

# UOB House View 1Q 2026

Friday, 09 January 2026

The Team  
Global Economics & Markets Research  
Private Bank

## Global Macro

Increasing global geopolitical risks intensify the need for safe haven hedges, of which we highlight three; Gold as the de facto global safe haven, JPY as the G7 safe haven, and SGD as the ASEAN safe haven. The US Federal Reserve (Fed) is expected to keep a dovish stance, even as most major central banks conclude their easing cycles by mid-year.

## Asset Allocation

We remain **Overweight** on Equities as the Fed's easing cycle is supportive of risk assets. We recommend using dips to accumulate quality stocks. We stay **Neutral** on Fixed Income given reasonable all-in yields but tight spreads. We prefer an average duration of 5-7 years. We remain **Overweight** on Alternatives as less correlated assets offer diversification benefits. We maintain **Neutral** on Money Market with an eye for tactical deployment during corrective phases.

## Equities

We remain **Overweight** on US equities and recommend diversifying from mega-cap tech stocks to financials, industrials and healthcare. Interest rate cuts should cushion valuations. We remain **Neutral** on Europe. Selectivity is critical; we favour defence/infrastructure and banks and avoid deep cyclicals. We remain **Neutral** on Japan as BOJ tightening remains a key risk to monitor. We prefer financials and industrials, while avoiding exporters with weak pricing power. We remain **Overweight** on EM China, with a constructive view on China's technology and dividend plays as well as semiconductor sectors in Korea and Taiwan. Within ASEAN, we prefer Singapore.

## Fixed Income

We stay **Overweight** on Developed Markets (DM) IG as carry remains attractive amid gradual Fed easing. We stay **Underweight** on DM USD HY as tight spreads and slower growth raise downgrade risk. We stay **Overweight** on Emerging Markets (EM) IG and favour Asian quasi-sovereigns/strategic SOEs amid a softer USD and benign inflation dynamics. We stay **Neutral** on EM HY as selectivity is needed given idiosyncratic balance-sheet risks.

## Commodities

In light of the USD 150 / oz jump in gold price following the events in Venezuela and signs of increasing volatility in gold at a higher price level, we raise our gold forecast further to USD 4,400 / oz in 1Q26, USD 4,600 / oz in 2Q26, USD 4,800 / oz in 3Q26 and USD 5,000 oz in 4Q26. Developments in Venezuela unlikely to affect crude prices much as it is no longer a major oil producer while OPEC+ remains determined to maintain ample supply of crude oil and we reiterate our forecast of USD 60 / bbl in 2Q26, USD 55 / bbl in 2H26.

## FX & Interest Rates

Monetary policy divergence is poised to become a defining theme for FX markets in 2026 while political risk could add another layer of USD-negative sentiment as well as the choice of the next Fed chair. Overall, our DXY forecasts are 96.9 by end-2Q26 and 95.3 by 4Q26. As for front-end rates, we forecast the 3M compounded in arrears Sofr easing to 3.23% while Sora to inch back up to 1.32% by 4Q26 with the gap between SORA and SOFR starting to narrow. 10Y SGS yield will climb higher to 2.4% by end 2026.

## Global Macro & Markets Strategy

### Seeking safe havens

At the start of 2026, it would appear that key FX & Rates views for this new year would be an extension of “boring” tried and tested consensus views from last year. Specifically, there is strong consensus that despite their various protestations, the US Federal Reserve (Fed) would still be inclined (and motivated) to cut rates further in the months ahead. Along with this backdrop of a “market friendly” US Federal Reserve are two key consensus views, namely that of an extended USD decline coupled with further gradual steepening of the US Treasuries yield curve.

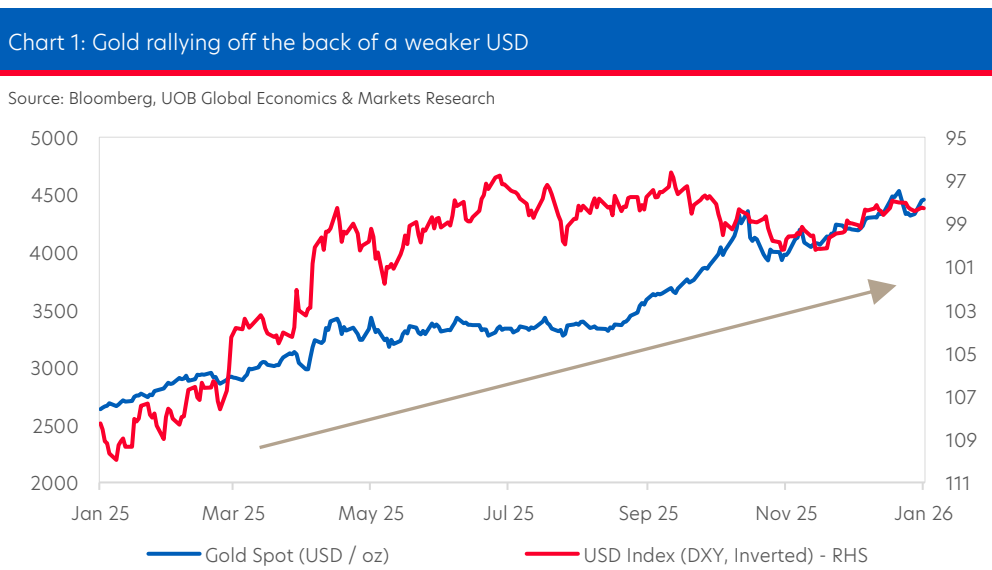
Strictly speaking, there is nothing wrong with consensus views. While they may be crowded, the trend with them is strong precisely because the various fundamental and technical drivers are aligned in a consistent manner and point in the same direction. As such, we reiterate our confidence in the prevailing views of a weaker USD and steeper US yield curve. Both of which continue to be our core views for 2026.

More importantly, beyond the apparent consensus trades, 2026 will likely be a year dominated by the need for safe havens. This is especially so when the year started with the shocking development at Venezuela. One can debate at length about the motivations of US President Trump in “extracting” Nicholas Maduro. Whether this is because of the need to secure Venezuela’s vast crude oil reserves and rebuild the US’s depleted Strategic Petroleum Reserve (SPR), or the grand vision of implementing a more aggressive version of the Monroe Doctrine etc. The key implication of the crisis in Venezuela is that the odds of global geopolitical risk events have gotten more real, i.e. the fat tail of geopolitical risk events have got even fatter.

As such, there is an urgent and imperative need for investors to seek safe haven hedges to diversify risks in investment portfolios. We can think of three such safe haven trades.

### Raising our 4Q26 target to USD 5,000 / oz as Venezuela crisis cements Gold as de facto global safe haven

First safe haven is of course gold. In our recent infographic primer on gold, titled “[Glitter Fever](#)” published on 5th Jan, we highlighted the various strong positive fundamental drivers for gold. There is a common denominator amongst the strong (and ever growing) demand for gold across all the key investor classes, ranging from central banks, to institutions, to retail investors, i.e. the need for gold as a reliable safe haven hedge. Beyond its shiny allure, the uniqueness of gold lies in the fact that it is THE ONLY real world asset that central banks own for reserves.



As such, we reiterate that the strong and explosive rally in gold is structurally supported, not just purely cyclical. In light of the immediate USD 150 / oz jump in gold price following the events in Venezuela and signs of increasing volatility in gold price at a higher price level, we take this opportunity in the monthly report to raise our gold forecast further to USD 4,400 / oz in 1Q26, USD 4,600 / oz in 2Q26, USD 4,800 / oz in 3Q26 and USD 5,000 / oz in 4Q26. Prevailing spot reference rate is

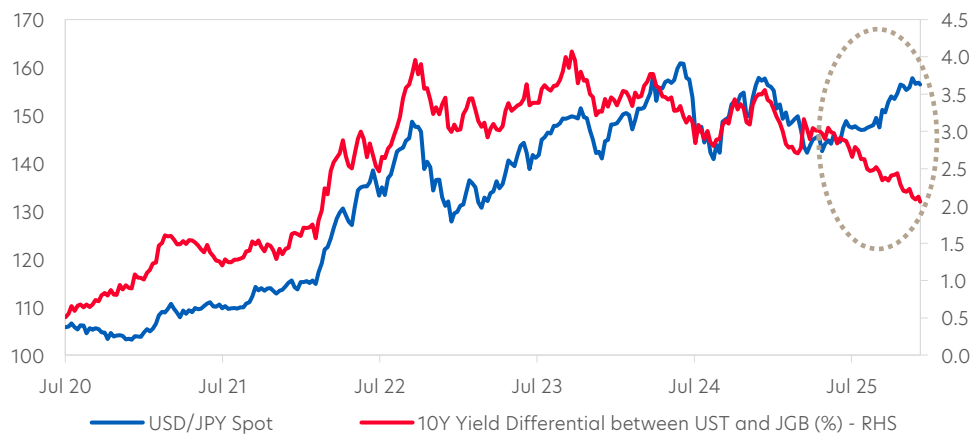
USD 4,470 / oz. (Previous forecast was USD 4,300 / oz in 1Q26, USD 4,400 / oz in 2Q26, USD 4,500 / oz in 3Q26 and USD 4,600 / oz in 4Q26).

### JPY is likely to revert to its traditional role as G7 safe haven

Over the past year, the JPY has stayed frustratingly weak. This was despite Japan's economy clearly entering a reflationary cycle, with strong wage growth, strong food inflation, strong rebound in property prices and strong corporate earnings growth etc. As such, Bank of Japan (BOJ) Governor Kazuo Ueda in his first comment in the new year, said in no uncertain terms that "we will keep raising interest rates in line with improvement in the economy and inflation". Our macroeconomic team's view remains that the BOJ will continue to hike its benchmark rate further to 1.0%, mostly likely by 3Q26.

Chart 2: 10Y yield differential implies that JPY should be stronger

Source: Bloomberg, UOB Global Economics & Markets Research



As such, the current JPY weakness is increasingly at odds with a BOJ that is inclined to tighten monetary policy further. One plausible explanation for the JPY's current weakness is its popular use as a funding currency for carry trades. However, with the sharp rise in Japanese Government Bond (JGB) yields in recent months, resulting in further narrowing of yield differentials in the JPY's favor, the JPY is likely to revert to its traditional role as a G7 safe haven currency in due course. Overall, we reiterate our positive JPY view, with USD/JPY forecasts at 154 for 1Q26, 151 for 2Q26, 149 for 3Q26 and 147 for 4Q26. Prevailing spot reference rate for USD/JPY is 157.

### Long term appreciation stance reinforces SGD as ASEAN safe haven

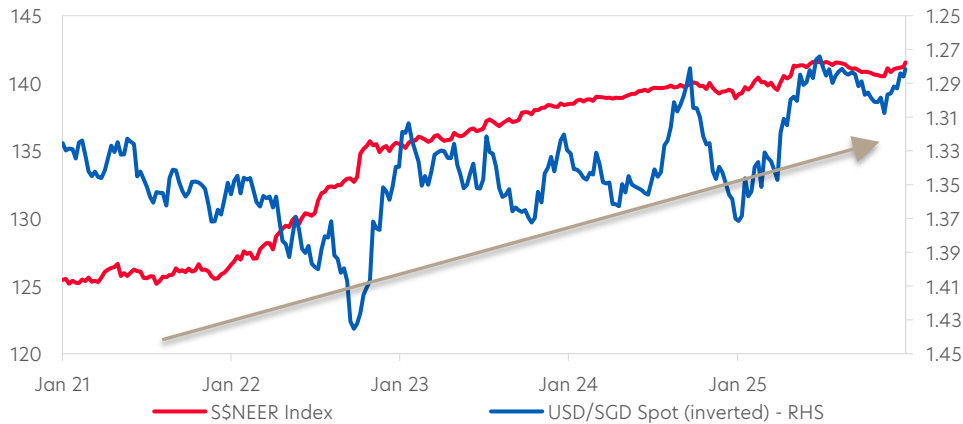
Finally, the SGD's long term appreciation bias remain intact and well supported. As a result of the strong realignment of supply chains into the ASEAN region, coupled with the boom in semi-conductor and electronics related exports, Singapore's economy performed very well and registered a blockbuster growth of 5.7% y/y for 4Q25. That lifted Singapore's full-year 2025 GDP growth to a very robust 4.8% y/y. In terms of the outlook for 2026, in line with the strong momentum heading into the new year, our Macroeconomic team has raised its full-year 2026 GDP forecast to 2.6% (from 2.1% previously).

As for the Monetary Authority of Singapore (MAS)'s monetary policy outlook, our macroeconomic team expects the MAS to maintain its current policy settings of a mild S\$NEER band appreciation (estimated at 0.5% p.a.) through 2026. However, it is noted should core inflation continue to normalize further in the coming months (i.e. rebound), then monetary policy tightening, via a further steepening of the S\$NEER slope to 1.0% (from the current 0.5%) cannot be ruled out and may happen as early as during the Apr MPS.

As such the SGD is likely to remain on its long-term appreciation path, strengthening further across 2026, not just against the USD, but against other key ASEAN currencies as well on a trade weighted basis. Coupled with both strong portfolio and FDI inflows, the SGD is reinforced as ASEAN's safe haven currency. Amidst global backdrop of the increasing geopolitical uncertainties, the reliability of the SGD in preserving purchasing power is a key plus. Overall, we forecast USD/SGD drifting lower across 2026, to 1.28 in 1Q26, 1.27 in 2Q26, 1.26 in 3Q26 and 1.25 in 4Q26. Prevailing spot reference rate is 1.2850.

Chart 3: The SGD's long-term strengthening bias

Source: Bloomberg, UOB Global Economics & Markets Research



## FX Strategy

### The stage is set for further USD decline

The US Dollar Index (DXY) slumped 9.4% in 2025, marking its steepest annual decline since 2017. The USD came under sustained pressure as Trump's trade war reignited de-dollarization concerns, while the Fed delivered three rate cuts to cushion a weakening labor market. Notably, the pace of depreciation moderated in the second half of the year as global trade tensions gradually eased.

Looking ahead, monetary policy divergence is poised to become a defining theme for FX markets in 2026. We anticipate the Fed maintaining a dovish stance, even as most major central banks conclude their easing cycles by mid-year. This evolving rate differential is likely to drive the next leg of USD weakness. After a sharp fall in 2025, the key question remains: how much further can the USD decline in 2026?

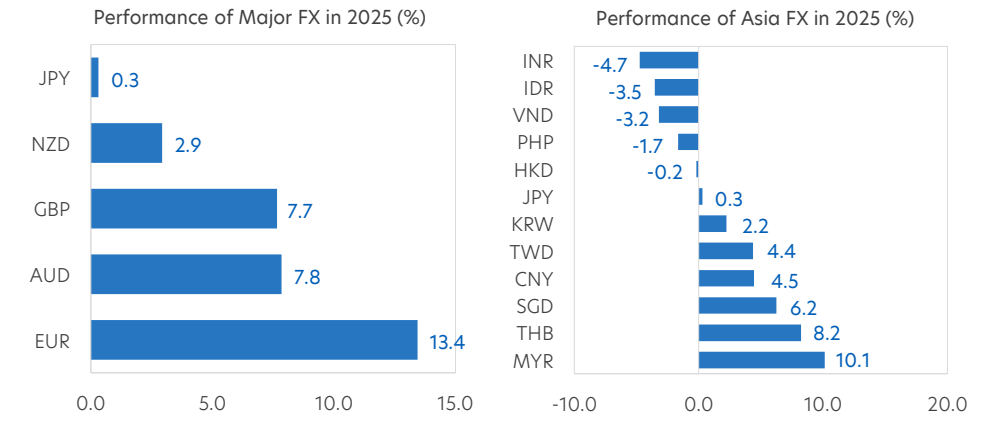
Contrary to initial fears, Asian currencies posted a broadly positive performance in 2025 despite the global trade war. The CNY staged a late-year rally after the US and China reached a trade truce in Nov, pushing USD/CNY below the psychological 7.0 level in Dec – the lowest since May 2023. This resurgence in CNY strength helped deliver the first annual gain for the Asia Dollar Index in four years.

As we enter 2026, investors face a pivotal question: will the supportive backdrop – regional economic resilience, further Fed easing, and CNY anchor – continue to underpin Asia FX? Or will renewed concerns over China's weak growth trajectory weigh on sentiment and reverse recent gains?

Key risk to note is that at the moment of writing, it is expected that the US Supreme Court will announce its ruling of the legality of President Trump's use of International Emergency Economic Powers Act (IEEPA) to impose trade tariffs via emergency declarations. Should the Supreme Court rule that the use of IEEPA is illegal or restrict the scope of IEEPA usage, the decision may well inject renewed volatility into the FX market. Nonetheless, it is widely expected that should the Supreme Court rule against IEEPA, President Trump is expected to widen the use of alternative measures to impose trade tariffs, particularly various sectoral tariffs under the different Trade Acts for different products.

**Chart 4: The USD fell against most Major and Asia FX peers in 2025**

Source: Bloomberg, UOB Global Economics & Markets Research



### Major FX Strategy

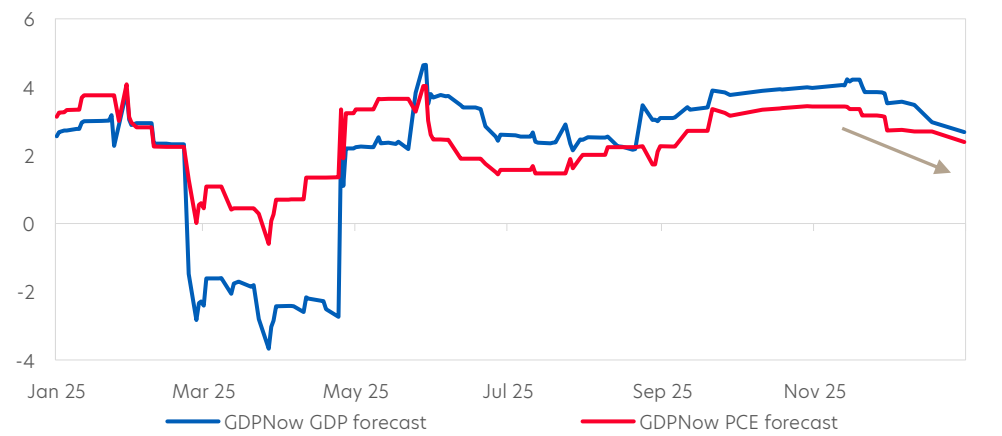
#### USD bearish bias persists amid Fed easing and policy divergence

We maintain a bearish stance on the USD in 2026, with further Fed easing expected to remain the dominant driver of weakness. The Fed’s policy priorities this year are likely to tilt toward stabilizing a softening labor market rather than inflation containment. The US unemployment rate climbed to a four-year high of 4.6% in Nov, while nonfarm payrolls registered only marginal gain of +64k in Nov, after a 105k loss in Oct.

Assuming inflation remains under control, the Fed is expected to stay on its easing trajectory. Our macro team projects US CPI to ease to 2.6% in 2026 from 2.9% in 2025, keeping inflation above the long-term 2% target but within tolerable bounds.

**Chart 5: Fed’s high frequency economic forecasts suggest falling GDP and inflation that supports the view of further rate cuts in 2026**

Source: Bloomberg, UOB Global Economics & Markets Research



Under our baseline scenario, after a short pause, we expect two additional 25 bps cuts in 2Q and 3Q26, bringing the terminal upper bound of the Fed Funds Rate to 3.25%. Relative to G-10 peers, the Fed is likely to retain a more dovish posture well into 2026, as other major central banks approach the end of their easing cycles.

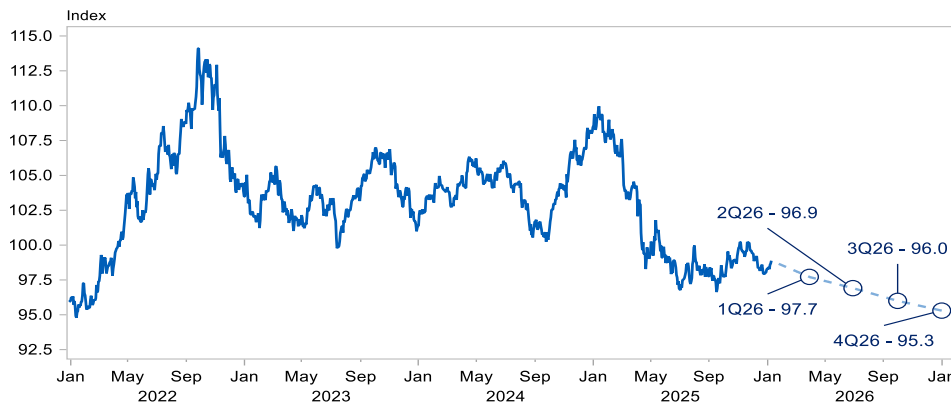
This monetary policy divergence should remain the key catalyst for the next leg of USD weakness. We note that the Reserve Bank of New Zealand (RBNZ) concluded its rate-cut cycle in Nov 2025, while most other peers are expected to wrap up their easing by 1H26. The resulting narrowing of rate differentials will exert further downward pressure on the USD.

Political risk could add another layer of USD-negative sentiment. With Chair Powell's term expiring in May 2026, markets may begin to price in the possibility of a successor more aligned with the Trump administration's preference for lower rates. Such expectations would reinforce a lower terminal Fed Funds Rate, amplifying USD downside risks.

Our latest DXY forecasts stand at 97.7 for 1Q26, 96.9 in 2Q26, 96.0 in 3Q26, and 95.3 by 4Q26. That said, the increasingly consensus short-USD positioning could inject two-way volatility, particularly if incoming US data surprises to the upside.

Chart 6: We reiterate view of lower DXY in 2026

Source: Bloomberg, UOB Global Economics & Markets Research



EUR/USD is poised for further gains in 2026 after delivering its strongest annual performance since 2017. We expect the European Central Bank (ECB) to implement a final 25 bps rate cut in 1Q26, marking the conclusion of its easing cycle that began in Jun 2024. This move will further compress EUR-USD rate differentials as the Fed continues its dovish trajectory well into 2026, creating a supportive backdrop for the pair.

In addition, Germany's fiscal stimulus narrative is likely to persist into 2026, albeit with diminishing marginal impact compared to the initial surge in Mar 2025. Recent positioning data indicates that net long EUR/USD positions are rebuilding, which we view as an early signal of renewed bullish momentum. In all, we maintain a constructive outlook on EUR/USD, projecting a gradual appreciation through the year. Our updated forecasts stand at 1.18 in 1Q26, 1.19 in 2Q26, 1.20 in 3Q26, and 1.21 in 4Q26.

GBP staged a catch-up rally against its G-10 counterparts following the late-Nov Autumn Budget, as markets priced out worst-case fiscal risks. EUR/GBP peaked at 0.8865 - its highest level in nearly three years - while GBP/USD reversed earlier losses to reclaim levels above 1.35, fully unwinding the fiscal-driven selloff.

Looking ahead, broad-based USD softness, underpinned by continued Fed easing through 2026, should lend support to GBP/USD. However, we expect GBP to remain a relative laggard versus G-10 peers, in line with this year's trend. The Bank of England (BOE) is likely to maintain a steady pace of quarterly rate cuts through 3Q26, responding to subdued growth and a further decline in inflation, with CPI projected to ease from 3.4% in 2025 to 2.4% in 2026. Our updated forecasts project GBP/USD at 1.36 in 1Q26, 1.37 in 2Q26, 1.38 in 3Q26, and 1.39 in 4Q26.

USD/JPY remains at familiar levels around 155 - 157 following a well-telegraphed 25 bps rate hike by the BOJ in Dec. Governor Ueda reiterated the BOJ's tightening bias, citing the central bank will keep raising the benchmark rate if its economic outlook - particularly a sustained moderate rise in wages and inflation - is realized. We continue to expect the BOJ to deliver a final 25-bps rate hike to 1.00% in 3Q 2026.

Looking ahead, we expect the disconnect between USD/JPY and the underlying yield differential to narrow, primarily via a gradual decline in the currency pair. This adjustment will be driven by broad-based USD weakness as the Fed extends its easing cycle into 2026. Concurrently, higher JPY yields - supported by a hawkish BOJ stance and rising term premiums - should underpin the yen. Additionally, recent verbal warnings from Japanese authorities against "one-sided and rapid" yen depreciation raise the risk of intervention should USD/JPY revisit the 2024 intervention zone of 157-162. Overall, we

maintain a view of gradual USD/JPY downside, with latest forecasts are 154 in 1Q26, 151 in 2Q26, 149 in 3Q26, and 147 in 3Q26.

AUD/USD recorded its first annual gain (+7.8%) in five years in 2025. Key drivers include the easing of global trade tensions, a firmer CNY, and a relatively less dovish Reserve Bank of Australia (RBA) stance.

Looking ahead, we expect the constructive macro backdrop to remain intact in 2026, sustaining demand for risk-sensitive currencies such as the AUD. Continued CNY strength, with USD/CNY trading below 7.00, should provide an additional tailwind. Furthermore, the AUD could reassert itself as a relative high-yielding currency once the global easing cycle concludes, reinforced by our forecast for the RBA terminal rate at 3.1% by 2Q26. We maintain a positive outlook on AUD/USD, with updated projections at 0.68 in 1Q25, 0.69 in 2Q26, and 0.70 in both 3Q and 4Q26.

## Asia FX Strategy

### **S\$NEER has bottomed late 2025**

Contrary to initial fears, Asian currencies posted a broadly positive performance in 2025 despite the global trade war. The CNY staged a late-year rally after the US and China reached a trade truce in Nov, pushing USD/CNY below the psychological 7.0 level in Dec – the lowest since May 2023. This resurgence in CNY strength helped deliver the first annual gain for the Asia Dollar Index in four years.

Regionally, the MYR emerged as the best-performing currency for the second consecutive year, appreciating 10.1% against the USD in 2025, supported by robust GDP growth and stable monetary policy. The THB (+8.2%) benefited from its strong correlation with record gold prices, despite Thailand's sluggish GDP and persistent deflationary pressures. Meanwhile, the SGD (+6.3%) attracted safe-haven flows and saw a steady rise in the S\$NEER throughout 2025, even as the MAS eased by reducing the policy slope twice—in Jan and Apr.

On the other hand, underperformers included the INR (-4.8%), which fell to a record low near 91/ USD amid foreign equity outflows and delays in concluding a trade deal with the US. Similarly, the IDR (-3.5%) weakened to 16,770/ USD, pressured by aggressive rate cuts from Bank Indonesia (BI) and significant foreign bond outflows between Sep and Nov.

Going forward, we maintain a constructive medium-term outlook for Asian currencies, contingent on sustained de-escalation in global trade frictions, a stable CNY anchoring regional sentiment, and a narrowing yield differential as Asian central banks near the end of their easing cycles while the Fed remains dovish. Recent developments remain broadly consistent with our base case.

However, while several Asia FX pairs (e.g., CNY, MYR, THB vs USD) have already approached our mid-2026 targets ahead of schedule, we exercise greater caution in revising forecasts at this juncture. Authorities' growing unease over one-sided moves also suggests potential for policy intervention, which could temper further currency appreciation.

In Singapore, the MAS has likely concluded its easing cycle and will maintain its current stance of a modest S\$NEER appreciation – estimated at about 0.5% p.a. – through 2026. There is risk for policy tightening via a steeper S\$NEER slope (to 1.0% p.a.) as early as the Apr 2026 MPS, should core inflation momentum continue to normalize in the coming months. Against this backdrop, we expect USD/SGD to resume its weakening trend in 2026, in line with a broad-based USD pullback to 1.25 in 4Q26.

## Rates Strategy

## The gradual grind lower in rates continues into 2026

### US Rates - Fed to pause rate cuts in 1Q26

We maintain our base case for two more 25 bps rate cuts in 2026, following the three consecutive reductions delivered in last Sep, Oct, and Dec FOMC meetings. The Dec FOMC minutes reaffirmed a bias toward additional easing, though not in the near term, reflecting a clear divergence among policymakers. We anticipate a pause in early 2026, coinciding with Chair Powell's scheduled departure in May, before the next leg of rate cuts resumes.

Our forecast calls for two rate reductions in 2Q and 3Q 2026, as labor market softness becomes more evident. We expect the unemployment rate to stay elevated at 4.5% in 2026, consistent with a narrative of sustained labor market weakness.

By end-3Q26, we project the Fed Funds Target Rate (FFTR) to settle at 3.00%-3.25%, which we view as the terminal rate for this easing cycle. Importantly, our base case assumes no US recession in 2026 (probability: 35%), which argues against a return to near-zero rates. In line with this, we forecast a gradual decline in SOFR, with 3M compounded in arrears SOFR at 3.71% in 1Q26, 3.55% in 2Q26, 3.31% in 3Q26, and 3.23% in 4Q26 (current: 4.00%).

The Fed initiated "technical" Treasury bill purchases - as announced in Dec FOMC - to address reserve scarcity, as evidenced by elevated short-term funding costs. Roughly \$38 bn of bills have been purchased in Dec, with two additional operations scheduled for Jan. Liquidity conditions have improved, as seen in the narrowing SOFR-IORB spread to ~10 bps from a peak of 30 bps in late Oct. However, it is noted that on occasion, overnight SOFR remains sticky and there continues to be on-going drawdown of the Federal Reserve's standing repo facility.

On the long end, the 10Y UST yield remains supported near the 4% floor, underpinned by the Fed's accommodative stance and a steepening curve—typical of late-stage easing cycles. Our expectations of a Fed rate pause in 1Q26 would like offer near term support for UST yields as well. Overall, our updated forecasts for 10Y UST yields are 4.00% in 1Q and 2Q26, 4.10% in 3Q26, and 4.20% in 4Q26 (current: 4.18%).

### SG Rates - Clearer signs of a bottom

The wide gap between SORA and SOFR has begun to narrow over the past month, in line with our expectations that the transmission of late-2025 Fed rate cuts to SORA was largely frontloaded. The 3M compounded in arrears SORA held steady at 1.19% in Dec, while the SOFR equivalent declined by 19 bps to 4.00%, reflecting the latest Fed easing. As a result, the SORA discount to SOFR narrowed to 280 bps, down from a peak of ~300 bps in Nov.

Looking ahead, we see limited downside for SORA, even as we anticipate an additional 50 bps of Fed rate cuts later this year. In the absence of extraordinary conditions - such as the safe-haven flows into Singapore during Trump's trade war and de-dollarization in 2025 that drove excess liquidity - we expect a gradual convergence of SGD rates toward US rates through 2026.

There are increasing signs that SORA is establishing a bottom after its sharp decline from 2.8% a year ago. A moving average of the volatile SORA has been trending higher since mid-Nov, when it touched a low of 1.0%, the weakest since Jun 2022. This coincides with stronger domestic macro data - robust growth, industrial production, and exports - alongside renewed core inflation momentum, reinforcing our view that the domestic easing cycle has ended. Our base case remains for MAS to maintain its current policy stance of a mild S\$NEER appreciation (estimated at 0.5% per annum) through 2026.

Overall, we reiterate the view that SORA will likely bottom ahead of SOFR. We are also closely monitoring near-term MAS bill issuance, as an increase in net issuance could further anchor SORA. Our updated forecasts for 3M compounded SORA are 1.13% in 1Q26, 1.17% in 2Q26, 1.24% in 3Q26, and 1.32% in 4Q26 (current: 1.18%). Concurrently to the stability in SORA of late, we also noticed a noticeable pick up in yields of MAS bills in the past month.

On the long end, the yield discount of 10Y SGS versus UST has narrowed much more quickly to just above 200 bps, after reaching a record 246 bps in Aug. Stronger-than-expected domestic macro data has helped stabilize local bond yields, pointing to a gradual recovery in SGS yields across 2026. Our updated forecast for 10Y SGS is 1.90% in 1Q26, 2.00% in 2Q26, 2.20% in 3Q26, and 2.40% in 4Q26 (current: 2.13%).

For more details on our FX and rates view, kindly refer to: "[Monthly FX & Rates Strategy - Seeking safe havens](#)" dated 09 Jan 2026

## Commodities Strategy

### Raising our 4Q26 target to USD 5,000 / oz as Venezuela crisis cements Gold as de facto global safe haven

In light of the immediate USD 150 / oz jump in gold price following the events in Venezuela and signs of increasing volatility in gold price at a higher price level, we take this opportunity in the monthly report to raise our gold forecast further to USD 4,400 / oz in 1Q26, USD 4,600 / oz in 2Q26, USD 4,800 / oz in 3Q26 and USD 5,000 / oz in 4Q26. For details on why we list gold as the de facto global safe haven, please see page 2.

### Brent: Venezuela crisis unlikely to move the needle for Crude Oil price

Across the weekend, the world witnessed yet another remarkable geopolitical crisis, this time in Venezuela. Specific to crude oil, this latest development is unlikely to affect the prices much. This is simply because after years of sanctions and neglect to its oil infrastructure, Venezuela is no longer a major oil producer.

In addition, OPEC remains determined to maintain ample supply of crude oil. Overall, we maintain our cautiously negative outlook for Brent crude oil. Any knee jerk reaction higher in oil prices will likely be brief and minimal. Our current forecast for Brent Crude Oil is USD 65 / bbl in 1Q26, USD 60 / bbl in 2Q26 and USD 55 / bbl in 2H26.

For more details on our crude oil outlook, kindly refer to: "[Commodities Strategy - Venezuela crisis unlikely to move the needle for Crude Oil price](#)" dated 05 Jan 2026

## Asset Allocation

### Asset Class Summary 1Q 2026

The asset class summary below is based on a "Balanced" risk profile

Asset Classes	U/W	N	O/W	Comments
<b>Equities</b>				<b>Remain Overweight. The Fed's easing cycle is supportive of risk assets. Use dips to accumulate quality stocks.</b>
United States				Stay Overweight. Diversify from mega-cap tech stocks to Financials, Industrials and Healthcare. Rate cuts should cushion valuations.
Europe				Remain Neutral. Selectivity is needed; we favour defence/infrastructure and banks, avoid deep cyclicals.
Japan				Stay Neutral. BOJ tightening is a key risk to watch; we like Financials and Industrials. Avoid exporters with weak pricing power.
EM Asia				Remain Overweight. We are constructive on China's tech and dividend plays as well as Korea/Taiwan semis. We like SG within ASEAN.
<b>Fixed Income</b>				<b>Remain Neutral given reasonable all-in yields but tight spreads. Stick to an average duration of 5-7 years.</b>
DM IG				Remain Overweight. Carry remains attractive amid gradual Fed easing.
DM HY				Remain Underweight. Tight spreads and slower growth raise downgrade risk - stay up in quality.
EM IG				Remain Overweight. Favour Asian quasi-sovereigns/strategic SOEs amid softer USD and benign inflation dynamics.
EM HY				Remain Neutral. Selectivity is needed given idiosyncratic balance-sheet risks.
<b>Alternatives</b>				<b>Remain Overweight as less correlated alternatives offer diversification benefits.</b>
Hedge Funds			←	Downgrade to Neutral from Overweight. Selected hedge fund strategies can outperform the public markets.
Private Markets			→	Upgrade to Overweight from Neutral. Prioritise managers with proven track record and disciplined underwriting.
Precious Metals				Remain Overweight. Gold can thrive on safe-haven demand and continued central bank allocation.
<b>Money Market</b>				<b>Remain Neutral. Keep dry powder for tactical deployment during the corrective phases.</b>

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

Notes:  
 The asset class summary above is based on a "Balanced" risk profile.  
 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 empty dot indicates previous quarter's position.

Asset Classes	Very Conservative (%)		Conservative (%)		Balanced (%)		Growth (%)		Aggressive (%)		Comments
	Now	Chg.	Now	Chg.	Now	Chg.	Now	Chg.	Now	Chg.	
<b>Equities</b>			<b>30.0</b>		<b>50.0</b>		<b>65.0</b>		<b>75.0</b>		
United States			18.9	▼ -0.3	31.5	▼ -0.5	41.0	▼ -0.7	47.3	▼ -0.8	
Europe			4.2	▼ -0.3	7.0	▼ -0.5	9.1	▼ -0.7	10.5	▼ -0.8	
Japan			1.8		3.0		3.9		4.5		
EM Asia			5.1	▲ 0.6	8.5	▲ 1.0	11.1	▲ 1.3	12.8	▲ 1.5	
<b>Fixed Income</b>	<b>90.0</b>		<b>65.0</b>		<b>30.0</b>		<b>10.0</b>				
DM IG	45.0		27.6		12.8		4.3				
DM HY			4.9		2.3		0.8				
EM IG	45.0		26.0		12.0		4.0				
EM HY			6.5		3.0		1.0				
											Avg. duration: 5 to 7 years
<b>Alternatives</b>					<b>15.0</b>		<b>20.0</b>		<b>20.0</b>		
<b>Money Market</b>	<b>10.0</b>		<b>5.0</b>		<b>5.0</b>		<b>5.0</b>		<b>5.0</b>		

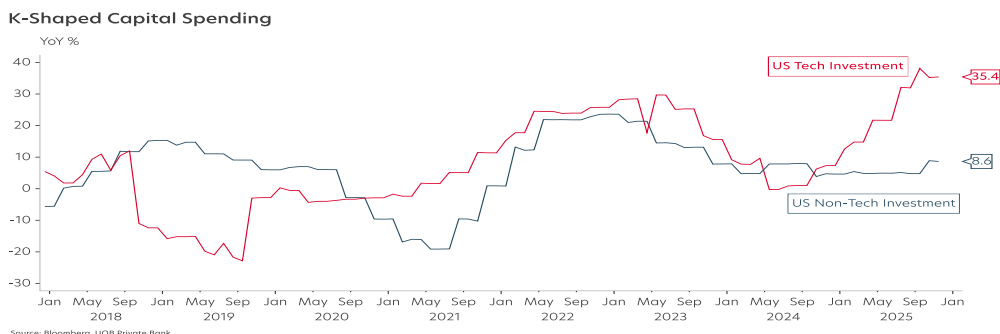
Notes:  
 "Chg." means changes in asset allocation relative to last quarter. If any, these changes will be reflected accordingly (plus weighting in green, minus weighting in red).  
 Figures might not add up due to rounding off to 1 decimal place.

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. We highlight 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.

The K-shaped US recovery supports a constructive stance on risk assets amid disinflation and policy easing. 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 remains a secular driver, but selectivity is key—focus on monetisation leaders and physical AI enablers. 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. Finally, global allocation to China, EM, and Singapore offers diversification and exposure to structural reforms and competitive advantages. Disciplined portfolio construction—balancing duration, quality, and thematic growth—will be essential to capture upside while navigating volatility.

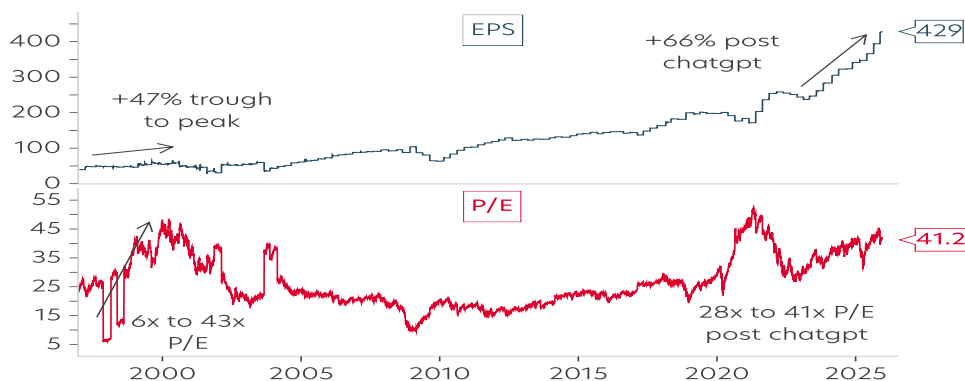
## K-Shaped Capital Spending

Source: Bloomberg, UOB Private Bank



## AI: Valuations & Earnings Growth beats Dotcom

Source: Bloomberg, UOB Private Bank



## Going Global: China exporters have steadily been increasing their market share across nearly all countries

Source: Alpine Macro



## Equities

### US Equities: Constructive, but stay selective

**Stance:** We maintain overweight on US equities into 1H 2026, seeing scope for near-term consolidation while the AI theme remains intact. Looking ahead, alpha will primarily stem from security selection. We continue to advocate buying on the dips. Investors can consider gaining defensive exposure via structured products.

**Monetary policy:** We expect two 25bps rate cuts in 2026 in the Fed's continued easing; this brings the Fed Funds Target Rate to 3.25% (upper bound) by end-2026.

**Macro tone:** US real GDP growth is projected to be stable at 1.7% in 2026, driven mainly by labour productivity, fiscal expansion, accelerating capex and lower interest rates. Core PCE inflation is likely to trend lower. Rising US unemployment rate will be the key risk to watch.

**Allocation discipline:** While US equities remain expensive versus history, valuation itself does not mechanically cap returns. We continue to seek quality growth as well as AI bottlenecks. We also like some cyclicals (e.g., financials and industrials) and defensives (e.g., select healthcare segments/names with durable earnings).

### Macro backdrop and rates: Supportive for equities

**Fed path:** Our economics team projects two 25bps Fed rate cuts in 2026, with risk skewed to additional easing if growth or employment softens. This provides cushion on any potential derating of equity multiples and supports the "buy-on-dips" stance.

**US growth:** US real GDP growth is projected to be 1.7% for 2026, with tariffs and a cooling labour market tempering demand. Overall, we do not foresee a technical recession in our base case. Notably, the One Big Beautiful Bill Act (OBBBA) is expected to deliver a positive fiscal thrust in 2026 by reducing corporate tax bills by ~USD 129bn. The fiscal policy impulse is complemented by monetary and regulatory support, effectively cushioning demand lowering recession odds. This reinforces the case for cyclical participation alongside AI-driven growth.

**USD & global spillovers:** The Fed's ongoing rate-cut cycle is expected to drive further near-term USD weakness; this is typically supportive of flows into global risk assets.

### Earnings & Valuations: Profits intact, wider performance dispersion

**Earnings trajectory:** Against the consensus forecast for low to mid-teens earnings per share (EPS) growth in 2026, US equity returns will likely be respectable. Valuation headwinds should be modest considering the Fed's rate-cut trajectory. Overall, EPS growth is likely to be the core driver of US equity returns in 2026, with the rally broadening to include selected cyclicals.

Magnificent 7's (Mag7) earnings should hold up well unless the US unemployment spikes. The US corporate profits have accelerated while employment remains below pre-pandemic trend; we expect this productivity-led "jobless profit boom" to persist.

**Valuations:** US firms in the S&P 500 are operating near peak profit margins and currently trade at valuations close to the highest levels seen in the past 20 years. Having said that, US equities will remain as a dominant asset class for a long time. US returns have typically surprised on the upside due to the companies' ability to beat expectations. Given the elevated valuations, it is important to maintain discipline on entry points.

**Market dynamics & positioning:** While US large-caps remain supported by durable end-markets, fortress balance sheets, and the ability to invest based on strong free cashflows from legacy businesses, the continuation of mega-cap outperformance is far from guaranteed.

This argues for selectivity and diversification: equal-weighted indices, low-volatility factors and disciplined stock-picking. Investors should consider gaining exposure to sectors outside of technology: financials, industrials and healthcare.

## The AI cycle: Own the bottlenecks

**Cycle status:** The AI theme is not over; consolidation is within expectations. Mag7 valuations have retraced to ~29x, and performance dispersion is rising—pick wisely.

**What to own:** We recommend buying AI bottlenecks—companies in chip design, memory and lithography. Energy/data-centre infrastructure plays with pricing power and clear backlog conversion remain viable. Investors should avoid crowded areas with weak paths to profitability. We prefer public markets to private AI exposures given better liquidity and price discovery.

**Risk flags:** Investors should monitor vendor-financing closely as it can echo patterns seen during the Dotcom bubble of the late 1990s. While today’s tech leaders are profitable with disciplined capex funded by internal cash flows, signs of over-building may emerge.

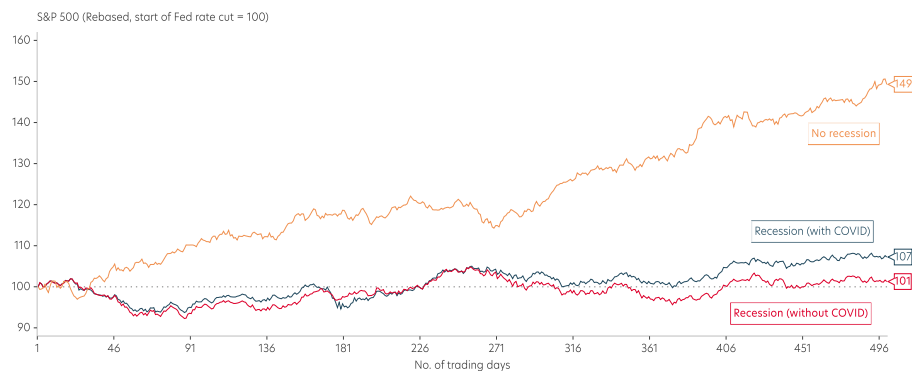
### Investment takeaways:

The US equities can continue to grind higher given the imminent fiscal thrust, relatively loose monetary conditions and the lack of extreme external shocks. Having said that, investors should be prepared to hold quality names through any event-driven volatility.

Caution is warranted in AI-related investments, especially in companies facing a squeeze in returns versus the cost of capital, and where monetisation is yet to be determined. Beyond AI, we like some cyclicals (e.g., financials and industrials) and defensives (e.g., select healthcare segments). Investors should maintain portfolio diversification with FX overlays.

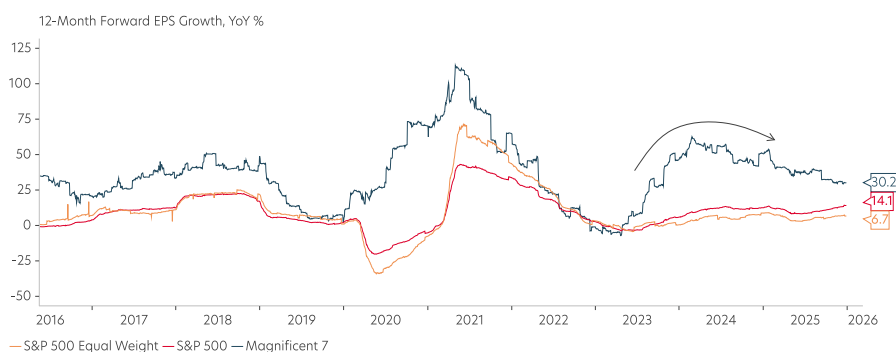
### US equities can grind higher amid Fed rate cuts in the absence of a recession

Source: Bloomberg, UOB Private Bank



### While holding up well, Mag7’s forward earnings growth has peaked, and the rest is catching up

Source: Bloomberg, UOB Private Bank



## Europe Equities: Navigating near-term challenges

**Stance:** We remain neutral on European equities into 1H 2026 amid slowing growth, with EU fiscal policy support potentially offsetting manufacturing weakness. Given softer global PMIs, we would avoid deep cyclical stocks (e.g., autos and chemicals) and favour quality names riding on EU defence and infrastructure spending plans.

**Monetary policy:** After penciling a 25-bps cut by end-1Q, our economics team expects the European Central Bank (ECB) to hold EUR refinancing rate at 1.90% through 2026.

**Macro tone:** Euro area GDP growth is expected to be modest at 1.1% in 2026. Key macro risks include US tariffs, manufacturing headwinds and French political uncertainty, while upside could stem from German fiscal push. Consumer confidence could be tempered by geopolitical tensions, dampening household spending.

**Allocation discipline:** We continue to seek companies which are set to benefit from EU's paradigm shift to increased defence spending as well as infrastructure resilience. Beyond the industrials, we expect financials to outperform given higher net interest margins from supportive rate environment (i.e., a steeper yield curve) and high capital returns via dividend or share buyback.

### Macro backdrop and rates: Neutral to mildly supportive

**ECB path:** A small rate cut could still be on the cards in 1H 2026 if the inflation undershoots target and growth weakens. Thereafter, our economics team expects the ECB to hold rates at 1.90% through 2026. This policy stance limits downside risk to equity valuations.

**EU growth:** Euro area GDP growth is projected at 1.1% in 2026, reflecting soft domestic demand, external trade-related headwinds and stiff Chinese competition. Germany's fiscal push is expected to partially offset these challenges.

**EUR & global spillovers:** A stable ECB policy and anchored inflation outlook point to a relatively firm EUR versus USD, which may weigh on export competitiveness. However, currency stability could attract global capital flows into European assets, particularly in sectors benefitting from structural themes such as energy transition and industrial automation.

### Earnings & valuations: Modest growth, selective opportunities

**Earnings trajectory:** Consensus expects mid to high single-digit EPS growth for 2026, reflecting subdued domestic demand and external trade headwinds. We anticipate "steady but unspectacular" returns, with upside capped by weak macro momentum.

While a multi-decade EU defence and infrastructure investment cycle has begun, the near-term fiscal impulse may be limited. The overall progress may be slow due to institutional inertia and national protectionism amid fragmented governance.

**Valuations:** The Euro Stoxx 600 trade at levels close to the 10-year average (i.e., ~15.1x 12MF P/E as of 18 Dec 2025), offering relative value versus US peers. Looking ahead, the valuation dispersion across styles and sectors in Europe could persist. Given expectations for limited earnings acceleration, investors should focus on companies' cashflow resilience.

**Market dynamics & positioning:** Financials and industrials accounted for much of the strong 2025 rally within Euro Stoxx 50. We continue to favour the sector winners.

Looking ahead, quality and pricing power matter. We expect greater performance dispersion across sectors, driven by divergent margin pressures and regulatory shifts. Export-oriented sectors may face headwinds from a firm EUR and Chinese products, while policy beneficiaries of EU defence spending, energy transition and industrial automation should continue to draw capital flows.

## European "Security & Resilience" cycle: Own the capex beneficiaries

**Cycle status:** Europe is entering a multi-year rearmament and infrastructure renewal phase, with Ukraine reconstruction estimated at USD 500–600bn across Emergency, Recovery and Modernisation phases; this underpins sustained demand for defence, industrials, infrastructure and energy systems.

**What to own:** We like the structural beneficiaries of sovereignty-driven capex. These include defence and dual-use technologies serving both defence and civilian markets. Grid and energy-transition infrastructure also offer exposure to decarbonization themes. Finally, European banks and quality franchises stand to gain from policy support and electrification initiatives.

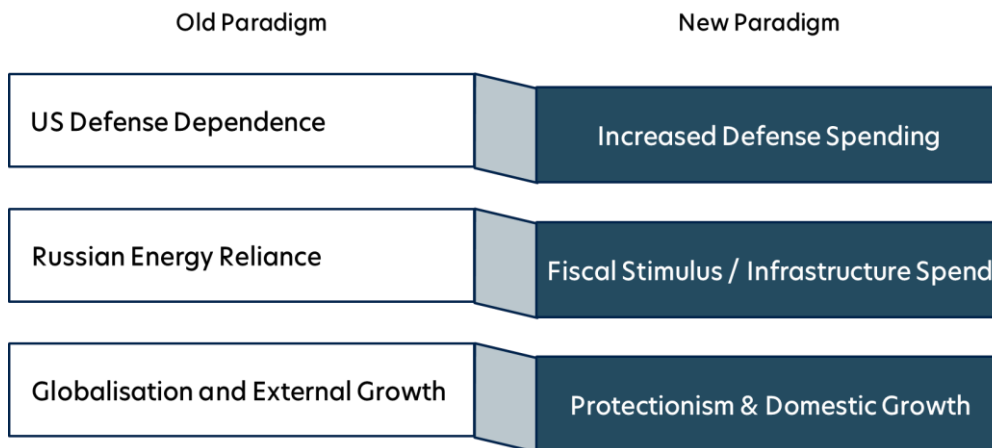
**Risk flags:** Valuations could de-rate if global PMIs worsen or credit spreads widen. Broadly, near-term macro challenges and execution risks related to the EU fiscal stimulus deployment warrant attention

### Investment takeaways

European equities offer some upside from fiscal policy-driven themes while maintaining a valuation discount relative to the US. Selectivity and active management is crucial given the high potential for style or sector rotation going into 2026. Investors should favour capex beneficiaries –such as defence and civil/military technology manufacturers, grid and energy-transition infrastructure, and industrial automation– alongside domestic European banks.

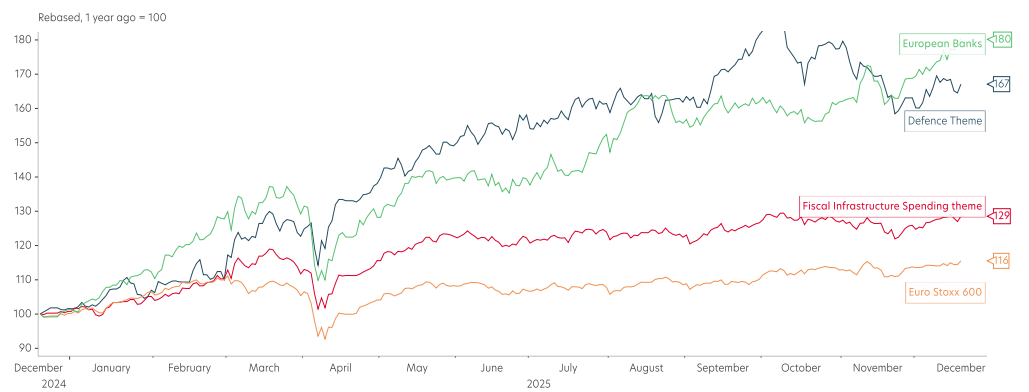
### Europe's paradigm shift is grounded on being self-sufficient

Source: MSCI, Goldman Sachs Asset Management. As of Nov 2025



### Stick to the winning themes

Source: Bloomberg, UOB Private Bank



## Emerging Asia: Poised for further gains

**Stance:** We remain overweight on EM Asia equities, with a constructive bias on China into 1H 2026. We expect selective policy easing in China to stabilise growth and earnings, while North Asia's tech cycle (i.e. South Korea and Taiwan) remain supportive. ASEAN is starting the year on a strong base—exports resiliency, firmer FX and benign inflation—but front loading in 2025 implies moderation in early 2026; select economies like Singapore and Malaysia remain robust.

**Monetary policy:** Our economics team expects incremental PBOC easing to resume as early as 1Q 2026, with 10bps interest rate cut and 50bps RRR reduction on the horizon. Meanwhile, central banks in South Korea and Taiwan will likely keep policy rates on hold, with some odds of modest rate cuts going into 1H 2026.

**Macro tone:** China's real GDP growth is projected to be 4.7% in 2026 despite geopolitical uncertainties. The 15<sup>th</sup> Five-Year Plan (2026-2030) focuses on domestic consumption upgrade as well as tech self-reliance. While industrial production and export will remain key growth drivers in the coming years, the share of domestic consumption in the economy is set to rise. China's deflationary pressures have persisted through 2025 due to intense market competition and weak consumer spending. Going into 2026, these pressures should ease on government policy efforts aimed at boosting domestic consumption.

**Allocation discipline:** We continue to favour a barbell approach with China tech and dividend plays. Investors should remain focused on platform/AI-enabled consumer tech names with strong free cash flow and disciplined capex, as well as Chinese banks, insurers and telcos with credible capital returns and improving fundamentals.

In addition, we remain constructive on semis/AI-hardware plays in South Korea and Taiwan, focusing on the bottlenecks within the AI supply chain. We continue to like Singapore's equities within ASEAN, emphasising exposure to beneficiaries of the Equity Market Development Programme (EQDP).

### Macro backdrop and rates: Neutral to mildly supportive

**EM Asian growth:** While China's growth slowdown and tariff uncertainty persist, the broader region looks to enter 2026 on a firm footing with resilient exports and disinflation. The primary growth driver would be AI tech exports, while potential downside risks include renewed tariff tensions and China's property slump.

**EM Asian currencies & rates:** We maintain a constructive medium-term outlook for EM Asian currencies, contingent on sustained de-escalation in global trade frictions, stability in the CNY, and a narrowing yield differential between Asian central banks and the Fed. Meanwhile, many of the EM Asian central banks are likely close to the end of their easing cycles, with some proceeding with calibrated easing in 2026.

### Earnings & valuations: Scope for improvement on both ends

**Earnings trajectory:** Consensus expects low-mid single digit EPS growth for China's HSCEI over the next 12 months, with 1H 2026 being noticeably weak. Thereafter, the outlook for 2H 2026 is expected to improve meaningfully as domestic consumption improves and inventory headwinds fade.

**Valuations:** HSCEI trades at 10.4x 12MF P/E (as of 18 Dec 2025); the valuation remains undemanding relative to global peers. We see room for further multiple rerating amid stronger earnings per share (EPS) visibility as well as discipline in dividends and share repurchases. China's targeted stimulus and incremental policy easing should provide further tailwinds for the broader region.

**Market dynamics & positioning:** Against a backdrop of US dollar weakness, EM risk appetite should improve as global interest rates fall. We maintain a barbell strategy of China tech and dividend plays. We also favour North Asian AI hardware/semiconductor plays, emphasising the importance of being disciplined on entry points. For proactive risk management, investors should watch Chinese headlines around tariffs, CPI/PPI prints as well as the property sector.

## China Equities: Potential upside surprises and risks

**Easing headwinds:** Pressures from China's property downturn, consumer retrenchment, and trade slowdown are easing. Notably, the China-US rivalry looks set to take a temporary pause. As these key headwinds fade, the resilient strength of China's growth sectors and exports could take the spotlight.

**Risk flags:** There are three conditions which could upset the Chinese equity rally. They are (1) tightening of fiscal, monetary or regulatory policies; (2) a boom-bust cycle stemming from excess valuations (not currently evident); and (3) extreme external shocks. Given a dearth of speculation as well as easing headwinds on the US-China trade front, the odds of Chinese equities entering a bear market are low.

Having said that, the key downside risk stems from worsening money and credit aggregates. China's monetary policy has been kept overly tight. Meanwhile, Chinese consumers are still scarred by huge losses in their net worth given the continued property slump. Overall, households need to spend more, while the government should deploy more fiscal stimulus for the Chinese economy to be lifted out of quagmire.

## Investment takeaways

Investors should stick to investments in China's New Economy which include advanced manufacturing, AI, EVs and batteries. We continue to advocate a barbell strategy of tech and dividend plays. We also like North Asian AI semis/hardware names, particularly the bottlenecks across the AI supply chain. Singapore's equities are favoured for their resilient fundamentals.

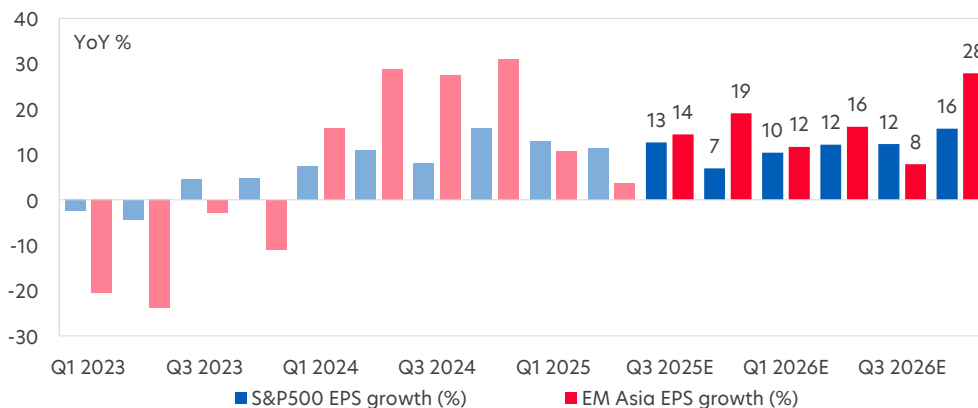
### China H-shares supported around the 200-day moving average

Source: Bloomberg, UOB Private Bank



### Emerging Asia is in a sweet spot with strong EPS growth and relatively undemanding valuations

Source: Bloomberg, UOB Private Bank.



## Japan: Onwards to policy normalization

**Stance:** We maintain neutral on Japanese equities into 1H 2026, balancing Japan's operational leverage to slower global growth and Bank of Japan's (BOJ) policy tightening risks against supportive governance reforms and a cyclical rebound in corporate earnings growth.

**Monetary policy:** Our economics team expects BOJ to make a final hike in policy rate to 1.00% in 3Q 2026. A steady but shallow policy normalisation should limit multiple compression. Having said that, higher domestic risk-free rates raise equity hurdle rates and weigh on rate-sensitive, high-duration growth names.

**Macro tone:** Japan's real GDP growth is expected to be modest at 1.3% in 2026 as fiscal stimulus and tech capex offset weak consumption. Key macro risks include BOJ hikes surprising on the upside, weaker aggregate demand due to escalating geopolitical tensions with China, and a stronger-than-expected JPY going into 1H 2026. A major European bank estimates that each ¥10 of JPY appreciation shaves ~2.5% off corporate profits.

**Allocation discipline:** We seek companies which benefit from policy themes including defence infrastructure buildout and energy security under the Takaichi administration. We also like firms that can demonstrate rising return on equity (ROE) and strong capital returns, supported by governance reforms. Broadly, domestic equities should benefit from the revamped Nippon Individual Savings Account (NISA)-driven inflows.

We emphasise the importance of sticking to large-cap names with strong pricing power which helps offset increasing wage and input costs. It is worth noting that companies face margins pressure especially with increasing wage growth and weaker export demand. In this vein, we avoid exporters which have low pricing power and are the most vulnerable to JPY volatility as well as China's demand swing.

### Macro backdrop and rates: Higher rates amid stronger fiscal impulse

**BOJ path:** Our economics team expects BOJ to make a final hike in policy rate to 1.00% from 0.75% in 3Q 2026. Gradual normalisation should cap valuation upside; earnings need to do the heavy lifting.

**JP growth:** Notwithstanding trade-related challenges and tighter financial conditions, Japan's real GDP growth is expected to be modest at 1.3% in 2026. This forecast is premised on AI-related spending even as domestic spending remains uncertain. Overall CPI inflation is projected to ease to ~2.0% in 2026 as energy subsidy effects fade and JPY stabilises.

**JPY & global spillovers:** We expect broad-based USD weakness as the Fed extends its easing cycle into 2026. Recent verbal warnings from Japanese authorities regarding "one-sided and rapid" depreciation also raise the risk of FX intervention should USD/JPY approach 157-162. Against this backdrop, USD/JPY could strengthen to 147 by 4Q 2026.

### Earnings & valuations: Earnings need to do heavy lifting

**Earnings trajectory:** Consensus projects high single-digit EPS growth for TOPIX in 2026, driven by return on equity (ROE) reforms, governance changes, and domestic flows (NISA 2.0). Looking ahead, we expect steady earnings recovery. Upside hinges on governance reforms and domestic demand resilience, while downside risks stem from elevated wage inflation compressing margins, currency headwinds and trade softness, especially with China exposure as a drag.

**Valuations:** TOPIX trades ~16x 12MF P/E (as of 18 Dec 2025), which is above its 10-year average of 14.6x. Slight multiple compression could take its course as BoJ normalizes policy rates. We expect exporters and high-duration growth names to face headwinds from rising discount rates and JPY volatility, while financials and industrials with resilient cash flows and ROE uplift from governance reforms should attract flows.

**Market dynamics & positioning:** Quality and pricing power matter. Wage-led margin squeeze makes pricing power critical; we avoid sectors with weak ability to pass through costs. Investors should favour companies riding on domestic themes linked to governance reform, ROE improvement, and NISA-driven inflows. In addition, we continue to favour policy beneficiaries; defence, infrastructure, and energy security remain structural themes investors should focus on.

## Japanese "Reform" cycle: Own the governance & policy winners

**Cycle status:** Japan is currently in a corporate governance and ROE improvement cycle, reinforced by NISA 2.0 inflows, buyback reforms, and policy support for defence, infrastructure, and energy security. This structural shift aims to unlock shareholder value and modernise industrial capacity, while fiscal initiatives target grid resilience and critical technologies.

**What to own:** We like companies implementing true share cancellation, sustaining dividend growth, and improving capital efficiency. Policy beneficiaries riding on defence spending, industrial automation, and energy-transition infrastructure are favoured. Japan's domestic banks' net interest margins (NIMs) should be well-supported amid a steeper JGB yield curve. Finally, machinery, electrical precision instruments, and IT services tied to productivity and automation should perform well.

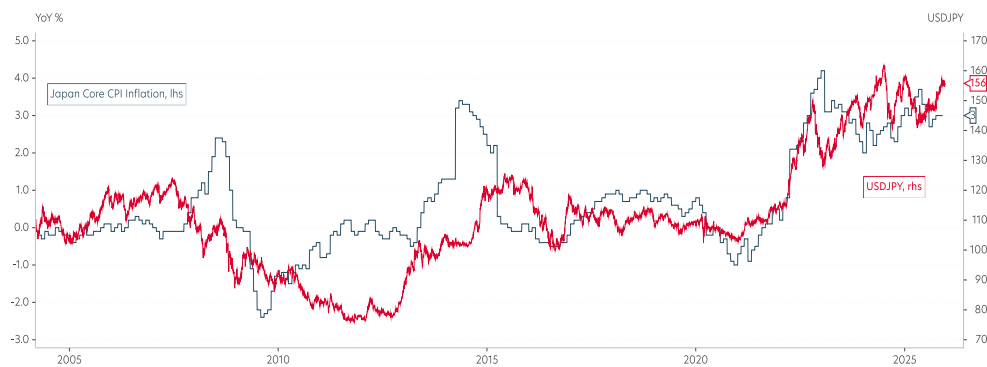
### Investment takeaways

Following PM Takaichi's announcement of the largest stimulus since Covid, with JPY 17.7tn (USD 112bn) in general account spending and a total package of JPY 21.3tn, higher long-term yields from rising term premium could pressure the growth names. Taken together with a gradual monetary policy normalisation, financials' NIMs should be supported by a steeper JGB yield curve.

Given margin headwinds from wage inflation and expectations for JPY appreciation into 2026, we avoid exporters lacking pricing power. Overall, investors should favour governance improvers with credible capital return strategies as well as policy beneficiaries under the Takaichi administration.

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

Source: Bloomberg, UOB Private Bank.



#### A steepening JGB yield curve has boded well for Japanese domestic banks' performance

Source: Bloomberg, UOB Private Bank.



## Fixed Income

### Developed Markets Investment Grade: Optically stretched, fundamentally sound

Developed Markets Investment-Grade (DM IG), represented by the Bloomberg US Corporate Bond Index, delivered a +7.4% return (YTD as of 18-Dec-25), marking its third consecutive year of gains. Performance was primarily driven by US Treasury gains. Credit spreads added +1.0% excess return as DM IG (OAS) credit spreads tightened to near decade-tights of 116bps.

In 2025, US rates benefitted from benign tariff-related inflation and growing concerns over US labour market moderation. Sequential declines in hiring and rising layoffs also shifted the Federal Reserve's (Fed) focus towards its employment mandate, prompting a resumption of rates cuts in Sep-25 despite inflation remaining above its long-term target of 2%. Looking ahead, we expect growth and employment downside risks to influence the Fed's reaction function. UOB Global Economics & Markets Research expects a pause in 1Q 26, followed by two 25bps cut in 2Q and 3Q respectively under the new Fed Chair.

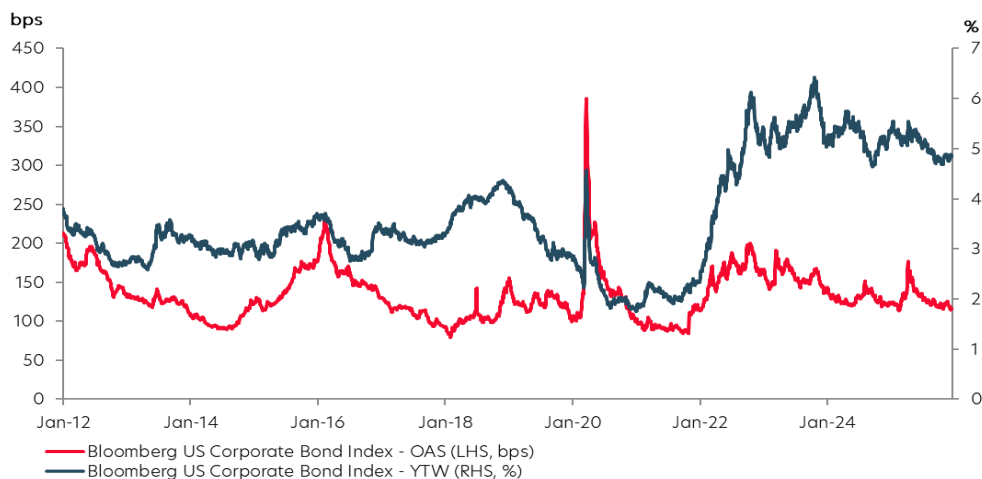
DM IG credit fundamentals remain resilient, evidenced by rating upgrades outpacing downgrades in 2025. However, credit spreads may have a widening bias in 2026 amid heavier issuance from US technology and AI hyperscalers, increased M&A activity, and softer foreign demand. That said, the absence of major economic imbalances should limit the extent of widening.

With valuations appearing optically stretched, we advocate issuer diversification and a bottom-up approach to credit selection. The intermediate part of the curve (5-7-year modified duration) offers an attractive balance of carry and rate risk mitigation if long-term rates prove sticky.

Against a backdrop of modest growth and fading policy rate tailwinds, we favor high-quality credits in defensive sectors. We also expect 2026 returns for DM IG to be driven by carry rather than excess return from credit spread tightening.

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

Source: Bloomberg, UOB Private Bank.



## Developed Markets High Yield: Carry and credit selectivity to returns in 2026

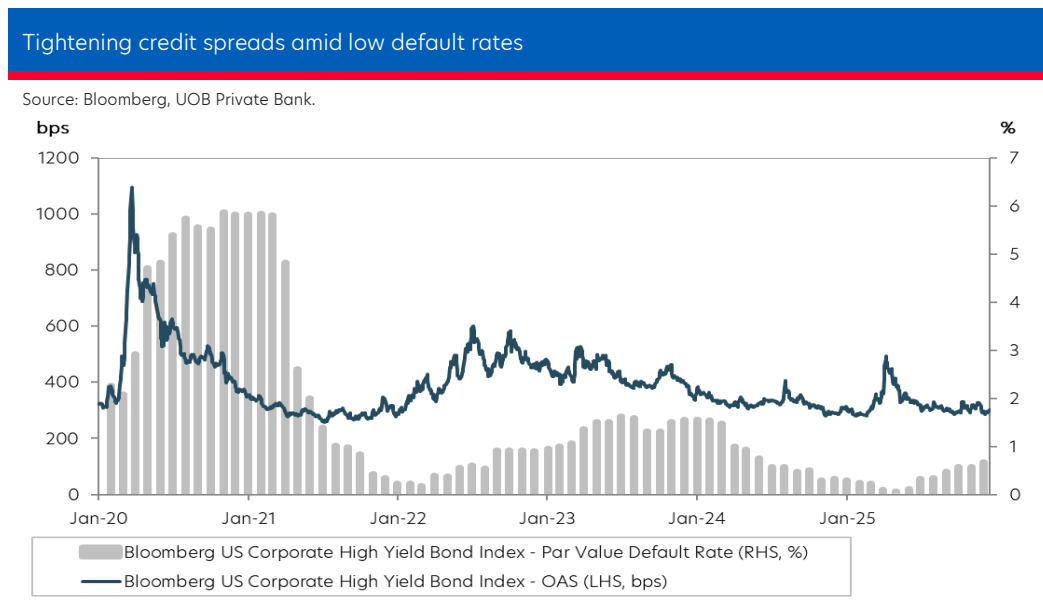
Developed Markets High Yield (DM HY), represented by the Bloomberg US Corporate High Yield Index, delivered a +7.9% return (YTD as of 18-Dec-25). DM HY credit spreads performed well and contributed an excess return of +2.1%. (OAS) credit spreads are currently 303bps, which is rich relative to the start of 2025 (312bps) and the trailing 5-year average (363bps). The tightening of credit spreads dovetails with strong corporate earnings and the lack of systematic credit deterioration. As such, credit spreads could trade in a rangebound fashion amid a benign economic backdrop.

Default rates stayed low at 3.7% in 2025 according to Bloomberg estimates, despite episodic credit events that include First Brands and Tricolor. These events resemble late-cycle dynamics but remain manageable given resilient corporate fundamentals, a lower interest rate environment, and the lack of a material near-term maturity wall. These factors will continue to support technical demand for DM HY.

Refinancing volumes in 2026 should closely mirror those of 2025, though rising M&A and LBO activity could induce opportunistic bond issuance.

Our underweight stance on DM HY for 2026 reflects asymmetric risk-reward concerns based on current valuations and fading US policy tailwinds. The spread differential between DM HY and DM IG has compressed to historical tights (current: 187bps), far below stress levels seen during recent market drawdowns: 318bps during Liberation Day (2025), 413bps during global rate hike cycle (2022), and 709bps during COVID-19 (2020).

In our view, DM HY is priced for perfection, leaving little cushion against a risk-off environment. For these reasons, carry and rigorous credit selection, rather than sector-wide spread compression, will drive returns in 2026.



## Emerging Markets Investment Grade: Offers diversification and compelling income opportunities

Emerging Markets Asia Investment-Grade (EM Asia IG), represented by the Bloomberg Emerging market Asia Index, delivered a +8.3% return (YTD as of 18-Dec-25), driven by declining US Treasury yields and a modest spread compression of 20bps.

Despite headwinds from US exceptionalism policies in the early part of the year, EM Asia maintained steady growth in 2025. Looking ahead, we expect EM Asia to benefit from more supportive backdrop underpinned by modest economic growth and accommodative domestic monetary policy environment.

Corporate fundamentals remain robust, with net leverage near cyclical lows (MSCI AC Asia Pacific Index: 1.3x) and positive credit rating migration. Default rates should remain low, though sector-and country-specific risks persist, notably in the

China property sector. Valuations are tight, with EM Asia IG (OAS) credit spreads near decade-lows, but all-in-yields remain attractive: EM Asia IG yield-to-worst: 4.80%.

We expect technicals to remain supportive, driven by manageable net issuance supply, structural under-allocation by global investors, and strong regional demand. While credit spreads may experience bouts of widening as policy rate tailwinds fade, we do not expect this to derail demand.

We expect the key to delivering stable returns with low volatility in 2026 will be diversification and vigilant avoidance of idiosyncratic risks in sectors facing deteriorating fundamentals. By sector, we maintain a constructive view on ASEAN regional champion financials, select Asia-focused insurers, quasi-sovereigns, strategic state-owned enterprises, and defensive consumer credits. Additionally, we see attractive risk-reward in China TMT credits that are positioned to benefit from improving domestic consumption trends.

### EM Asia IG consistently delivered lower volatility-adjusted returns

Source: Bloomberg, UOB Private Bank.



## Emerging Markets Asia High Yield: Supportive technical but beware of complacencies

Emerging Markets Asia High Yield (EM Asia HY), represented by the Bloomberg EM Asia USD Credit High Yield Index, produced a return of +9.1% (YTD as of 18-Dec-25), driven by significant credit spread compression from special situation events within the lower credit rating spectrum: Vedanta Ltd., Mongolia, Pakistan, Sri Lanka, and Maldives. Elevated government bond yields have also helped crystalize EM Asia HY's carry thesis in 2025.

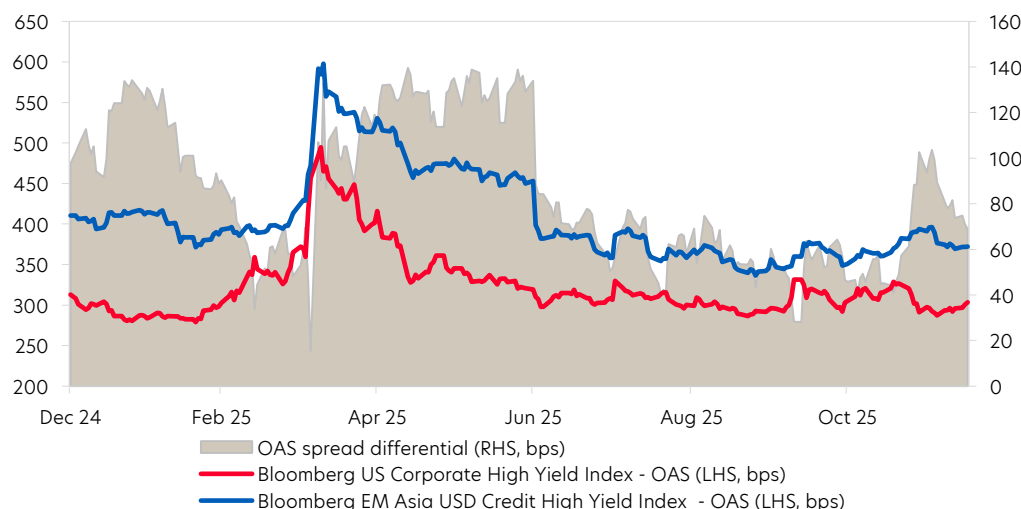
EM Asia HY's tight spread-high yield conundrum has been topical. As it stands, EM Asia HY (OAS) credit spreads have widened to 372bps from YTD lows observed in Sep-25 (336bps) as market recalibrated credit valuations. More calibration may be needed, but tailwinds remain supportive for the asset class. Importantly, corporate fundamentals have been strong, while AI-driven investments have supported global economic growth and productivity. On the monetary policy front, gradual rate-cut cycles in the US and across most Asian economies have supported balance sheets and refinancing activity. The lack of issuance supply in EM Asia post-China HY property shakeup has further reinforced the allocation demand.

With the USD currency regaining ground after weakening in 1H 25, EM Asia HY credit spreads have since underperformed DM HY. Although EM Asia HY credit spreads now trade almost 69bps wider than their DM HY counterpart, we believe this differential could converge. Our rationale includes softening US labour market, lingering geopolitical risks, and growth overhang. US exceptionalism could also impair business sentiment and curtail investment spending.

Overall, we are mindful of market bumps in 2026 and prefer to stay in quality higher-beta credits. Looking ahead, we do not see a material increase in alpha opportunities due to the absence of idiosyncratic special situation events beyond China HY property credits, which remain cautious on. Pockets of value in EM Asia HY include corporates and bank bonds from the lower part of the capital structure (hybrids, T2, AT1). We also prefer to avoid China HY-unrated LGFVs (local government financing vehicle) and distressed plays.

## Emphasise selectivity amid spread-tightening

Source: Bloomberg, UOB Private Bank.



## Global Financials & Insurance: Structural strength precedes yield-seeking motives

AT1 delivered a +10.2% return (YTD as of 18-Dec-25), outperforming T2 (+6.5%) and senior bonds (+5.2%). This was driven by 50bps of credit spread compression (T2: 36bps; Senior: 25bps). As seen, credit spreads across the bank capital stack remained stable for most of 2025, barring brief volatility in Apr-25 when President Trump announced his Liberation Day policies.

Yield curves steepened in 2025, but front-end rates stayed anchored by Central Banks' gradual policy normalization. This accommodative policy backdrop supported bank earnings and balance sheet strength, with large European banks maintaining solid credit fundamentals. According to Bloomberg data, the median CET1 ratio stood at 14.2%, with a non-performing loans ratio of 2.3%.

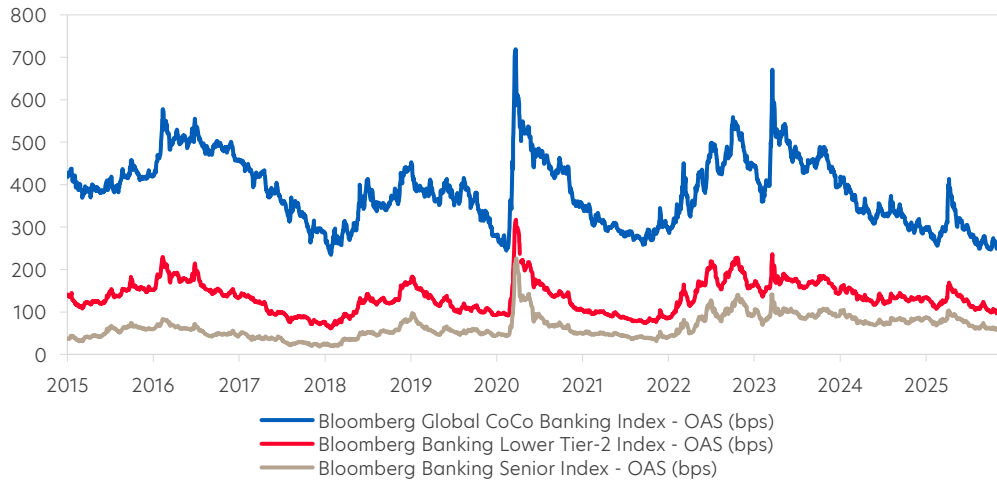
Currently, AT1 (OAS) credit spreads trades at 249bps, close to historical tightness of 230bps and 2.5x over T2 (OAS) credit spreads - expensive by historical standards. We also note that AT1s issued in 2025 had lower reset spreads, reflecting improved fundamentals and yield-driven demand. This leaves little room for further compression and outsized returns in 2026 without additional fundamental or structural catalysts.

Selectivity is critical given AT1's unique loss-absorption features and expensive valuations. To this end, we favor bonds from national banking champions or banks with strong standalone credit profiles. While AT1 continues to offer attractive all-in yields, we are inclined to prioritise structures with above-average reset spreads to mitigate call extension risks. On a risk-adjusted basis, T2 currently trades 37bps or 1.6x over seniors on index level and still offers modest value, in our view.

Beyond banks, we are increasingly constructive on hybrid bonds issued by insurers (both T2 and RT1), supported by robust solvency ratios, stable credit ratings, and the relative non-cyclicality of insurance operations. These insurance hybrid bonds can provide sector diversification and relative insulation from macro headline risk, thereby reinforcing the portfolio-stabilizing effects of bonds.

## AT1 credit spreads are near historical tight, leaving little room for error

Source: Bloomberg, UOB Private Bank.



## SGD Bond Market: From strength to stability

The SGD bond market displayed remarkable strength in 2025, proving its resilience as an asset class despite episodic volatility and geopolitical tensions throughout the year. On an index level, the Markit iBoxx SGD Overall Index delivered a +7.0% return (YTD as of 18-Dec-25), driven by favourable descent in SGD rates.

The SGD SORA-OIS curve bull-steepened, declining sharply by 25 to 105bps across the 2Y-30Y curve, with the front-end being the biggest beneficiary. To contextualize this, the MAS 6-month T-Bill cutoff yield (17-Dec-25 auction) came in at 1.48%, distinctly lower than the 3% handle yields seen at the beginning of the year. This aligns with our view that SGD liquidity is flush and technical demand for SGD assets is robust, helping push yields lower.

The performance of the SGD currency has been a pleasant outcome for SGD investors as markets turned to SGD in 2025 for shelter amid global uncertainties. Looking ahead, UOB Global Economics & Markets Research expects SORA to move in tandem with upcoming cuts by the Federal Reserve, although the SORA-SOFR discount is currently at historically extreme levels. This could determine relative SGD rates performance against US rates in 2026.

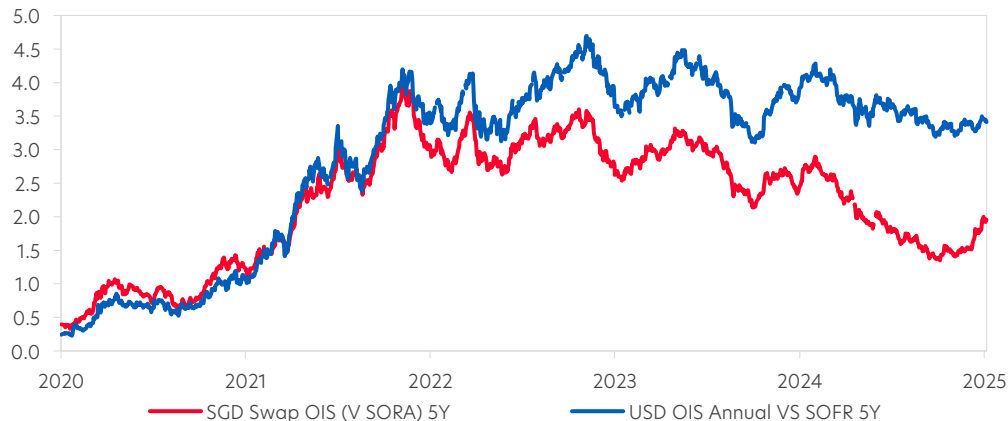
SGD bond primary activity was buoyant in 2025 as issuers, both domestic and foreign, capitalised on the lower interest rate environment to access the SGD bond market. Financials, insurers, and Singapore statutory boards drove the bulk of 2025 issuance volumes. Although primary market activity was affected during Liberation Day (Apr-25), issuance picked up in 2H 25 as geopolitical tensions abated, and rates declined. Separately, we also note the growing depth of the SGD bond market, where both repeat and first-time issuers tapped SGD markets, further improving market diversification.

Overall credit fundamentals in our SGD bond coverage universe remain stable despite some credit spread widening. We remain convinced that SGD bonds can play an important role in a global and diversified bond portfolio amid renewed de-dollarization concerns. SGD bonds will continue to offer stable income and portfolio-stabilizing effects for investors. Given our expectations for credit spreads to trade rangebound and for SGD rates to move in tandem with US rates, we see SGD credits' route-to-market to transition from capital appreciation to carry.

For 2026, we prefer to position in quality and capture mispriced credit risk premia in global issuers with investor-base unfamiliarity. By sector, we lean towards T2/AT1 by G-SIB financials, insurer T2, corporate hybrids, and select domestic unrated corporates.

SORA-SOFR discount is currently at historically extreme levels

Source: Bloomberg, UOB Private Bank.



**AUD Bond Market: Quality diversifier with attractive carry and steep curve roll-down**

AUD credit, represented by the Bloomberg AusBond Credit 0+ Year Index, delivered a return of +4.1% (YTD as of 18-Dec-25), driven by credit spread tightening - from 87bps at the beginning of 2025 to 77bps currently. AUD credit performance notably peaked in Oct-25 before retracing in Nov-Dec on inflation resurgence concerns, which dampened expectations for near-term rate cuts by the RBA and triggered a selloff in Australian rates.

Australia's economy demonstrated resiliency, supported by a diversified economic base, stable population growth, and a robust and well-regulated financial system. Recent data releases highlight moderately tight labour market conditions, which may have supported domestic consumption up to this point. As a result, inflation data have shown signs of upward pressure (Oct-25 Australia CPI: +3.8%), cumulating in the RBA holding its policy rate at the Dec-25 MPC meeting.

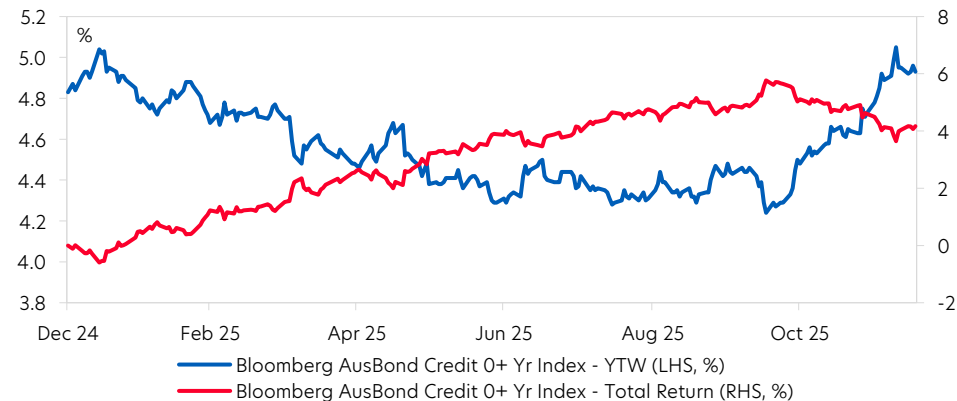
After delivering three cuts in 2025, UOB Global Economics & Markets Research expects the RBA to resume rate cuts in 2026 - one each in 1Q 26 and 2Q 26 - considering expectations for softer growth, easing inflation and rising unemployment. That said, at the projected 3.1% (for 2026), Australia's policy rate would be among the highest in developed economies. This implies AUD currency tailwinds, and hence, a possible source of excess currency returns in AUD bonds.

Looking ahead, AUD credits offer compelling value with its yield (4.93% at the index level) relative to G3 currency bond markets. Structural demand from superannuation funds and improving market depth further enhances AUD credits' value proposition. We highlight that AUD credits, as an asset class, also stand out for their stability (deep local investor base), quality (75% of index rated A and above), and better liquidity relative to other Asia local currency markets, making them an effective portfolio stabilizer.

Within the AUD credit universe, we see value in T2 bonds issued by Australia majors, G-SIBs, and insurers; senior bonds issued by G-SIBs; utility and infrastructure bonds; and foreign issuer corporate bonds. Select opportunities also exist in BBB credits for investor seeking higher beta, but we emphasize stringent selectivity by focusing on credits with an improving fundamental profile. Additionally, increasing issuance activity in the kangaroo bond market provides attractive opportunities to pick up bonds that come with new issuer concessions.

## AUD (credit) yields near YTD peak amid RBA policy normalization

Source: Bloomberg, UOB Private Bank.



## US Technology: Rapidly rising AI-related capex necessitates selectivity

Artificial intelligence (AI) remains one of the most transformative themes in today's investment landscape. At the crux of discussions are accelerating investment requirements for AI infrastructure and its ancillary ecosystems. According to International Data Corp, cumulative AI-related investments between 2026 and 2029 could reach USD 3.5 trillion globally. To frame supply dynamics, IG tech issuers have already raised over USD 200 billion in bonds YTD, nearly double the issuance volumes seen in 2024. Looking ahead, we anticipate bond issuance to remain elevated as tech companies seek to fund three priorities: shareholder returns (buybacks, dividends), upcoming debt refinancing averaging USD 70 billion per annum through 2029, and AI-related capex.

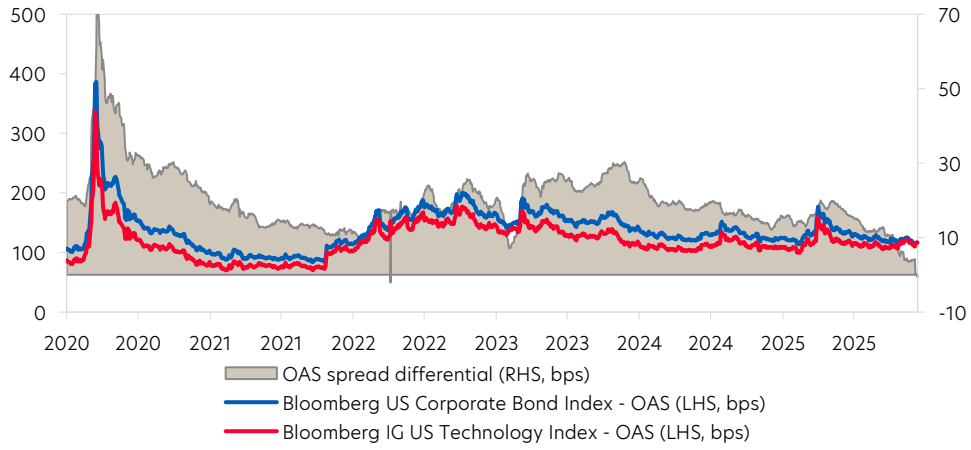
The critical questions for investors are broadly twofold: How quickly can these capex investments translate into monetisation and earnings validation? And can the market comfortably absorb the expected influx of issuance supply without materially widening credit spreads? Observing recent trends, (OAS) credit spreads for US IG tech credits have widened modestly, by 17bps from 2025 YTD lows in Feb-25, primarily due to idiosyncratic concerns surrounding lower-quality tech credits with aggressive bond issuance and high customer concentration risk amid uncertain AI adoption rates.

Despite this, US tech credit bonds still trade tighter than most sectors and remain 4bps inside the Bloomberg US Corporate Bond Index. That said, the spread differential between both has compressed to its tightest level since 2007, This creates a compelling opportunity to participate in the secular AI growth theme through higher-quality US tech credits.

From a credit perspective, rising debt-funded capex without a proportionate realised earnings uplift will pressure leverage and erode interest coverage ratios. However, we believe near-term supply headwinds are manageable for select issuers that possess fortress balance sheets. We prefer US tech credits with strong cash positions, robust free cash flow generation ability, and ample credit rating headroom. For example, US tech credits in the AA credit spectrum exhibit net leverage below 1.0x and an Net Debt/Enterprise Value ratio under 1%, underscoring exceptional balance sheet strength. Such differentiation will minimize credit rating downgrade risks and position investors to capture excess return from any supply-induced spread widening

US tech sector offers attractive relative value post recent spread widening

Source: Bloomberg, UOB Private Bank.



## FX, Interest Rate & Commodities Forecasts

FX	09 Jan	1Q26F	2Q26F	3Q26F	4Q26F
USD/JPY*	157	154	151	149	147
EUR/USD*	1.17	1.18	1.19	1.20	1.21
GBP/USD*	1.34	1.36	1.37	1.38	1.39
AUD/USD*	0.67	0.68	0.69	0.70	0.70
NZD/USD	0.58	0.58	0.59	0.60	0.60
DXY*	98.9	97.7	96.9	96.0	95.3

USD/CNY*	6.98	6.95	6.90	6.88	6.85
USD/HKD	7.79	7.80	7.80	7.80	7.80
USD/TWD	31.6	31.2	30.9	30.6	30.3
USD/KRW*	1,453	1,430	1,410	1,390	1,380
USD/PHP*	59.2	59.0	58.6	58.3	58.0

USD/MYR*	4.06	4.06	4.03	4.00	3.98
USD/IDR	16,793	16,700	16,600	16,500	16,400
USD/THB*	31.5	31.4	31.2	31.0	31.0
USD/VND*	26,270	26,300	26,200	26,100	26,000
USD/INR*	90.0	90.0	89.5	89.0	88.5

USD/SGD*	1.29	1.28	1.27	1.26	1.25
EUR/SGD	1.50	1.51	1.51	1.51	1.51
GBP/SGD*	1.73	1.74	1.74	1.74	1.74
AUD/SGD*	0.86	0.87	0.88	0.88	0.88
SGD/MYR*	3.16	3.17	3.17	3.17	3.18
SGD/CNY*	5.43	5.43	5.43	5.46	5.48
JPY/SGDx100*	0.82	0.83	0.84	0.85	0.85

POLICY RATES	09 Jan	1Q26F	2Q26F	3Q26F	4Q26F
US Fed Funds Rate	3.75	3.75	3.50	3.25	3.25
JPY Policy Rate	0.75	0.75	0.75	1.00	1.00
EUR Refinancing Rate	2.15	1.90	1.90	1.90	1.90
GBP Repo Rate	3.75	3.50	3.25	3.00	3.00
AUD Official Cash Rate	3.60	3.35	3.10	3.10	3.10
NZD Official Cash Rate	2.25	2.25	2.25	2.25	2.25

CNY 1Y Loan Prime Rate	3.00	2.90	2.90	2.90	2.90
HKD Base Rate	4.00	4.00	3.75	3.50	3.50
TWD Official Discount Rate	2.00	2.00	1.88	1.88	1.88
KRW Base Rate	2.50	2.50	2.50	2.50	2.50
PHP O/N Reverse Repo*	4.50	4.50	4.25	4.25	4.25
MYR O/N Policy Rate	2.75	2.75	2.75	2.75	2.75
IDR 7D Reverse Repo*	4.75	4.50	4.25	4.25	4.25
THB 1D Repo	1.25	1.00	1.00	1.00	1.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate*	5.25	5.25	5.25	5.25	5.25

INTEREST RATES	09 Jan	1Q26F	2Q26F	3Q26F	4Q26F
USD 3M SOFR (compounded)*	3.97	3.71	3.55	3.31	3.23
SGD 3M SORA (compounded)*	1.18	1.13	1.17	1.24	1.32
10Y US Treasuries Yield*	4.17	4.00	4.00	4.10	4.20
SGD 10Y SGS*	2.19	1.90	2.00	2.20	2.40

COMMODITIES	09 Jan	1Q26F	2Q26F	3Q26F	4Q26F
Gold (USD/oz)*	4,477	4,400	4,600	4,800	5,000
Brent Crude Oil (USD/bbl)	62	65	60	55	55
Copper (USD/mt)	12,900	11,000	10,500	10,000	10,000

Updated as of 09 Jan 2026

\* Forecasts updated as compared to previous report dated 05 Dec 2025

Source for spot rates: Bloomberg

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