopolitical tensions could weigh on household spending. On a positive note, Germany's fiscal spending is expected to partially offset some of these challenges.

**Monetary policy:** The European Central Bank (ECB) is expected to keep the refinancing rate steady at 1.90% throughout 2026. That said, a small rate cut in the first half of the year cannot be ruled out if inflation is below the 2% target and economic growth weakens. This policy stance will help limit downside risk to European stocks.

**Currency impact:** Stable ECB monetary policy suggests the Euro (EUR) will be supported against the USD, which could weigh on export competitiveness. However, currency stability may attract global capital flows into European assets, particularly in sectors aligned with structural themes such as energy transition and industrial automation.

## Earnings and valuations: Likely to keep stock returns steady but unspectacular

**Earnings:** Subdued domestic demand and external trade headwinds will likely keep European corporate earnings growth modest. Against this backdrop, stock returns may be "steady but unspectacular" and capped by weak macroeconomic momentum.

While Europe has embarked on a multi-decade investment cycle in defence and infrastructure, the near-term fiscal boost is likely to remain limited. Progress may be slow, constrained by resistance to change from institutions and national protectionism within a fragmented governance framework. These structural challenges could temper the pace of capital deployment, even as long-term opportunities in strategic sectors remain compelling.

**Valuations:** The STOXX Europe 600 Index currently trades near its 10-year average, at approximately 15.1x 12-month forward Price-to-Earnings (P/E), offering relative value compared to US peers.

Looking ahead, the disparity in valuations across sectors may persist, driven by uneven earnings prospects and structural differences within the region. In an environment where earnings growth is likely to be limited, companies with strong cash flows and disciplined capital allocation will be preferred.

## Europe's paradigm shift is grounded on being self-sufficient



Source: MSCI. Goldman Sachs Asset Management. As of November 2025.

## Macro and policy execution risks warrant attention

European stock valuations could come under pressure if global purchasing managers' index (PMI) deteriorate to signal weaker economic momentum, and if there are signs of tighter financial conditions.

In addition, near-term macro challenges and execution risks surrounding the deployment of European Union (EU) fiscal stimulus warrant close attention. Delays or inefficiencies in implementing planned investments could dampen confidence and limit the upside potential for European equity market.

## Investment Views

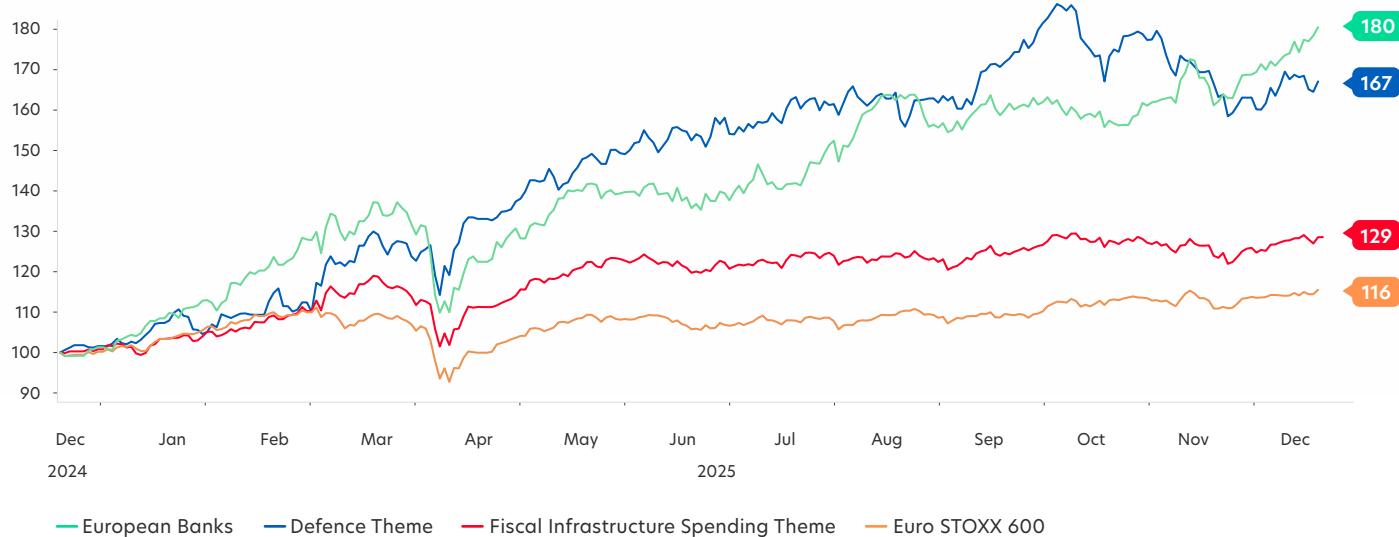
We maintain a neutral view on the European equity market due to downside risks to economic growth and modest corporate earnings momentum.

Export-reliant sectors may face headwinds from a stronger EUR and Chinese competition. On the other hand, quality companies that benefit from government-driven capital expenditure in defence, energy transition and industrial automation should continue to attract investor capital flows.

Additionally, European banks look set to benefit from higher net interest margins (NIMs) and potentially higher dividend payouts or share buybacks.

## Selective opportunities can be found within Eurozone

Rebased, 1 year ago = 100



Source: Bloomberg, UOB Private Bank



# Japan

## Macro backdrop and rates: Fiscal stimulus offset by weak consumption and higher rates

Japan's economy is expected to grow at a modest pace of 1.3% in 2026 as fiscal stimulus and technology-related capital expenditure offsets weak household consumption, potential geopolitical tensions with China, potentially higher interest rates, and a stronger than expected recovery in the Japanese Yen (JPY). Headline consumer price index (CPI) inflation is projected to ease to around 2.0%, as the impact of prior energy subsidies fade and the JPY stabilises.

**Monetary policy:** The BOJ is expected to deliver a final 25bps rate hike to 1.00% in the third quarter of 2026. This rate hike path, though gradual, is likely to cap Japanese stock valuations.

**Currency impact:** USD/JPY is expected to fall towards 146 by the fourth quarter of 2026 as the Fed continues to ease policy while the BOJ looks poised to raise interest rates. Japanese authorities have also recently issued verbal warnings against "one-sided and rapid" JPY depreciation, which raises the prospect of currency intervention by the government should USD/JPY rise towards 157-162. A stronger JPY will negatively affect corporate profits.

## Earnings and valuations: Earnings will need to do the heavy lifting

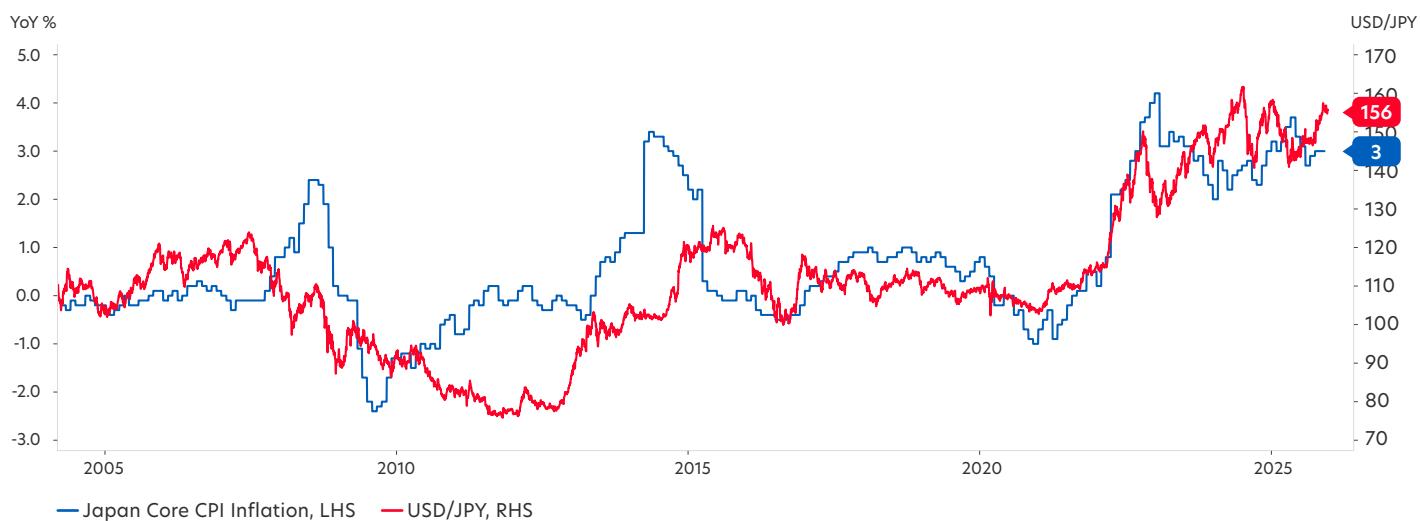
**Earnings:** With potentially higher interest rates likely to cap the upside in stock valuations, corporate earnings will need to do the heavy lifting.

Corporate earnings in Japan are expected to recover steadily, underpinned by government-led governance reforms. These structural changes aim to enhance return on equity (ROE) and improve capital efficiency.

However, elevated wage inflation could compress profit margins, while potential JPY strength and trade headwinds, particularly exposure to China, pose downside threats to earnings growth.

**Valuations:** The TOPIX Index currently trades at approximately 16x 12-month forward P/E, above its 10-year average of 14.6x. This premium reflects investor optimism surrounding structural reforms and increased domestic investor interest. However, stocks valuations may cool slightly as the BOJ continues its gradual policy normalisation.

## Firms have lifted prices on goods and services amid higher labour costs and a weaker Japanese Yen



Source: Bloomberg, UOB Private Bank

## Favour companies that benefit from corporate reforms and policy initiatives

Japan is in a corporate “reform” cycle headlined by governance changes and a drive to increase ROE. Other policy initiatives include a drive to encourage Japanese to shift household savings into investments (NISA 2.0), and policy support for defence, infrastructure, and energy security.

### Investment views

We maintain a neutral view on Japanese stocks. Governance reforms and improved corporate earnings offer support, but this is offset by slower global growth, potential BOJ policy tightening, rising wage costs, and higher input prices.

Favour large-cap companies, particularly those riding on domestic policy themes like defence, infrastructure, and energy security. Financials and industrials with resilient cash flows should attract investor inflows. Japanese banks’ NIMs should be well-supported by rising interest rates and higher long-maturity bond yields amid the BOJ’s rate hike cycle.

In contrast, exporters and rate sensitive sectors may face headwinds from rising interest rates and potential JPY strength.

### A steepening Japanese government bond (JGB) yield curve has boded well for Japanese domestic banks’ performance



Source: Bloomberg, UOB Private Bank



# Emerging Market Asia

## Macro backdrop and rates: Neutral to mildly supportive

China's economy is projected to expand at a slower pace of 4.7% in 2026, despite lingering trade uncertainties. The 15th Five-Year Plan (2026-2030) focuses on upgrading domestic consumption and strengthening technological self-reliance. While industrial production and exports will remain key growth drivers, the share of domestic consumption in the economy is expected to rise steadily in line with the government's push towards domestic demand. The Chinese government will likely turn to targeted policy easing if economic growth weakens more than expected.

China faced falling prices through 2025, driven by intense market competition and weak consumer spending. However, the decline in prices should ease in 2026 as government policies aim to boost domestic consumption.

On the other hand, other Asian economies enter 2026 on a firm footing amid resilient exports and easing inflation.

The key downside risks to watch for will be any re-escalation of trade tensions and a renewed slump in the Chinese property sector.

**Monetary policy:** The People's Bank of China (PBOC) is expected to resume targeted policy easing as early as the first quarter of 2026, with a 10bps interest rate cut and a 50bps reduction in the reserve requirement ratio (RRR) anticipated.

Meanwhile, central banks in South Korea and Taiwan are likely to keep policy rates on hold, though modest rate cuts remain possible in the first half of the year.

**Currency impact:** We retain a positive medium-term outlook for Asian currencies with many Asian central banks likely close to the end of their easing cycles while the Fed is expected to reduce interest rates further. Historically, a weaker USD has been supportive of capital flows into Asian risk assets.

## Earnings and valuations: Scope for improvement

**Earnings:** Corporate earnings growth in China is expected to be weaker in the first half of 2026, but the outlook improves meaningfully in the second half of the year as domestic consumption is expected to strengthen and Chinese companies clear excessive inventory.

**Valuations:** The Hang Seng China Enterprises Index (HSCEI) is currently trading at about 10.4x 12-month forward P/E, which remains attractive compared to global peers. There may be scope for valuations to rise, supported by stronger earnings visibility and improved dividends and share buybacks.

Additionally, China's targeted stimulus measures and incremental policy easing should provide a boost for the broader Asia region.

## China H-shares supported around the 200-day moving average



Source: Bloomberg, UOB Private Bank

## Potential risks are a deterioration in China's credit conditions and consumer confidence

Another key downside risk lies in a deterioration of China's money and credit conditions. China's monetary policy has remained overly restrictive, and household confidence remains fragile following significant wealth losses from the prolonged property slump. For a sustainable recovery, households need to increase spending, while the government should step up fiscal support.

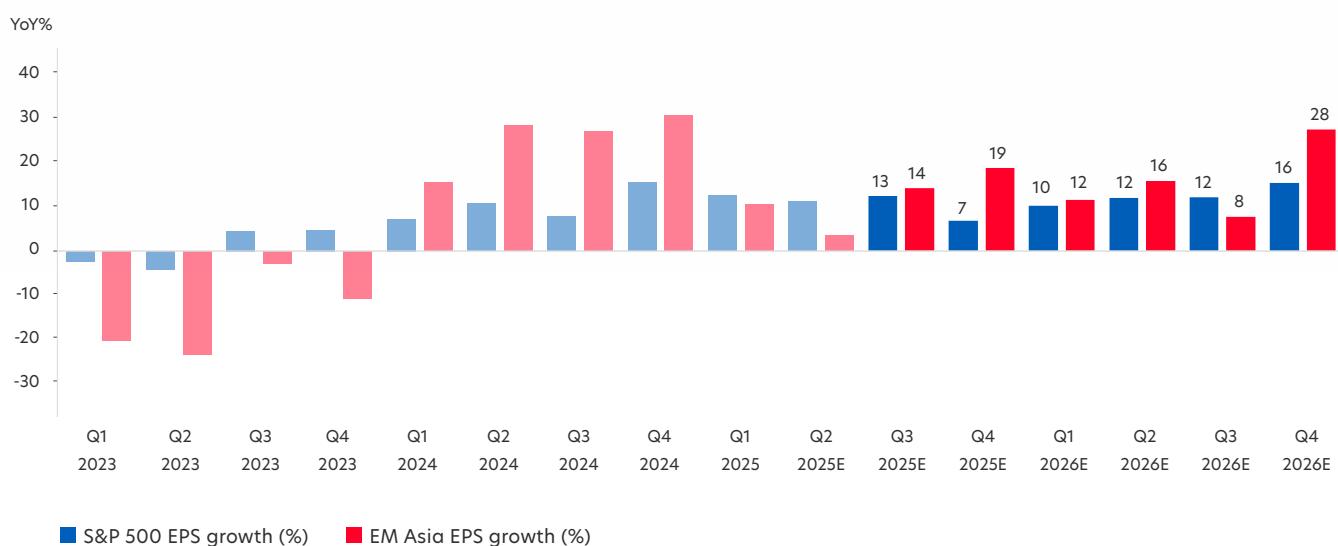
## Investment views

We remain positive on Asian and Chinese stocks. We expect targeted policy easing in China to help stabilise economic growth and corporate earnings. Of particular note are Chinese companies linked to the policy focus of advanced manufacturing, AI, electronic vehicles (EVs) and batteries, and sectors like financials and telecommunications with improving fundamentals and resilient dividends.

Meanwhile, North Asia's technology cycle, especially in South Korea and Taiwan, remains favourable, driven by strong global demand for advanced semiconductors and AI-related components like high-bandwidth memory chips.

Singapore stocks are also expected to benefit from resilient fundamentals and dividend payouts, and the government's Equity Market Development Programme (EQDP).

## Emerging Market Asia is in a sweet spot with stronger EPS\* growth and relatively undemanding valuations



### Note:

\*Earnings per share (EPS) is calculated by subtracting preferred dividends from net income and dividing by outstanding common shares. It shows how much profit a company earns per share and is a key metric for valuing companies.

Source: Bloomberg, UOB Private Bank



# Fixed Income

## Investment Grade Bonds

### Stretched valuations but strong fundamentals offer income opportunities

Developed Market investment grade bonds performed well in 2025, marking a third straight year of gains. This was primarily driven by gains in US Treasury bonds. Throughout 2025, US Treasury bonds benefitted from limited tariff-related inflation and growing concerns over a cooling US labour market. A slowdown in hiring and rising layoffs shifted the Fed's focus towards supporting the labour market, prompting a resumption of rate cuts in September 2025 despite inflation remaining above its long-term target of 2%.

Looking ahead, downside risks to economic growth and employment are expected to influence the Fed's decision. We anticipate an interest rate pause in the first quarter of 2026, followed by two 25bps rate cuts in the second and third quarters respectively under the leadership of the new Fed Chairman.

The fundamentals of Developed Market investment grade bonds remain resilient given the backdrop of a continued economic expansion, albeit slowing, and a favourable interest rate environment. Nonetheless, avoid concentration risks and maintain a diversified approach as bond valuations appear stretched. Focus on high-quality investment grade bonds and we expect 2026 returns will be driven primarily by income rather than price gains.

Emerging Market Asia investment grade bonds also delivered strong performance in 2025, even after facing challenges early in the year from US policy shifts. Looking ahead, Asia investment grade bonds are expected to benefit from a more supportive environment, underpinned by steady economic growth and accommodative monetary policies.

Corporate fundamentals across Asia remains solid, with debt levels near historical lows and improving credit ratings. Default rates should stay low, although risks remain in certain sectors and countries, particularly China's property market.

Valuations are elevated, with the difference in yields between Emerging Market Asia investment grade bonds and US Treasury bonds close to the lowest it has been in a decade. Some Asian central banks may be near the end of their rate-cutting cycle, which may cap the prices of Asia investment grade bonds. However, overall yields remain attractive at around 4.8%. Market conditions should also continue to support demand with global investors still under-invested in Asia investment grade bonds, strong local buying interest, and manageable new issuance.

As such, Emerging Market Asia investment grade bonds offer compelling income opportunities and diversification benefits.



## US Technology Bonds

### Be selective in AI-related issuers amid rapidly rising bond issuance

The rapid acceleration of AI-related investments in infrastructure has resulted in a sharp increase in investment grade bonds issued by US technology companies, and we anticipate AI-related bond issuance will remain elevated over the coming years.

Coupled with uncertainty about how quickly AI investments can be translated into corporate earnings, there are questions about whether financial markets can comfortably absorb the increased bond supply or if technology companies are likely to face higher borrowing costs.

We believe that higher bond supply in the near-term will be manageable for high-quality issuers that possess strong balance sheets, but investors should avoid lower-quality issuers.

## Global Financials and Insurance Bonds

### Structural strength in global financials and insurance bonds

As central banks cut interest rates across 2025, short-maturity bond yields fell more than longer-maturity yields, resulting in a steeper yield curve. With the ability to borrow at lower cost while lend at higher rates, coupled with strong trading and investment banking revenues, banks were able to maintain healthy earnings and balance sheets, with large European banks continuing to show solid credit fundamentals.

Additional Tier 1 (AT1) bonds issued by banks delivered strong returns across 2025. While it continues to offer attractive yields, elevated valuations mean selectivity is crucial. Focus on bonds issued by dominant banks and those with strong credit profiles.

Opportunities can also be found in hybrid bonds from insurers, like Tier 2 (T2) and Restricted Tier 1 (RT1) bonds. These are supported by robust solvency ratios, stable credit ratings, and the relative stability of insurance operations. Insurance hybrid bonds also offer portfolio diversification as they tend to be less sensitive to macroeconomic developments.

## SGD Bond Market

### Singapore dollar bond outlook

The Singapore dollar-denominated (SGD) bond market displayed remarkable strength in 2025 in a backdrop where the Singapore Overnight Rate Average (SORA) tracked the decline in US interest rates. While domestic and foreign, first-time and repeat issuers, tapped the Singapore bond market, demand was robust.

Credit fundamentals in SGD bonds remain broadly stable, and we retain the view that they deserve to be an important part of a globally diversified bond portfolio given the outlook of a potentially weaker USD. Beyond the diversification benefits, SGD bonds offer stable income.

## AUD Bond Market

### Australian dollar bond outlook

An index of Australian dollar-denominated (AUD) corporate bonds currently yield approximately 4.93%, a level that compares favourably with bonds issued in G3 currencies. The structural demand from Australia's superannuation funds and improving market depth

provides support for AUD bonds. They also stand out for their stability, high quality, and liquidity relative to other Asian local currency bonds. With Australia's policy rate set to remain among the highest in developed economies given a resilient economy and elevated inflation, there may be scope for Australian dollar strength to deliver additional returns for AUD bonds.

## Investment views

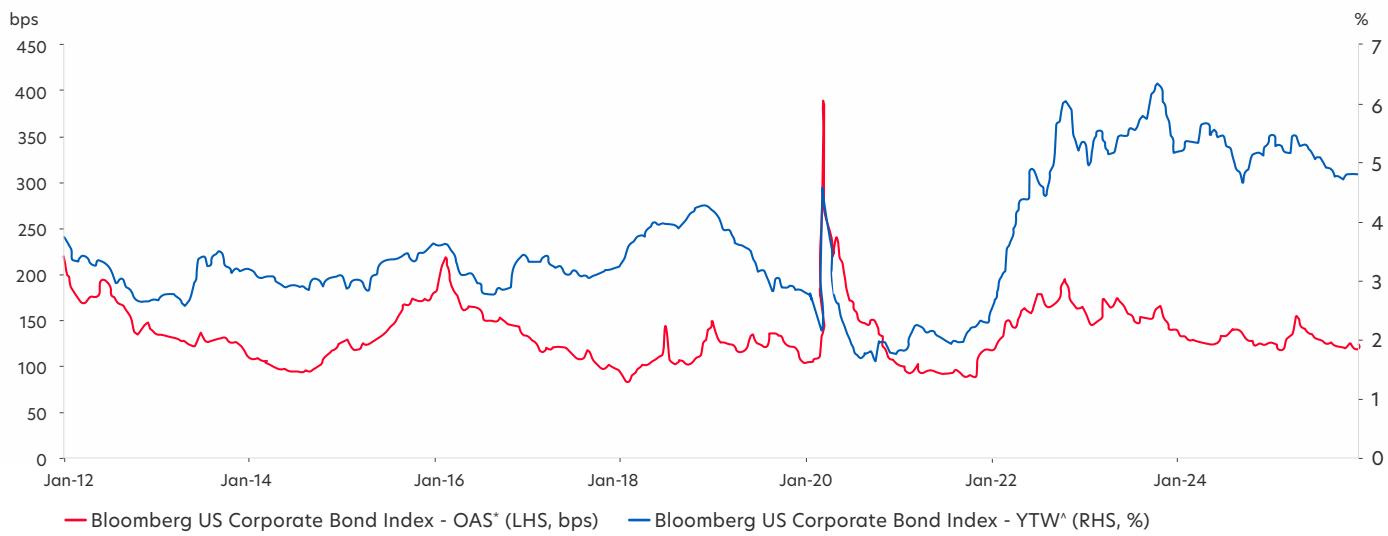
We retain a positive outlook on investment grade bonds but expect returns to be driven primarily by income rather than excess returns from further price appreciation.

While the interest rate environment remains favourable, the global economy is expected to expand at a slower pace while bond valuations appear stretched.

Maintain a diversified approach to reduce the impact of company-specific risks. For the Developed Market segment, focus on high-quality investment grade bonds in defensive sectors.

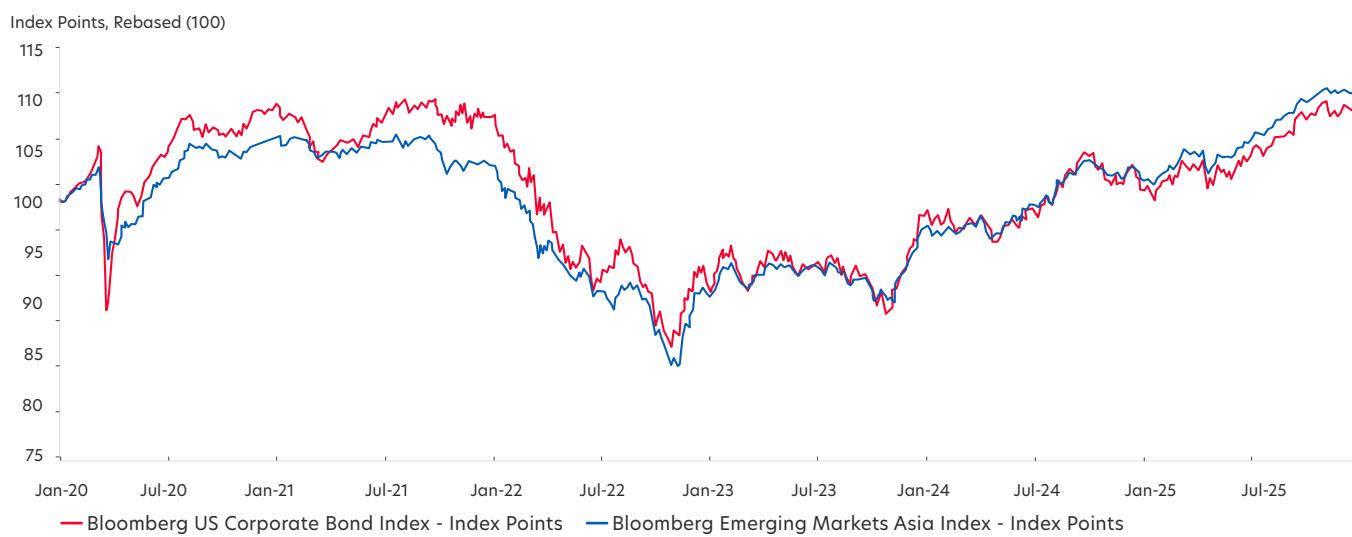
Emerging Market Asia investment grade bonds also offer compelling income opportunities and diversification benefits. Our preferences include prominent ASEAN banks, select Asia-focused insurers, quasi-sovereigns, strategic state-owned enterprises, and defensive consumer credits. Additionally, we see attractive opportunities in China's technology, media, and telecom (TMT) bonds, which are positioned to benefit from improving domestic consumption trends.

## Developed Market investment grade credit spreads are hovering near the tightest in a decade



Source: Bloomberg, UOB Private Bank

## Emerging Market Asia investment grade consistently delivered lower volatility-adjusted returns



### Note:

\*Option-Adjusted Spread (OAS) is a financial metric for bonds used to measure the yield spread over risk-free rate.

<sup>^</sup>Yield to Worst (YTW) is the lowest return an investor can earn if a bond is held until maturity or called/put at the earliest date that produces the minimum yield, assuming no default.

Source: Macrobond, UOB Private Bank

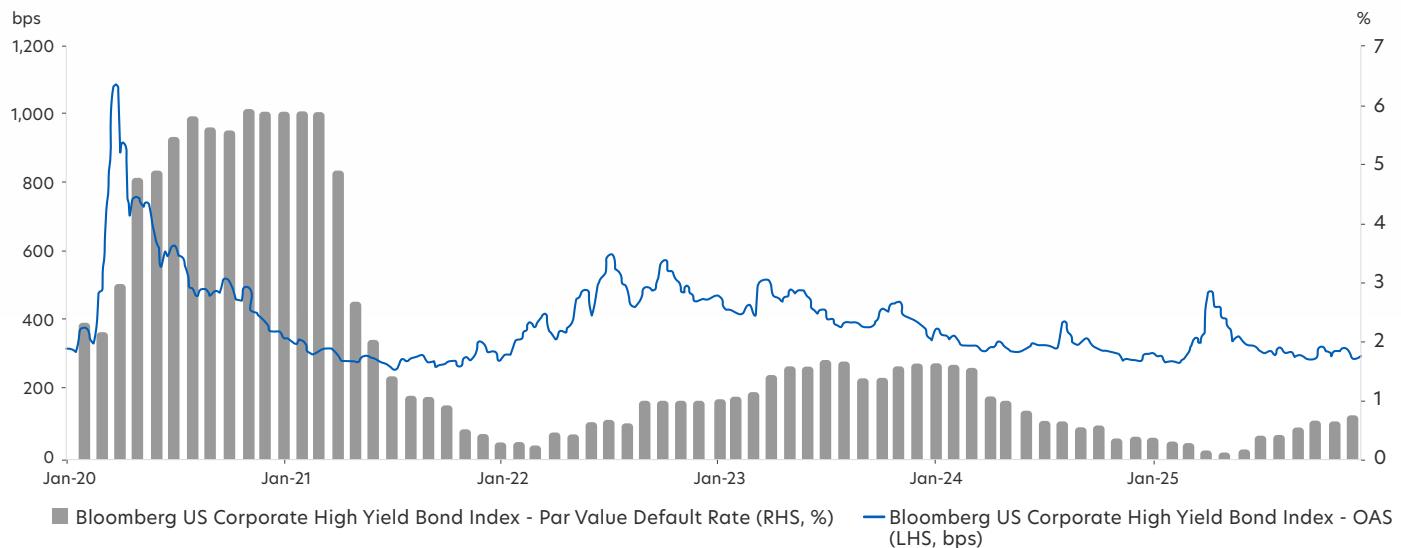
# High Yield Bonds

## Rich valuations warrant caution and rigorous selection

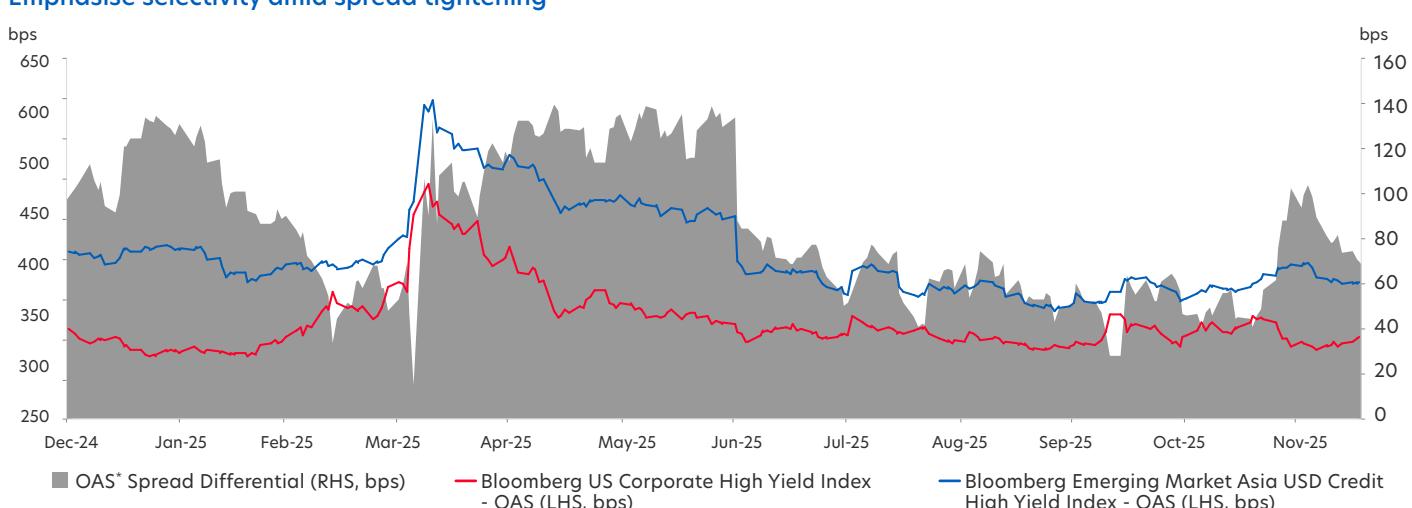
Developed Market high yield bonds delivered strong performance in 2025. Demand was underpinned by robust corporate earnings, lower interest rates, limited credit deterioration, low default rates at 3.7%, and the absence of major debt refinancing.

However, valuations now look stretched and we maintain a negative outlook on Developed Market high yield bonds. The spread in yields between Developed Market high yield and Developed Market investment grade bonds has narrowed to 187bps, a historical low and far tighter than levels seen during past periods of market stress. With Developed Market high yield bonds richly priced, the potential for fresh gains appears limited while there is little cushion against an unexpected risk-off environment.

## Tightening credit spreads amid low default rates



## Emphasise selectivity amid spread tightening



### Note:

\*OAS Spread Differential is the difference between the Option-Adjusted Spreads of two securities, in this case "high yield OAS minus investment grade OAS." It reflects the extra yield for holding high yield bonds over investment grade bonds.

# Commodities

## Gold

### Gold

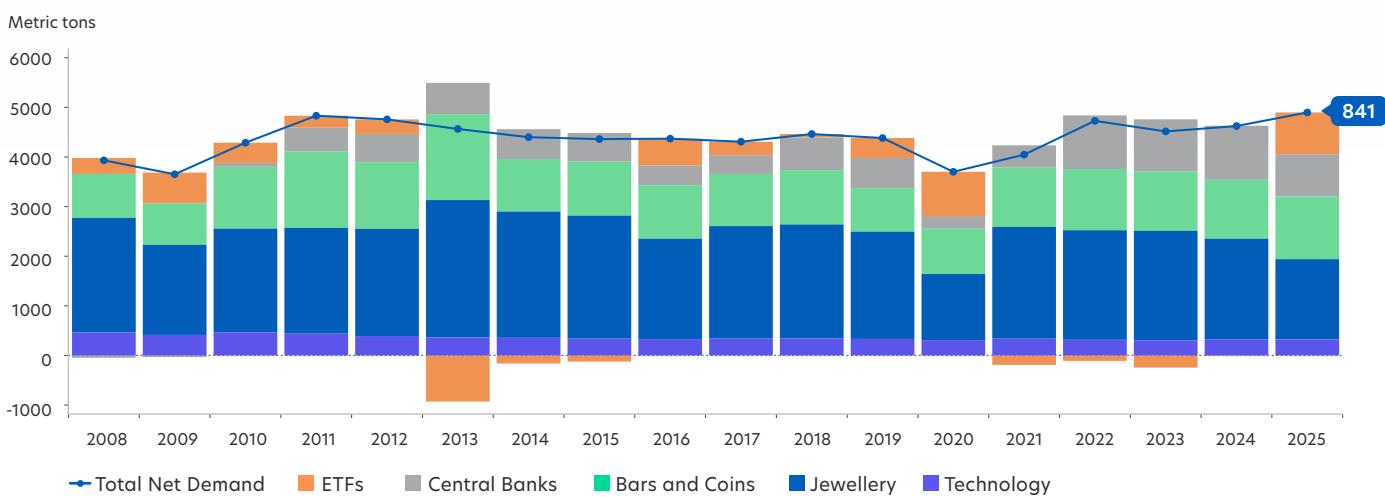
Gold hit a record high in 2025 with a remarkable 65% annual gain, and several factors suggest the rally will likely be sustained in 2026.

Safe-haven demand for portfolio diversification remains strong, and gold inventories on major exchanges such as Commodity Exchange Inc (COMEX) and Shanghai Futures Exchange (SHFE) continue to rise. Investor appetite for gold Exchange-Traded Funds (ETFs) remains robust, while global central banks continue to increase their gold allocation.

### Investment views

We maintain a positive outlook on Gold, and raise our price forecasts to USD 4,300 per ounce in the first quarter of 2026, USD 4,400 per ounce in the second quarter of 2026, USD 4,500 per ounce in the third quarter of 2026, USD 4,600 per ounce in the fourth quarter of 2026.

### Gold: Driven increasingly by central bank and retail demand



Source: Bloomberg, UOB Private Bank



# Currencies

## USD

### USD expected to weaken further

We expect the USD to weaken in 2026, mainly due to an expectation of further interest rate cuts by the Fed as the US labour market weakens. The US unemployment rate has risen to a four-year high of 4.4%, while a change in Fed leadership, with Chairman Powell's term ending in May, could add pressure on the currency. Markets anticipate Powell's successor to align with President Trump's preference for lower rates, reinforcing expectations of a lower terminal Fed Funds Target Rate and prolonged USD weakness. As a result, we expect the dollar Index (DXY) to decline gradually to 95.7 by year-end, although persistent inflation could slow the pace of depreciation.

FX	1Q26F	2Q26F	3Q26F	4Q26F
<b>DXY</b>	98.2	97.3	96.5	95.7

## CNY

### Chinese Yuan (CNY) strength to moderate amid softer economic growth

The CNY recovered strongly in 2025 as US-China trade tensions eased. The currency weakened to 7.35 against the USD in April 2025 amid the tariff escalation but rebounded to around 7.08 after the tariff truce was extended by a year in November. Looking ahead, we expect CNY to strengthen gradually, supported by improved trade sentiment and continued Fed easing. While a stronger CNY aligns with China's long-term goal of boosting domestic consumption, gains may be moderated by slower economic growth and the PBoC cautious but supportive policy approach. We forecast CNY to appreciate to 6.95 against the USD by end-2026.

FX	1Q26F	2Q26F	3Q26F	4Q26F
<b>USD/CNY</b>	7.04	7.00	6.98	6.95

## EUR

### EUR expected to strengthen gradually through 2026

We expect the ECB to deliver a final 25bps rate cut in the first quarter of 2026, ending its easing cycle that began in June 2024. Together with continued Fed easing and the positive impact of Germany's fiscal stimulus, this should continue to support the EUR. We forecast the EUR to strengthen gradually to 1.20 against the USD by the fourth quarter of the year.

FX	1Q26F	2Q26F	3Q26F	4Q26F
<b>EUR/USD</b>	1.17	1.18	1.19	1.20

## JPY

### JPY to appreciate gradually

The JPY was the weakest major currency in 2025 after Sanae Takaichi became Japan's Prime Minister in October. Financial markets viewed her victory as a signal of aggressive fiscal stimulus and ultra-loose monetary policy, which weighed on the JPY. Looking ahead, there is a possibility of currency intervention by Japan's Ministry of Finance if the JPY weakens to around 157-162 against the USD. Overall, we expect the JPY to recover gradually as broad USD weakness persists alongside Fed easing, projecting the JPY to strengthen to 146 against the USD by the end of 2026.

FX	1Q26F	2Q26F	3Q26F	4Q26F
<b>USD/JPY</b>	152	150	148	146

# AUD

## AUD supported by constructive factors

Excluding April's tariff shock, the AUD recovered steadily in 2025 and posted its first yearly gain since 2020. This was supported by easing global trade tensions, a stronger CNY, and the Reserve Bank of Australia (RBA) being less aggressive about cutting rates than peers. While Australia's inflation has risen more than expected in recent months, we still anticipate two more 25bps rate cuts in the first half of 2026. Looking ahead, a supportive global environment should continue to help risk-sensitive currencies like the AUD. The AUD could also stand out as a higher yielding currency once global rate cuts end. Overall, we remain positive on the AUD and expect it to appreciate gradually against the USD through 2026.

# SGD

## SGD expected to strengthen further

The SGD strengthened in 2025 alongside a weaker USD. On a trade-weighted basis, the SGD remained slightly stronger than the midpoint of the central bank's target band, supported by strong non-oil domestic exports and industrial output, which lifted Singapore's growth outlook. With economic growth holding up and inflationary pressures slowly returning, the MAS is expected to keep its modest currency appreciation policy through 2026, with a possibility of policy tightening if inflation picks up further. Looking ahead, we expect the SGD to strengthen further to 1.26 against the USD by the fourth quarter, while the SGD should also strengthen against regional currencies.

FX	1Q26F	2Q26F	3Q26F	4Q26F
<b>AUD/USD</b>	0.67	0.68	0.69	0.69

FX	1Q26F	2Q26F	3Q26F	4Q26F
<b>USD/SGD</b>	1.29	1.28	1.27	1.26



# Portfolio Strategy

## Building Your Portfolio

When constructing an investment portfolio, start by evaluating your financial objectives, risk tolerance, and investment time horizon. Anchor your portfolio with Core investments that are less reliant on market cycles before considering Tactical investments which carry higher risks but potentially offer greater returns in the short to medium term.

In a world defined by uneven growth, technological disruption, and shifting global trade flows, a disciplined approach to portfolio construction is essential to capture opportunities while navigating volatility. Focus on quality assets and thematic growth.

### Global diversification remains critical

Go global to seek opportunities, with an allocation to China and Asia ex-Japan stocks potentially offering diversification and exposure to structural reforms and competitive advantages.

### Explore other areas within the technology sector

Look beyond a narrow focus on mega-cap technology stocks. Participate in the AI trend by exploring companies that demonstrate the ability to monetise and the next phase of "Physical Intelligence".

### Seek income

Through quality bonds and dividend-paying stocks.

## Portfolio Strategy

1



Go global and diversify to seek opportunities

2



Participate in the AI trend by exploring other areas within the technology sector

3



Seek income through quality bonds and dividend-paying stocks

### Core



Multi-asset strategies



Investment grade bond funds

### Tactical



Quality dividend stocks



Developed market financials



Technology



Asia ex-Japan



China



Gold

# Core Allocation

## Multi-asset strategies

Multi-asset strategies offer diversification across different asset classes, regions, and sectors to avoid concentration risks. This will potentially provide stable and consistent returns for long-term financial goals.

## Investment grade bond funds

Investment grade bonds play an important role of diversification within a portfolio, and professionally managed bond funds will enable access to a range of bonds to gain consistent and attractive income.

# Tactical Allocation

## Quality dividend stocks

Quality dividend stocks offer attractive and consistent income, serving as a defensive allocation within the portfolio. Beyond this, they offer potential capital appreciation and a compounding wealth effect when capital gains and dividends are reinvested.

## Gold

The safe haven characteristics of Gold continues to serve as a portfolio diversifier, and the positive drivers that fuelled strong gains in 2025 remains intact as evident in continued robust demand from central banks and retail investors.

## Technology

AI continues to dominate headlines, and the structural growth potential of AI appears significant. That said, investors are looking beyond the hype and focusing on companies that demonstrate the ability to monetise. Look beyond a narrow focus on mega-cap technology stocks. Participate in the AI trend by exploring companies that demonstrate the ability to monetise, with the compelling opportunities lying in supply bottlenecks in AI chips, high-bandwidth memory chips, and power infrastructure. Look beyond merely US names, to Chinese companies that benefit from the country's policy-driven AI strategy, and Asian semiconductor/hardware firms plugged into the global AI supply chain.

Investors should also position for the next phase of AI, "Physical Intelligence".

## China

Trade headwinds have eased with US-China tensions taking a temporary pause.

Chinese companies are increasingly pursuing international growth opportunities that offer revenue streams less correlated with the domestic economic cycle. Chinese companies have also strengthened their competitiveness on the global stage, emerging as a leading producer of technologically advanced goods, and this compelling value proposition is reflected by the rapid global adoption of Chinese brands. This unlocks potential for export-oriented companies.

Corporate earnings growth is also expected to strengthen across the year, while stock valuations remains attractive relative to global peers. Particular areas to focus on are Chinese technology and dividend stocks.

## Asia ex-Japan

Asian economies enter 2026 on a firm footing amid resilient exports and easing inflation.

Regional equity markets will be supported by resilient local currencies, while Asia's dividend yields continue to be attractive.

Asian technology companies are benefitting due to their role in the AI supply chain which adds thematic growth potential, while regional stock valuations remain attractive relative to peers.

Ongoing corporate reforms across some Asian countries are expected to positively impact equity market performance. Of particular note is Singapore's equity market which looks set to be supported by the MAS's SGD 5 billion EQDP which seeks to unlock value and attract global capital.

## Developed market financials

Developed market financials stand to benefit from a global economy that is still expanding, albeit at a slower pace.

This will keep the financial sector's earnings stable, allowing banks to potentially continue their high dividend payouts or share buybacks.

European and Japanese banks are expected to benefit from higher net interest margins.



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