

UOB House View 3Q 2026

Friday, 19 June 2026

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Global Macro

US and Iran have finally reached an interim peace deal, a hopeful start to an eventual formal peace agreement. Going forward, it is imperative that the Strait of Hormuz reopens quickly and effectively for energy flows to resume as soon as possible.

Asset Allocation

We remain **Overweight** on Equities as corporate earnings backdrop remains supportive. We recommend using dips to accumulate quality stocks. We stay **Neutral** on Fixed Income and prefer an average duration of 4-5 years. We remain **Neutral** on Alternatives, holding off further allocation to private equity and credit until risk-reward improves. We maintain **Neutral** on Money Market to gradually deploy dry powder as market volatility presents opportunities.

Equities

We remain **Overweight** on US equities on resilient earnings and continued AI build-out, with a focus on AI infrastructure stack. We also retain a preference for Financials, Industrials and Materials. We remain **Neutral** on Japan as elevated valuations warrant a more selective approach, although structural reform momentum continues to support the medium-term investment case. We remain **Overweight** on EM Asia, 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) Investment Grade (IG) to optimise for portfolio resilience amid recent bond-off, while reinforcing quality in a repriced world. We stay **Underweight** on DM USD High Yield (HY) as risk-reward remains asymmetric with sector mix being unfavourable. We stay **Overweight** on Emerging Markets (EM) IG and continue to favour ASEAN regional champion financials, Asian quasi-sovereigns and strategic SOEs. We stay neutral on EM HY as selectivity is required given company-specific risks on the balance sheets.

Commodities

Brent crude oil price has already fallen significantly over the past month in anticipation of the interim peace deal. Under our Base Case expectation, with the re-opening of the Strait of Hormuz, further moderation in Brent crude oil price can then be expected in coming quarters as supply pressure eases, to USD 85 / bbl in 3Q26, USD 80 / bbl in 4Q26 and USD 70 / bbl in 1H27.

FX & Interest Rates

Our base case remains that diminishing geopolitical risk premia will erode a key pillar of USD support. In turn, market focus is likely to shift back toward monetary policy differentials. Overall, our DXY forecasts are still biased lower, at 97.9 in 3Q26, 97.0 in 4Q26, 95.7 in 1Q27, and 94.9 in 2Q27. Our call for Fed's extended pause through 2026, implies a steady 3M compounded in arrears SOFR projection at 3.62% in 3Q26, 3.62% in 4Q26, 3.62% in 1Q27 and 3.45% in 2Q27. We continue to expect SOFR-SORA spread to normalize gradually from a historically wide level. We project 3M compounded in arrears SORA at 1.24% in 3Q26, 1.42% in 4Q26, 1.56% in 1Q27 and 1.64% in 2Q27.

Global Macro & Markets Strategy

Imperative that Hormuz reopens effectively after interim peace deal for Brent crude oil price to stay down

US and Iran have finally agreed to an interim peace deal

At early Asia Monday morning of 15 Jun, President Trump announced that the US has finally reached an interim peace deal with Iran. He wrote in a short Truth Social post that “The Deal with the Islamic Republic of Iran is now complete. Congratulations to all! I hereby fully authorize the toll-free opening of the Strait of Hormuz, and simultaneously herewith, authorize the immediate removal of the United States naval blockade. Ships of the World, start your engines. Let the oil flow!”. Pakistan PM Shehbaz Sharif confirmed that this interim peace deal has been reached and that signing will be on 19 Jun in Switzerland. Iran’s deputy foreign minister Kazem Gharibabadi was reported on state TV saying that an interim peace deal has been reached and details will be published after signing.

Since the initial announcements, both US and Iran have electronically signed a memorandum of understanding (MOU), with a formal in-person signing still scheduled for 19 Jun. The agreement centred on three pillars: (i) a 60-day ceasefire extension, (ii) reopening of the Strait of Hormuz alongside the lifting of US maritime restrictions, and (iii) a framework for negotiations on Iran’s nuclear programme, sanctions relief and the release of frozen assets. However, there remains material uncertainties, in particular, around nuclear enrichment limits, treatment of existing stockpiles, inspection mechanisms, and the sequencing and conditionality of sanctions relief.

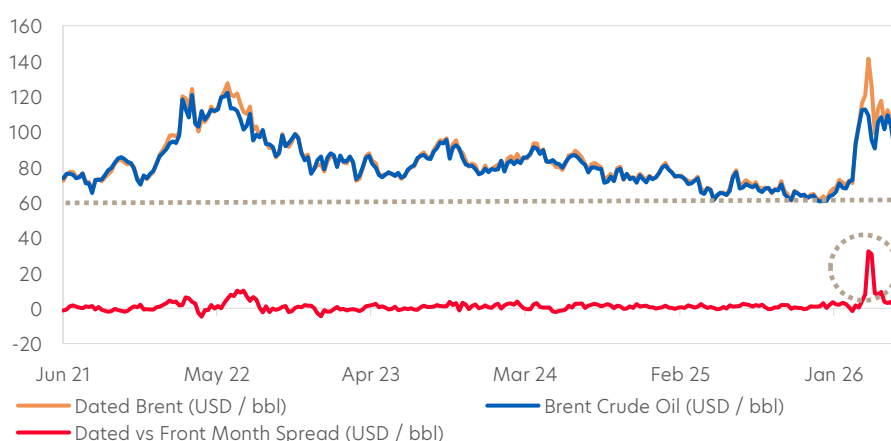
While the agreement signals an immediate reopening in principle, early evidence suggests a phased and operationally constrained restart. Initial tanker movements have resumed and oil flows through the Strait have picked up following the lifting of the blockade, but industry experts suggest the normalisation process may take weeks or longer, given shipping backlogs, security verification, and residual operational risks.

Brent crude oil has already fallen significantly in the run-up to the interim peace deal

As a result of President Trump’s repeated assertions and updates over the past month that a peace deal is imminent, Brent crude oil has in fact corrected significantly in recent weeks. From above USD 115 / bbl in early May, front month Brent crude oil has now dropped below USD 90 / bbl to about USD 86 / bbl as of last Friday close. Brent opened this early Monday morning in Asia with a further dip towards USD 84 / bbl. This is a substantial pullback in prices from its Apr peak around USD 120 / bbl towards the pre-war level of about USD 70 / bbl in late February.

Chart 1: Extreme Dated Brent premium has normalized

Source: Bloomberg, UOB Global Economics & Markets Research

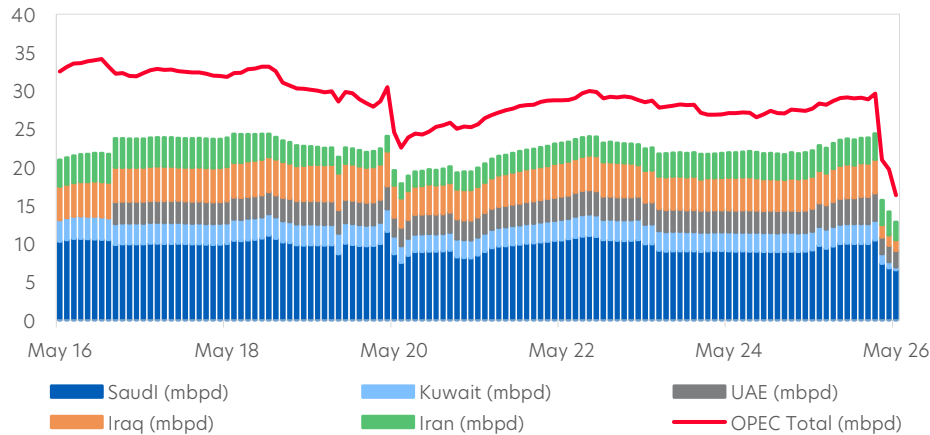


More significantly, the price for Dated Brent for immediate delivery fell below USD 90 / bbl as well. As of last Friday close, the premium for Dated Brent over front month Brent crude oil is just about USD 1 / bbl, a far cry from the extreme premium of USD 30 / bbl in early Apr when the Iran War reached its peak. This normalization in Dated Brent premium back to pre-war normal parameters suggests that the crunch in crude oil supply is mostly over.

More importantly, as of end May, OPEC's crude oil production has collapsed by about 40%, from its pre-war level of about 29 mbpd to about 16 mbpd as of end May. Saudi Arabia bears the brunt of the disruption with its supply collapsing from 10.5 mbpd to just 6.5 mbpd. While prices of financial futures can be forward looking, why have both Brent crude oil and Dated Brent prices fallen back so swiftly?

Chart 2: OPEC crude oil production has fallen by 40% from 29 to 16 mbpd

Source: Bloomberg, UOB Global Economics & Markets Research



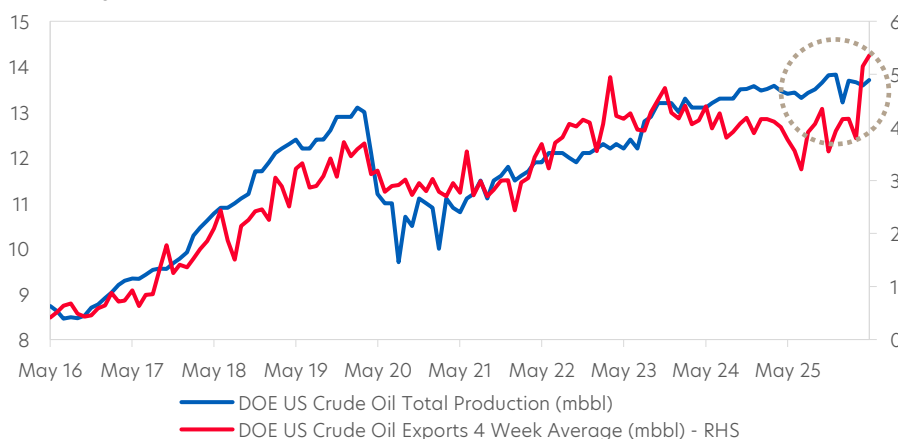
The world relied on many contingency and alternative supplies of crude oil as Hormuz stays blocked

As we look back over the past quarter of widespread disruption of energy flows from the Strait of Hormuz, the global community has surprised doomsayers with its ingenuity and resilience in implementing contingency and alternative supplies for crude oil.

Saudi Arabia played a key role by shipping a large amount of its crude oil via a contingency East-to-West pipeline designed specifically to mitigate the worst-case scenario of such a disruption in the Strait of Hormuz. Hence, as much as 5 mbpd or ¼ of the projected loss from the Strait of Hormuz traffic was exported via Saudi Arabia's alternative Yanbu port in the Red Sea at the opposite side of the Arabian Peninsula, bypassing the Strait of Hormuz altogether.

Chart 3: US has been ramping up its crude oil production and export

Source: Bloomberg, UOB Global Economics & Markets Research

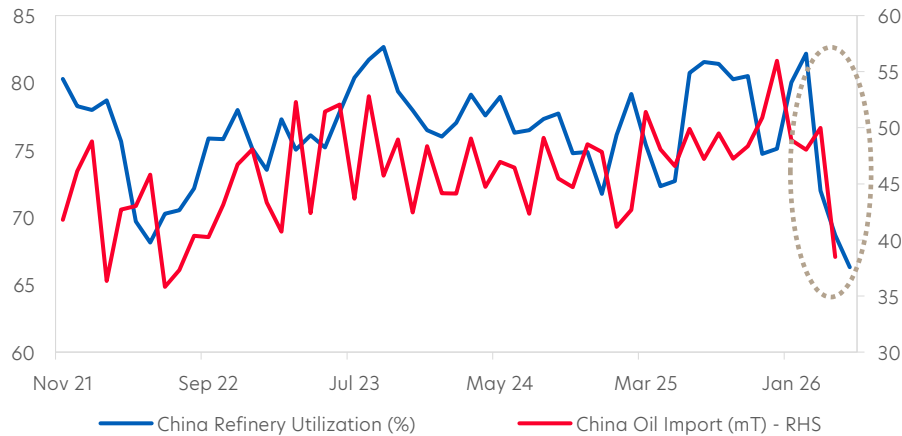


The US has played a key role by ramping up its production and export of crude oil. At 13.7 mbpd, the US is now the world's largest producer of crude oil and produces more than double that of Saudi Arabia. Concurrently, from its pre-war export volume of 4 mbpd, the US now exports more than 5 mbpd, playing a key role to help alleviate the crude oil supply disruption.

Other oil producing nations like Guyana in South America have stepped into the breach as well to produce and export more crude oil. Guyana was unheard of as an oil exporting country before the war and it now plays an outsized role as it exports its full production volume of almost 1 mbpd of crude oil.

Chart 4: China has helped by significantly curtailing its crude oil import

Source: Bloomberg, UOB Global Economics & Markets Research



At the other end of the demand-supply spectrum, China played a key role by significantly curtailing its imports of crude oil. Latest monthly crude oil import figures from China suggest that China now imports about 20% less crude oil than before the start of the Iran War. China has relied instead on drawing down its massive energy reserve over the past quarter. This may well be an astute decision from China to refrain from purchasing crude oil at the elevated prices levels over the past quarter.

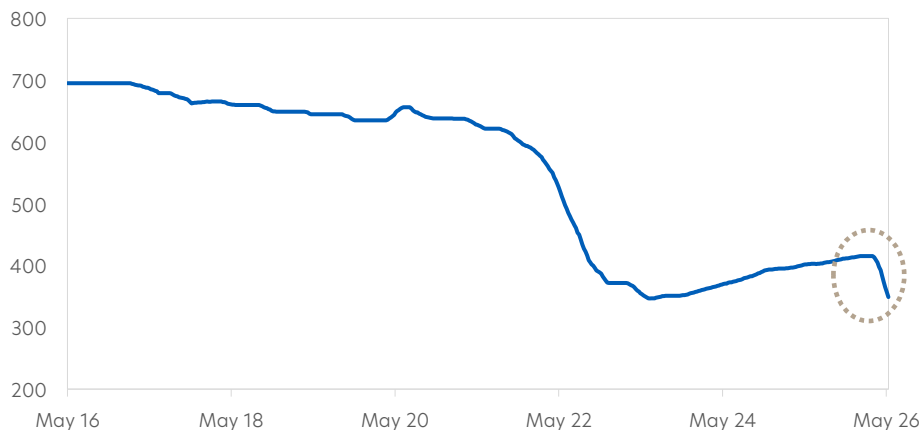
But fast depleting critical emergency reserves and inventories are a growing concern

The above-mentioned innovative contingency measures indeed went a long way to help bridge the supply disruption from the Strait of Hormuz. The rest of the disruption was addressed via a more worrying and less sustainable solution, that of drawing down critical crude oil emergency reserves and inventories.

At the onset of the Iran War, leading global nations agreed to implement the largest emergency release in history of crude oil from their emergency reserves. The International Energy Agency (IEA) coordinated this release of an unprecedented 400 mbbbl of emergency reserves of crude oil, including 172 mbbbl of Strategic Petroleum Reserves (SPR) from the US.

Chart 5: US Strategic Petroleum Reserves (SPR) starting to get drawn down yet again

Source: Bloomberg, UOB Global Economics & Markets Research

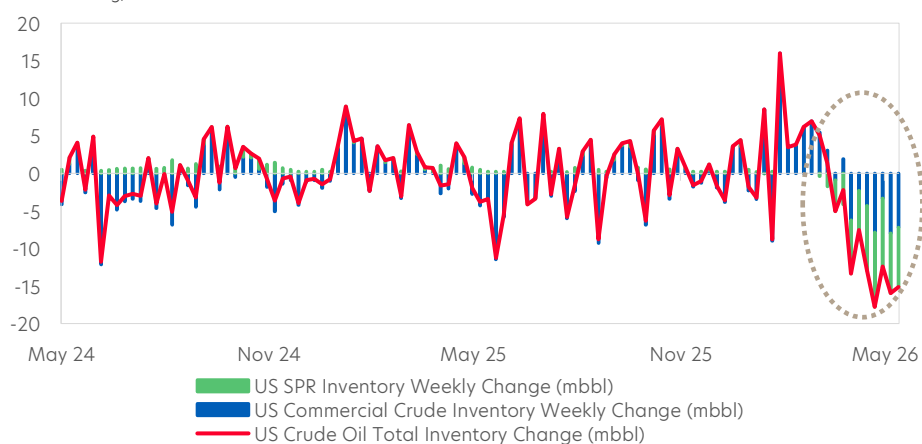


As of 5 June, the US SPR has dropped to 349 mbbbl, after having released 66 mbbbl since the start of the Iran War. The US SPR was above 600 mbbbl in late 2021 but the previous emergency release as a result of the Ukraine War in 2022, drained it down below 400 mbbbl. Further drawdowns as a result of the Iran War will see the SPR drop perilously towards the 300 mbbbl level, a critically low level not seen since the early 1980s.

An alternative figure provided by IEA also pointed to the gravity of the large drawdown in crude oil inventories. Latest figures from the IEA revealed that as much as 129 mbbbl and 117 mbbbl of “global observed oil inventories” were drawn down in the months of Mar and Apr respectively. On average, this implies that around 4 mbpd of global commercial inventories were drawn down daily across Mar and Apr.

Chart 6: Intensifying drawdown in US crude oil inventory

Source: Bloomberg, UOB Global Economics & Markets Research



In addition, latest weekly domestic oil inventory figures from the US Energy Information Administration (EIA) points similarly to a steep drawdown of US commercial oil inventories on top of the steep SPR releases. Questions are now being asked as to whether such steep drawdowns in emergency reserves and inventories can continue further?

Just how soon can the Strait of Hormuz reopen and vital crude oil supply flow resume?

As a result of this rapid drawdown in global crude oil inventory and reserves, in recent weeks, various energy industry commentaries have pointed to the urgent need for the immediate opening of the Strait of Hormuz. Failing which, some energy industry commentaries suggest that a renewed energy crunch is around the corner in 2H26.

This latest announcement of the interim peace deal between US and Iran provided no details whatsoever about the logistics or timeline regarding the re-opening of the Strait of Hormuz. Assuming the naval mines can be removed safely, it is widely expected that once the Strait of Hormuz re-opens, we can expect an initial sudden flood of crude oil supply from the Middle East from the disrupted supply over the past quarter that is now currently in storage. Perhaps this is why Brent crude oil price has corrected ahead of the announcement of the interim peace deal, pricing in advance this sudden flood of supply from the Strait of Hormuz reopening.

However, it is important to note that in the months ahead there are a myriad of technical and logistical difficulties that need to be addressed for crude oil supply to flow smoothly again through the Strait of Hormuz, beyond just the “official re-opening”.

The energy industry benchmarks suggest that “simple” piping, shipping and logistics disruptions can be repaired quickly in weeks, just under a month. Thereafter, more substantial restarting of disrupted oil fields and wells can take up to 3 months to bring back on-stream. Finally, more significant infrastructure damage to oil production and refining facilities can take more than 1 year to rebuild.

Our updated Brent crude oil outlook

Overall, our Base Case expects this interim peace deal to lead to an eventual formal peace agreement with more details between the US and Iran. Under this Base Case, intense diplomatic efforts are still needed to maintain peace between US and Iran. Much work still needs to be done to work through the various existing points of conflict to the eventual signing of a formal peace agreement. Most importantly, there is a gradual re-opening of Strait of Hormuz and the resumption of critical energy exports across 2H26. Brent crude oil price has already fallen significantly over the past month in anticipation of this peace deal. Further gradual moderation in Brent crude oil price in coming quarters can be expected as supply pressure eases, to USD 85 / bbl in 3Q26, USD 80 / bbl in 4Q26 and USD 70 / bbl in 1H27. We ascribe a 55% probability to this "Base Case" outcome.

However, there is also the risk that this interim deal fails to materialize into an eventual formal peace agreement. Under such a situation, the US and Iran risk reverting back to an uneasy stalemate with occasional exchanges of hostilities. Hence energy supply disruption will continue and inventory drawdown will intensify with Strait of Hormuz remaining highly uncertain mostly blocked to shipping across 2H26. The world would need to continue relying on alternative supply and contingency measures. This will result in the renewed grind in Brent crude oil price higher in coming quarters as supply pressure and inventory drawdown start to bite anew, to USD 90 / bbl in 3Q26, USD 95 in 4Q26 and USD 100 / bbl in 1H27. We ascribe a 25% probability to this "Compromise Case" outcome.

Finally, we also caution that given the very complicated and volatile geopolitical nature of the Iran War, there is a risk that negotiations break down anew and a full scale conflict resumes between US and Iran with renewed damage to energy infrastructure across Middle East. As such, Hormuz could remain blocked to shipping indefinitely. Under such a Worst-Case scenario, Brent crude oil jumps back up towards USD 100 / bbl or even higher towards the 2Q26 high of USD 120 / bbl. We ascribe a not insignificant chance of 15% to this "Worst Case" outcome.

Overall, we do hope that peace will eventually prevail, bringing a clear and decisive end to the Iran War. As discussed above, given the urgent and critical nature of the fast-depleting global emergency reserves and commercial inventories, it is imperative that the Strait of Hormuz reopens quickly and effectively in early 2H26.

| Scenario | Probability | Likely Outcome | Brent Crude Oil Outlook |
|---|-------------|--|--|
| Best Case (Signed interim peace deal leads to quick and durable peace) | 5% | Signed interim peace deal eventually leads to quick and formal peace agreement seen as durable with strong international support and effectively long-term solution to Iran's nuclear enrichment issue. Hormuz fully reopens with OPEC, UAE and Middle East countries ramping up oil production and export resume in earnest. | Brent crude oil collapses back down to pre-war level of USD 70 / bbl and possibly lower as flood of energy supply resumes. |
| Base Case (Interim peace deal leads to eventual formal peace agreement) | 55% | Intense diplomatic efforts still needed to maintain peace despite signing of interim peace deal. Much work still needs to be done to work through the various existing points of conflict between US and Iran for eventual formal peace agreement. Most importantly, there is a gradual re-opening of Strait of Hormuz and resumption of energy exports across 2H26. | Gradual moderation in Brent crude oil price lower in coming quarters as supply pressure eases: USD 85 / bbl in 3Q26, USD 80 / bbl in 4Q26 and USD 70 / bbl in 1H27. |
| Compromise Case (Interim peace deal fails to result in formal peace agreement) | 25% | Interim peace deal fails to result in formal peace agreement as both US and Iran could not agree on final terms. Revert back to uneasy stalemate with the brief occasional exchange of hostilities. Energy supply disruptions continue and inventory drawdown intensifies with Strait of Hormuz remaining mostly blocked to shipping across 2H26. The World needs to continue relying on alternative supply and contingency measures. | Renewed grind in Brent crude oil price higher in coming quarters as supply pressure starts to bite with loss of critical inventory buffer: USD 90 / bbl in 3Q26, USD 95 in 4Q26 and USD 100 / bbl in 1H27. |
| Worst Case (Renewed full scale conflict between US and Iran) | 15% | Negotiations between US and Iran breakdown completely and full-scale conflict resumes. Renewed damage to energy infrastructure across Middle East. Strait of Hormuz remains fully blocked to shipping indefinitely. | Brent crude oil jumps back above USD 100 / bbl and risks trading even higher towards 2Q26 high of USD 120 / bbl. |

Source: UOB Global Economics & Markets Research

FX STRATEGY: Is USD at a potential inflection point?

Major FX Strategy: Monetary policy to take over in 2H26 as key driver

Looking ahead to 2H26, our base case remains that diminishing geopolitical risk premia will erode a key pillar of USD support. In turn, market focus is likely to shift back toward monetary policy differentials. Our Fed view has notably pivoted less dovish relative to the pre-war baseline. Concurrently, select G10 central banks have already initiated tightening cycles. As such, we retain a medium-term bearish bias on the USD. The continued narrowing in US rate differentials versus G10 peers should act as a structural headwind for the USD. Consistent with this view, our updated DXY forecasts are still biased lower, at 97.9 in 3Q26, 97.0 in 4Q26, 95.7 in 1Q27, and 94.9 in 2Q27.

Risks to our USD outlook remain skewed to the upside should the closure of the Strait of Hormuz persist deeper into 2H26. Under such a scenario, sustained high oil prices—potentially at or above USD120/bbl—would likely amplify second round inflation effects, particularly through wages, services, and core components. This would present a material challenge for the Fed, limiting its ability to look through supply driven price pressures. In turn, the policy narrative could shift more decisively toward the prospect of renewed tightening into year-end. Such a development (while not yet our base case)

would represent a clear upside risk to the USD and necessitate a reassessment of our baseline expectation for a weaker dollar trajectory.

Asia FX Strategy: Recovery deferred as Hormuz risks linger on

We have consistently highlighted in prior publications that Asia FX remains disproportionately exposed to prolonged Middle East tensions. Since the onset of the Iran conflict, most regional currencies have weakened against the USD, with net energy importers—such as PHP, THB, INR and IDR—underperforming. The ongoing closure of the Strait of Hormuz, now into its fourth month, has intensified fiscal strains associated with securing energy supplies, particularly in economies with administered fuel pricing frameworks. Each additional day of disruption heightens stagflation inflation risks across the region, while macro buffers—including current account positions and FX reserve adequacy—have eroded in several cases.

On balance, we judge that a cautious stance remains warranted until there are clearer signs of normalisation in the Strait of Hormuz and a meaningful easing in regional inflationary pressures. Accordingly, we maintain a defensive bias on Asia FX into 3Q26 and push back the expected timing of a more sustained recovery to 4Q26. We expect CNY, MYR and SGD to stay resilient as they had during the Middle East conflict thus far, while TWD and KRW are expected to post a stronger recovery due to sustained AI tailwinds. On the other hand, PHP, IDR and INR are expected to underperform and stay near record lows against the USD.

RATES STRATEGY: Central banks running short of runway to look through inflation

US Rates: Higher 10Y UST forecast due to Fed vigilance on inflation, economy still resilient, step-up in AI-related corporate bond issuance and worrying fiscal trajectory

Three months into Iran War, composition of Fed has turned decidedly more hawkish, and the division of opinions is apparent. Apart from inflation concerns affecting the Fed rate path, three other drivers also push rates higher, namely still resilient US data, strong corporate issuance this year and worsening US fiscal sustainability. Under this backdrop, our macroeconomic team now sees the Fed on extended pause through 2026, delaying any easing cycle until 2027 with one 25 bps rate cut each in late-2Q27 and late-4Q27. This path implies a steady 3M compounded in arrears SOFR projection at 3.62% in 3Q26, 3.62% in 4Q26, 3.62% in 1Q27 and 3.45% in 2Q27.

As for the long-end, we have been consistent to project a gradually increasing UST 10-year trajectory given the longstanding fiscal concerns. The recent developments of higher inflation concerns, still robust economy, increased corporate issuance and fiscal overhang reinforced our projection. Incorporating the latest Fed call of no more 2026 cuts, our updated forecasts stand at 4.60% for 3Q26, 4.65% for 4Q26, 4.70% for 1Q27 and 4.70% for 2Q27, about 10-20bps higher than our previous forecast made 5 May. Even if geopolitical risks dissipate, we think it's hard to see yields meaningfully lower to pre-war levels given the confluence of above-mentioned factors.

SG Rates: Upward pull from global rates likely to dominate downward push from safe-haven flows

Overnight SORA continues to trade within the range 0.75-1.45%. Another 50 bps increase in the S\$NEER slope in Oct MPS would mechanically result in a lower SORA, though we expect the spillover to be limited. Similarly, we note that the safe-haven flows from the Middle East conflict thus far was less intense than the de-dollarization episode in 2025. In contrast, we continue to see US and global rates as the dominant driver to pull SORA upwards. Expectations of less Fed rate cuts inevitably reduce the downside of SORA and could potentially lead to an increasing pull in SORA upwards if markets pivot towards no more Fed rate cuts or even rate hikes going forward.

Overall, we reiterate the view that the sharpest drop in SORA is likely behind us and we continue to expect SOFR-SORA spread to normalize gradually from a historically wide level. We project 3M compounded in arrears SORA at 1.24% in 3Q26, 1.42% in 4Q26, 1.56% in 1Q27 and 1.64% in 2Q27. At the longer end, we continue to expect a gradual rebound in 10Y SGS yields tracking UST yields. Overall, our updated forecasts for 10Y SGS yield are 2.30% in 3Q26, 2.45% in 4Q26, 2.65% in 1Q27 and 2.80% in 2Q27. Similarly, we expect a gradual normalization of SGS versus UST spread^{2H26}

For more details, kindly refer to Commodity Strategy: "[Imperative that Hormuz reopens effectively after interim peacedeal for brent crude oil price to stay down](#)" dated 15 Jun 26. For more details on specific FX and rates analysis and forecasts, please see our latest [Quarterly Global Outlook 3Q 2026](#).

Asset Allocation

Asset Class Summary 3Q 2026

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

| Asset Classes | U/W | N | O/W | Comments |
|---------------------|-----|---|-----|---|
| Equities | | | | Stay Overweight. Corporate earnings backdrop remains supportive. Buy quality stocks on dips. |
| United States | | | | Stay Overweight. Focus on the AI infrastructure stack. Diversification remains key. |
| Europe | | | | Stay Neutral. See selective opportunities in areas like AI infrastructure and utilities amid modest growth. |
| Japan | | | | Stay Neutral. See structural tailwinds but cyclical risks. Favour companies riding on fiscal-policy driven themes. |
| EM Asia | | | | Stay Overweight. Tech-led earnings upgrades are expected to persist while valuations are undemanding relative to DM peers. |
| Fixed Income | | | | Stay Neutral. Stay opportunistic on recent credit spread widening. Prefer an average duration of 4-5 years. |
| DM IG | | | | Stay Overweight. Optimise for portfolio resilience amid recent bond sell-off while reinforcing quality in a repriced world. |
| DM HY | | | | Stay Underweight. Risk-reward remains asymmetric with sector mix being unfavourable. |
| EM IG | | | | Stay Overweight. Continue to favour ASEAN regional champion financials, Asian quasi-sovereigns and strategic SOEs. |
| EM HY | | | | Stay Neutral. Selectivity is required given company-specific risks on the balance sheets. |
| Alternatives | | | | Stay Neutral. Hold off on further allocation to private equity and credit until risk-reward improves. |
| Hedge Funds | | | | Stay Neutral. Favour long-short equity strategies amid a volatile market environment. |
| Private Markets | | | | Stay Neutral. Constructive on private real estate and infrastructure. Maintain prudence in private equity and credit. |
| Precious Metals | | ← | | Downgrade to Neutral. Beyond near-term inflation risks, Gold can thrive on safe-haven demand and continued central bank allocation. |
| Money Market | | | | Stay Neutral. Gradually deploy dry powder as market volatility presents opportunities. |

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

| Asset Classes | Very Conservative (%) | | Conservative (%) | | Balanced (%) | | Growth (%) | | Aggressive (%) | | Comments |
|---------------------|-----------------------|------|------------------|--------|--------------|--------|-------------|--------|----------------|------|-----------------------------|
| | Now | Chg. | Now | Chg. | Now | Chg. | Now | Chg. | Now | Chg. | |
| Equities | | | 30.0 | | 50.0 | | 65.0 | | 75.0 | | |
| United States | | | 18.9 | | 31.5 | | 41.0 | | 47.3 | | |
| Europe | | | 4.2 | | 7.0 | | 9.1 | | 10.5 | | |
| Japan | | | 1.8 | | 3.0 | | 3.9 | | 4.5 | | |
| EM Asia | | | 5.1 | | 8.5 | | 11.1 | | 12.8 | | |
| Fixed Income | 90.0 | | 65.0 | | 32.5 | | 12.5 | | | | |
| DM IG | 45.0 | | 29.2 | ▲ 1.6 | 14.6 | ▲ 0.8 | 5.6 | ▲ 0.3 | | | Avg. duration: 4 to 5 years |
| DM HY | | | 3.3 | ▼ -1.6 | 1.6 | ▼ -0.8 | 0.6 | ▼ -0.3 | | | |
| EM IG | 45.0 | | 26.0 | | 13.0 | | 5.0 | | | | |
| EM HY | | | 6.5 | | 3.3 | | 1.3 | | | | |
| Alternatives | | | | | 10.0 | | 15.0 | | 17.5 | | |
| Money Market | 10.0 | | 5.0 | | 7.5 | | 7.5 | | 7.5 | | |

This quarter, our asset allocation remains risk-on with a focus on three structural shifts reshaping portfolios: agentic Artificial Intelligence (AI), China's two-speed equity market, and strategic re-industrialisation. We also frame them against a macro backdrop that is less friendly than the last cycle, but not necessarily hostile.

On monetary policy, a Federal Reserve under Kevin Warsh is likely to be neutral rather than hawkish. That distinction matters. We do not expect rate cuts in 2026, but we also do not see a central bank trying to break the economy for sport. Inflation is likely to remain slightly firmer than the pre-pandemic period. This argues for discipline in fixed income. We are therefore downshifting duration from 5-7 years to 4-5 years, while still recognising that bonds remain useful to stabilise portfolios.

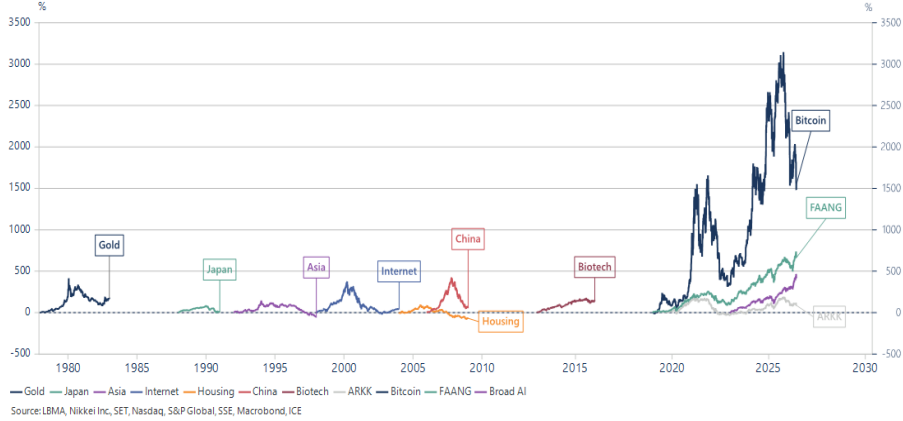
Of course, there are risks. If hyperscalers scale back capital expenditure, the AI infrastructure stack could take hit. If oil spikes above USD 130/bbl and stays there, central banks could turn hawkish again. That would be a problem. Markets dislike inflation. They dislike policy tightening even more. They especially dislike both arriving together, like uninvited relatives.

The common thread is control. Companies want control over workflows. Governments want control over supply chains. Investors want control over risk in a world that keeps refusing to behave. The old world rewarded the leanest system. The new world may reward the resilient one that still works when something breaks. Less elegant, but far more investable. In this cycle, portfolios should be less like sports cars on a perfect highway, and more like off-road SUVs with a full tank and a spare tyre.

History of asset bubbles

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

History of Asset Bubbles

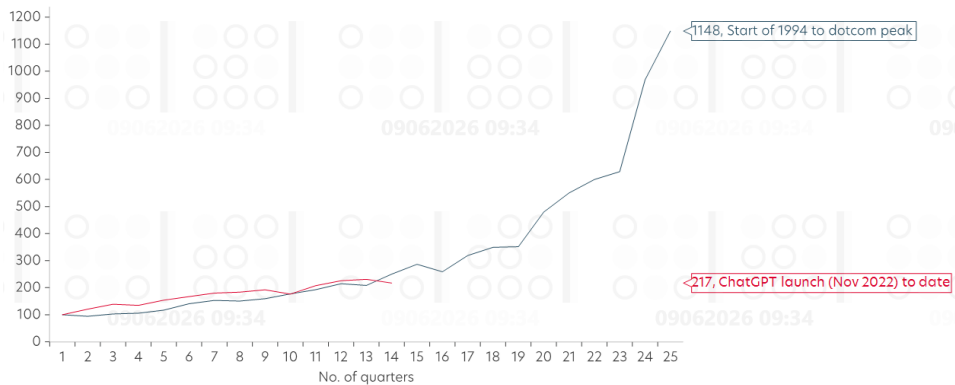


Nasdaq-100 performance comparison: Today vs 1990s leading up to dotcom peak

Source: Bloomberg, UOB Private Bank

Nasdaq-100 performance comparison: Today vs 1990s leading up to dotcom peak

Nasdaq-100 since the start (Rebased to 100)



Equities

US Equities:

Earnings delivery takes the lead

Stance: We maintain an overweight stance on US equities entering 2H 2026, supported by resilient earnings growth, steady US macro momentum and continued AI infrastructure investment. Market valuations are supported by upbeat 1Q 2026 corporate earnings, with early AI monetisation trends reinforcing confidence in the US corporate profit outlook. While AI capex remains a key investment focus, its impact is broadening into other areas. That said, with the Fed now expected to remain on hold for the remainder of 2026, further upside should depend more on earnings delivery, margin discipline and market broadening than valuation expansion. Stocks may be vulnerable to pullbacks on negative headlines, including geopolitical events.

Overall, investors should avoid chasing overbought names and keep capital ready for market dips. Key risks include higher bond yields, Middle East tensions, elevated oil prices, margin pressure and slower hyperscaler spending.

Macro and rates backdrop

Fed path: Our house view is now for an extended Fed pause through the remainder of 2026, with easing expected to resume only in 2027 but we note the rising risks of rate hikes. The Fed Funds Target Rate upper bound is expected to remain at 3.75% through end-2026, before two 25bps cuts in 2027 bring it to 3.25% by end-2027.

Inflation: Inflation risks have risen. May headline Consumer Price Index (CPI) rose to 4.2% YoY, while core CPI increased to 2.9% YoY. Our 2026 forecasts have been revised higher to 3.7% for headline inflation and around 3.0% for core, with upside risks primarily driven by energy prices and evolving geopolitical developments.

Growth: For 2026, we continue to expect positive but moderating US GDP growth of around 1.7% (2025: 2.1%). This reflects continued support from AI-driven investment and associated productivity gains, even as fiscal impulse fades and consumer spending becomes more constrained. Elevated energy costs may also persist into 2H, posing an additional headwind to growth.

Earnings and valuations: Tech/Growth carries the earnings cycle

Earnings dynamics: Looking into 2H 2026, US corporate earnings are expected to remain the key driver, with consensus expecting low-20s S&P 500 Earnings Per Share (EPS) growth for 2026. Earnings momentum should be supported by resilient sales growth, improving earnings revisions and margin discipline, while broadening beyond mega-cap technology as more companies benefit from operating leverage, cost control and early AI-driven productivity gains. That said, EPS growth is expected to moderate in 2027, as the 2026 base was lifted by selected technology and semiconductor leaders.

Valuations: Following the Middle East ceasefire-driven rally, US equity valuations look rich but not excessive, with the S&P 500 trading at 20.8x twelve-month forward Price-to-Earnings (P/E) (as of 26 May 2026), above its 10-year average of 19.0x. The strong earnings profile helps justify the valuation premium, though further upside is likely to depend more on earnings delivery than multiple expansion under the current monetary policy narrative.

Market positioning: Growth and technology-related stocks are expected to maintain positive momentum, especially those supported by AI infrastructure and large data centre capital expenditures. However, lofty valuations make them vulnerable to sharp technical pullbacks on any disappointing news. As a result, portfolio diversification remains an important risk management tool, particularly given record market concentration. Investors should also remain mindful of potential sector rotation, which may make reallocating capital toward cyclicals and other laggard sectors a more balanced approach.

Investment Strategy: Buy pullbacks, broaden exposure

Strategy: A more prudent 2H 2026 strategy is to keep capital ready for market dips. Investors who missed the rally since April should avoid chasing overbought stocks. Instead, they should prepare a buy list, set entry levels and scale in during consolidation. Growth and technology-related stocks should remain core holdings, especially AI infrastructure, cloud, semiconductor and data centre beneficiaries. Portfolios should also diversify into selected quality stocks. Industrials have

multi-year tailwinds from electrification, defense spending and reshoring. Investment banks may benefit from mega IPO optimism and stronger deal activity, while healthcare offers catch-up potential and defensive earnings.

Risk flag: Key risks include rising bond yields, which could compress valuations, and a prolonged Middle East conflict that keeps oil prices elevated, adding inflation pressure and eroding margins. Leverage remains a fragility, while slower hyperscaler spending could disrupt the AI supply chain.

Investment takeaways

The US equity outlook remains constructive, supported by strong earnings delivery and AI-related growth. However, rich valuations and elevated market concentration call for disciplined buying on dips rather than chasing overbought names. Portfolios should remain diversified across AI beneficiaries and selected quality names in sectors such as industrials, investment banks and healthcare, while investors monitor risks from higher bond yields, oil shocks, leverage, geopolitical tensions and slower hyperscaler spending.

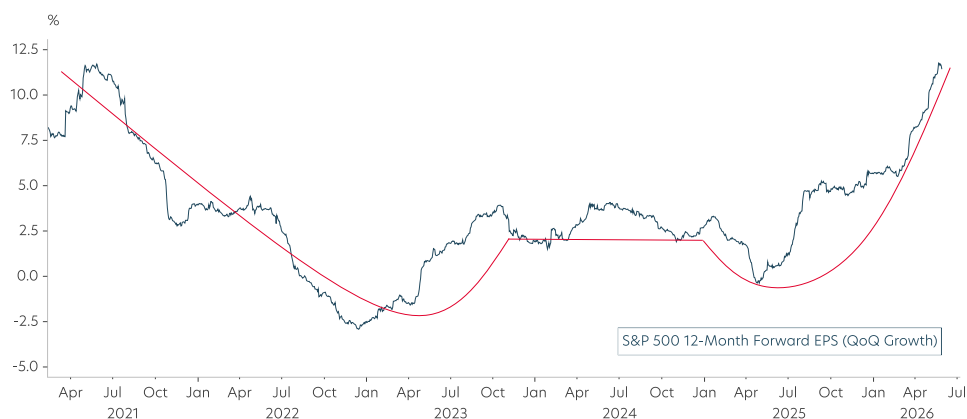
Technical levels on S&P 500

Source: Bloomberg, UOB Private Bank



S&P 500 companies have mostly been beating EPS expectations

Source: Bloomberg, UOB Private Bank



Europe Equities

Neutral with targeted opportunities

Stance: We maintain neutral on European equities heading into 2H 2026. While the region continues to demonstrate resilient macro fundamentals and exposure to attractive structural themes, the absence of a broad-based earnings recovery and sticky core inflation limit the potential for index-level outperformance. The investment landscape remains highly idiosyncratic, with notable dispersion across sectors. Select themes—particularly AI infrastructure, energy transition, and defense modernisation—continue to offer compelling alpha. However, a hawkish policy backdrop, persistent inflation, and structural strains in manufacturing are tempering broader market conditions. Valuations for the Stoxx Europe 600 appear broadly fair, near historical averages, with the persistent discount to the US reflecting weaker structural growth and limited tech exposure. Market breadth remains narrow, with gains concentrated in select sectors and names, reinforcing a preference for active stock selection over passive regional exposure.

In this environment, we recommend a balanced approach: anchoring portfolios in defensive value with high dividend visibility while selectively adding exposure to structural growth seculars.

Macro and policy backdrop: ECB turns hawkish amid energy-driven shock

ECB path: The ECB's expected policy path for 2H 2026 has shifted from a prolonged pause to a more hawkish stance, driven by an energy-induced stagflation shock. Despite weak Eurozone growth, persistent inflation—projected to reach 3.0% in 4Q before easing below 2.0% in 2027—will likely prompt a measured response. The central bank delivered a rate hike in June, lifting the deposit facility rate from 2.00% to 2.25%, versus ~75bps of tightening priced by markets.

Eurozone growth: The European Commission has revised its 2026 Eurozone GDP growth down to ~0.9%, reflecting the impact of renewed energy and geopolitical shocks. While private consumption remains relatively resilient, structural weakness in Germany's industrial sector continues to weigh on overall activity, partly offset by more robust, service-led growth across Southern Europe.

EUR consolidation: EUR/USD is currently consolidating as the pace of rate differential narrowing slows, with the Fed approaching the end of its tightening cycle while the European Central Bank (ECB) remains relatively hawkish. Looking ahead, further rate differential compression—alongside easing geopolitical risks—should provide support. We expect EUR/USD to remain range-bound near term before gradually appreciating toward 1.19 by 4Q 2026.

Earnings & valuations: Stable growth but narrow leadership

Earnings dynamics: Corporate earnings in 1Q 2026 demonstrated resilience but limited momentum. Results in line with expectations with downside surprises, positive revisions were scarce and concentrated. Sector dispersion remained pronounced: industries with structural pricing power protected margins, whereas more cyclical, commoditised segments faced pressure from high input costs and weak pricing flexibility.

Looking ahead, the outlook is stable but lacks catalysts for acceleration. Consensus 2026 EPS growth remains around 6-8%, though outcomes will be uneven and sector-dependent. Earnings leadership will stay structurally driven, with growth concentrated in areas such as AI-related capex, electrification, and defense, while traditional cyclicals continue to lag.

Valuations: The Stoxx Europe 600 trades at 15.0x twelve-month forward P/E (as of 26 May 2026), near its 10-year mean. This represents a discount to the US, driven by a lack of mega-cap secular growth drivers. We view current levels as fair, offering a margin of safety with minimal expansion catalyst.

Market positioning: We favour AI infrastructure opportunities, alongside structural growth areas such as the clean energy transition and defence, where enduring themes—digitalisation, decarbonisation, and national security—continue to underpin demand and support sustained earnings visibility.

Investment strategy: Targeted opportunities, not market beta

AI infrastructure: AI infrastructure is a key opportunity, supported by leadership in semiconductor equipment, advanced lithography, and data-centric memory.

Utilities and power infrastructure: European utilities are well-positioned for continued investments in power generation, grid infrastructure and renewable energy projects, while also offering relatively attractive dividend yields and defensive earnings characteristics.

Defence and strategic autonomy: Geopolitical uncertainty and emergence of a more multipolar world are driving increased defence spending across Europe.

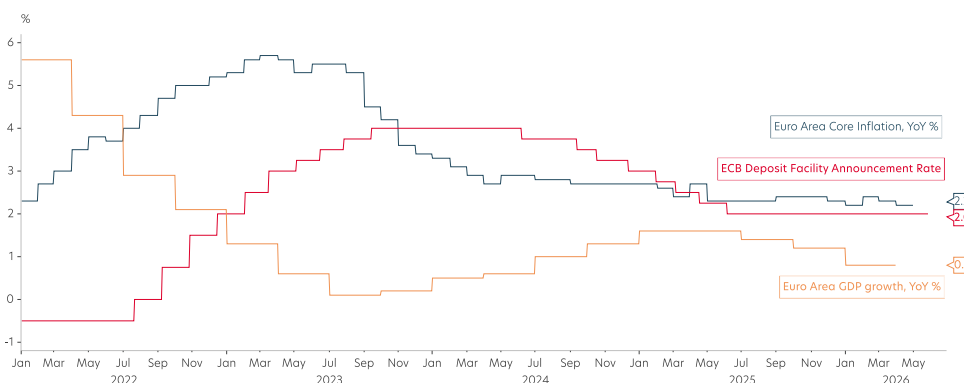
Risk flags: Policy disappointments related to European defence spending initiatives may hit sentiment. Meanwhile, a sustained increase in natural gas prices due to supply disruptions could raise input costs.

Investment takeaways

European equities are likely to remain a stock-picker's market into 3Q 2026. We maintain a neutral stance, reflecting persistent macro headwinds and constrained market breadth. Alpha is increasingly driven by selective exposure to structural spend, such as AI infrastructure, clean energy, and defence—rather than broad beta. Geographically, we favour peripheral markets such as Italy and Spain over Germany, where ongoing structural adjustments in its industrial base continue to weigh on growth and earnings visibility.

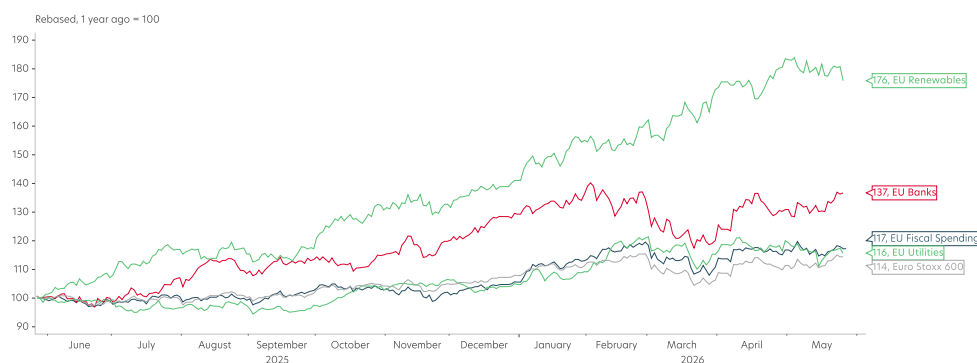
ECB needs to strike a delicate balance in its rates management amid lackluster Euro GDP growth

Source: Bloomberg, UOB Private Bank



Stick to the winning themes

Source: Bloomberg, UOB Private Bank



Emerging Asia

Tech leadership to solidify gains

Stance: We maintain overweight on EM Asia equities entering 2H 2026. Our constructive stance is anchored by regional structural resilience and improving corporate fundamentals. While broader global markets grapple with extended valuations, EM Asia presents a compelling combination of self-sustaining domestic growth, defensive monetary policy setups, and discounted valuations.

The growth narrative for EM Asia remains the most dynamic globally, fueled by a powerful mix of domestic consumption and structural economic re-engineering. ASEAN economies are benefiting from rising middle-class disposable incomes and sustained foreign direct investment. China is shifting away from real estate-reliant growth toward high-value manufacturing and consumer services. Several regional markets stand out for their structural strengths. Korea and Taiwan are benefiting from strong AI and semiconductor tailwinds, driving continued momentum, while China is showing early signs of stabilisation.

Meanwhile, Singapore offers a defensive, high-quality gateway to ASEAN growth, supported by strong financial institutions, capital flows and rising demand for digital and infrastructure investment. Overall, these trends support a constructive outlook on EM Asia equities, with selective opportunities in technology and structural growth sectors.

Macro backdrop: Structural upgrade remains a bright spot

China growth: China's strong 1Q 2026 GDP growth of 5.0% YoY provides a buffer against a likely slowdown from 2Q 2026, with full-year growth expected to moderate to around 4.7%. The upcycle in global AI demand continues to support high-tech manufacturing even as broader industrial activity softens, while the property market remains in decline with only modest easing in price pressures and persistent divergence between stronger top-tier cities and weaker lower-tier markets. Overall, headline growth is moderating toward a more sustainable, higher-quality pace.

China's realignment: Beijing's regulatory policy is intentionally shifting capital allocation away from property speculation and redirecting it toward 'New Productive Forces'. Policy frameworks emphasise advanced manufacturing, digital infrastructure, and green technologies. This structural upgrade sacrifices highly leveraged headline growth for sustainable, higher-margin economic outputs.

Monetary policy: The People's Bank of China (PBOC) remains on course to keep its monetary policy "moderately loose" to support the consumption recovery. Our economics team no longer expect the PBOC to cut interest rates this year vs. the previous forecast of a modest 10bps cut in 3Q 2026. Policymakers are expected to lean on fiscal measures to cushion the impact of Middle East conflicts on the broader economy.

Earnings & valuations: Tech-led earnings growth

Earnings trajectory: Consensus projects ~54% EPS growth for Morgan Stanley Capital International (MSCI) EM Asia over the next 12 months. While we expect the regional earnings upgrade cycle to continue, the pace is likely to moderate going forward. Technology-related sectors remain the primary drivers of earnings growth. The memory supercycle is a widely recognised but still debated theme. Strong hyperscaler demand has created supply tightness in high-end memory chips, driving sharp price increases and outsized earnings gains due to high operating leverage. At the country level, South Korea and Taiwan are leading earnings upgrades amid accelerating manufacturing activity, rising memory prices and strong semiconductor exports. China's earnings outlook remains more moderate, but it offers a structural transition story—moderating yet resilient growth supported by policy-driven capital reallocation into high-tech, higher-quality sectors.

Valuations: MSCI EM Asia trades at 12.1x twelve-month forward P/E while HSCEI trades at 9.4x twelve-month forward P/E (as of 26 May 2026); the valuations are at a discount relative to developed markets despite strong growth potential. We see attractive entry points, but expect a gradual and uneven recovery, warranting selective positioning.

Market positioning and strategy: We favour a barbell strategy for EM Asia/China equities, focusing on sectors with sustainable dividends and high-quality AI/ tech leaders.

Structural growth themes: AI, advanced manufacturing and economic resilience

Semiconductor value chain: Taiwan and South Korea are home to leading semiconductor manufacturers, putting them in a solid position to benefit from growing demand in AI, high-performance computing, and memory chips. AI-driven compute demand is accelerating, and a shift toward long-term contracts is supporting a more durable earnings outlook.

China tech and industrial transformation: China continues to prioritise technological self-sufficiency and advanced manufacturing as part of its long-term economic strategy. Key focus areas include AI, semiconductor localisation, advanced industrial automation, as well as Electric Vehicles (EVs).

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

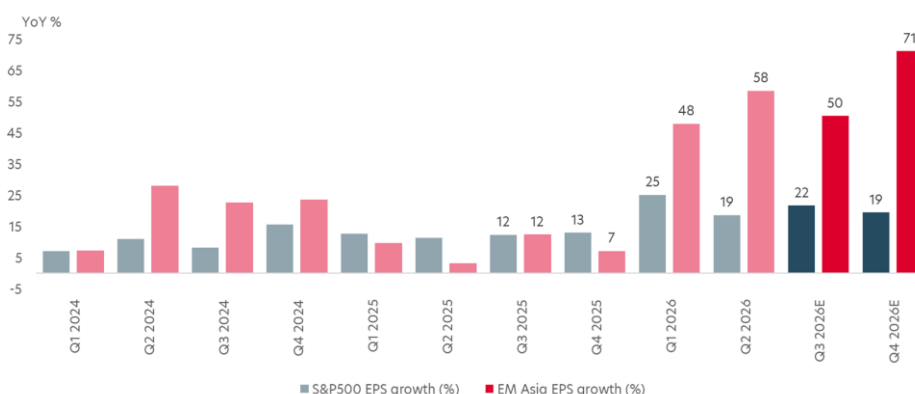
Risk flags: Geopolitical tensions and higher energy prices may drive volatility. Global tech demand could slow after the current investment cycle.

Investment takeaways

Overall, EM Asia remains supported by strong earnings growth, tech leadership and structural economic transformation. Beyond dividend stocks, we remain focused on China's New-Economy themes such as AI, advanced manufacturing and EVs, while within ASEAN we favour Singapore equities for their resilience and defensive characteristics.

EM Asia poised for outperformance on strong earnings growth and undemanding valuations

Source: Bloomberg, UOB Private Bank



Japan

Supportive structural reforms but selective stance is warranted

Stance: We maintain a neutral stance on Japanese equities into 2H 2026. While structural reform momentum continues to underpin the medium-term investment case, elevated valuations and higher energy prices warrant a more selective approach. Following the strong year-to-date performance, valuations have reached multi-decade highs (excluding the Covid period). While this reflects improving earnings quality and corporate reforms, it leaves the market more vulnerable to policy tightening and external shocks, particularly amid evolving geopolitical dynamics and global growth uncertainties. Japan's investment case continues to evolve beyond cyclical recovery toward structural transformation, driven by themes such as corporate governance reform, economic security, supply-chain resilience and technological innovation. These structural tailwinds continue to support earnings durability and Return on Equity (ROE) expansion, reinforcing Japan's attractiveness within global portfolios, though stock selection will be increasingly important in 2H 2026. We prefer companies which benefit from policy themes including defence infrastructure buildout and energy self-sufficiency under the Takaichi administration. Companies demonstrating meaningful improvements in corporate governance and shareholder returns remain favoured. Finally, we like firms which are positioned as critical AI infrastructure buildout.

Macro and policy backdrop: Risks dominated by the Middle East implies cautious path to further hikes

The government's economic strategy focuses on strengthening national resilience and strategic industries. Key priorities include economic security, supply-chain resilience and AI infrastructure. These initiatives are expected to drive increased investment across sectors, from semiconductors and advanced manufacturing to communications infrastructure.

Bank of Japan (BOJ) path: BOJ raised its policy rate by 25 bps to 1.00% in Jun, the highest in 31 years since 1995, in a 7-1 vote with Governor Ueda absent. Post-Jun rate hike, the BOJ has maintained the forward guidance of further rate hikes, although the continued normalization path ahead will be contingent on inflation and Middle East developments. As such, we now expect BOJ to remain in a period of pause (in 3Q) before resuming monetary policy normalisation, with another 25bps hike to 1.25% in late 4Q26. Thereafter, we project another 25bps hike in late 2Q27 to 1.50% which we believe will be the terminal rate.

Japan growth: Japan's real GDP growth is expected to be 1.3% in 2026, with risks biased to downside from weak private consumption and elevated crude prices. CPI inflation is expected to be 2.0% on average in 2026, with potential to be higher on Middle East-related risks.

JPY trajectory: We anticipate a gradual moderation in USD/JPY toward levels more consistent with narrowing US-Japan interest rate differentials.

Earnings & valuations: Resilient profits despite external shocks

Earnings dynamics: Consensus projects low-teens EPS growth for Tokyo Price Index (TOPIX) in 2026, underpinned by a more durable earnings profile with key drivers being stronger pricing power, sustained wage growth and continued corporate restructuring and productivity gains. However, elevated energy prices and geopolitical tensions could pressure margin.

Valuations: TOPIX trades at 17.2x twelve-month forward P/E (as of 26 May 2026), which is above its 10-year average of 14.9x. We see potential for multiple compression as the BOJ looks to normalise policy rates. Having said that, Prime Minister (PM) Takaichi has greater latitude to pursue her fiscally expansionist economic agenda following her historic snap election victory. Fiscal stimulus support for the corporates and consumers at large could help put a floor to valuations.

Market positioning: Following the recent market outperformance, we expect corporate earnings to remain resilient but with greater dispersion. We prefer large-cap quality names with strong pricing power and structural tailwinds. In terms of portfolio positioning, sector selection and thematic exposure matter. We favour companies aligned with fiscal policy priorities, improved corporate governance and shareholder returns, as well as critical positions with the global AI infrastructure stack.

Structural growth themes: AI, infrastructure and economic security

AI and semiconductor ecosystem: Companies exposed to semiconductor equipment and advanced manufacturing remain core beneficiaries of the ongoing global AI and technology capex cycle.

Infrastructure renewal: Japan is entering a major infrastructure renewal cycle as ageing infrastructure from the 1980s reaches replacement age. These projects are supported by a national resilience budget exceeding JPY 5 trillion, highlighting the scale of planned infrastructure spending.

Economic security: Japan's policy focus on strategic industries, energy security and advanced technology is expected to support investment in sectors such as aerospace, communications and cybersecurity.

Risk flags: Sustained increases in energy prices, stronger-than-expected JPY appreciation, policy execution risks and global economic slowdown could hit investor sentiment.

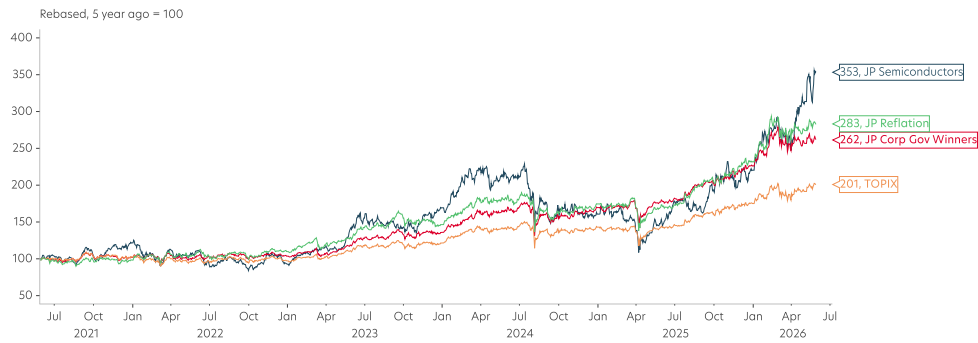
Investment takeaways

Japanese equities continue to benefit from structural reforms, strategic industrial investment and improving corporate profitability. However, the persistent energy price volatility, currency dynamics and moderate economic growth may limit broad-based multiple expansion. Thus, we remain neutral on Japanese equities, taking a selective approach that focuses

on companies aligned with structural growth themes such as AI infrastructure, national resilience and supply-chain security.

Prefer sectors with structural tailwinds (semiconductors, governance winners and reflation beneficiaries)

Source: Goldman Sachs, Bloomberg, UOB Private Bank.



Demanding equity valuations relative to the 10-year average; selective approach is warranted

Source: Bloomberg, UOB Private Bank.



Fixed Income

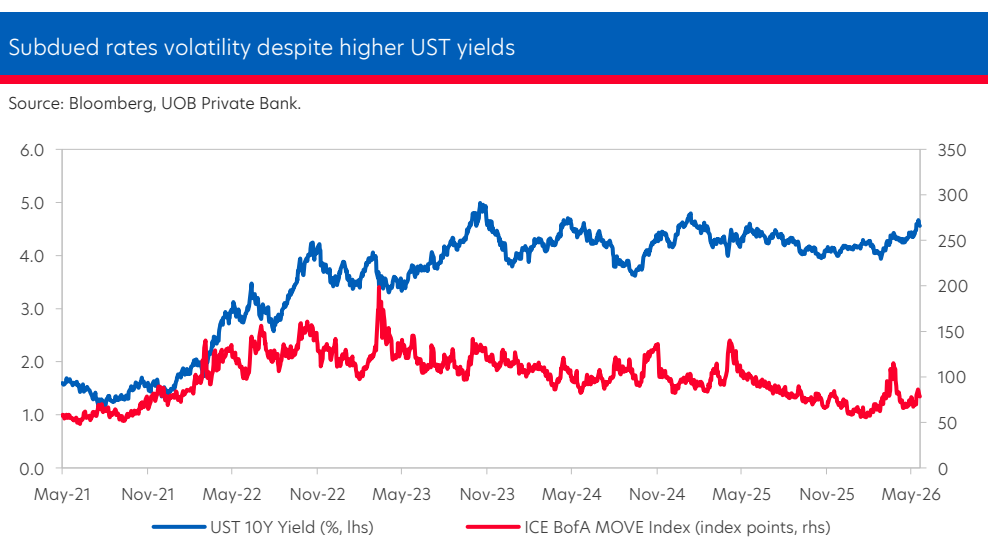
Developed Markets Investment Grade: Reducing duration, reinforcing quality in a repriced world

Developed Markets Investment Grade (DM IG) credits entered 2026 on a solid footing. Valuations were rich but supported by strong corporate earnings, resilient balance sheets, and expectations that major central banks would normalise policy gradually, and in a data-dependent manner. In that environment, carry-oriented strategies remained attractive, and the strategic allocation case for DM IG remained intact. That backdrop was upended following the escalation of the US-Iran conflict and the disruption of energy flows through the Strait of Hormuz. The shock pushed Brent crude above USD 100/bbl and introduced a renewed inflation impulse into global markets. While the initial impact was concentrated in energy prices, it has since broadened across goods, services, and supply chains. In the US, May headline CPI print rose to its highest reading since May 2023, at +4.2% YoY.

The inflation data has fed directly into a decisive repricing across the US rates complex. US Treasury 10-Year Yield (UST10Y) yields rose past 4.5%, while UST30Y yields climbed above 5%. US 10-year inflation breakeven rates have also moved higher, reaching 2.41% as of 25 May 2026. More importantly, Fed funds futures are now assigning a material probability to rate hikes before year-end. This reflects both the energy price shock and uncertainty around the policy posture of incoming Fed Chair Kevin Warsh.

UOB Global Economics and Markets Research has pencilled in a UST10Y yield forecast of 4.65% by year-end and expects the Fed to remain on hold for the remainder of 2026 before the Fed resumes easing in 2027. Accordingly, we are reducing our target portfolio duration to 4-5 years, from 5-7 years previously. DM IG sits in an uneasy equilibrium: upside from further spread compression is limited given already-rich valuations, yet elevated all-in yields continue to incentivise demand. We are not inclined to move down the credit quality spectrum in pursuit of incremental yield pickup. In our view, idiosyncratic credit events represent a widening tail risk that the broader market is underpricing. Our approach is deliberate: favour quality, remain disciplined on credit selection, and selectively add exposure to structural winners during elevated selloffs.

Our sector preferences reflect durable and secular conviction. We pair defensive anchors with structural growth in our credit selection. We are most constructive on AI electrification beneficiaries, defence primes, regulated and integrated utilities, infrastructure, financials, insurers, telecommunications, select upstream Oil and Gas credits, and select US AI hyperscalers.



Developed Markets High Yield: High yield gains mask rising yields

Developed Market US High Yield (DM HY) index delivered a year-to-date return of +1.13% (as of 25 May 2026), driven by coupon income (+2.59%) and spread compression (+1.2%) but significantly weighed down by rates selloff (-2.67%). Carry return has been the main driver for HY index but was offset by rates selloff triggered by elevated geopolitical risk and energy prices.

US HY has not been spared from the impact of Middle East conflict. The Energy sector which has a relatively large weighting in US HY index, benefited from the conflict as Brent crude rose above USD 100/ bbl. The sector delivered a year-to-date total return of +3.98%. If energy prices normalise, Energy sector credit spreads could have room to widen. However, the second-order effect of elevated energy prices has spread to consumer discretionary, while the AI-driven disruption has raised questions about the long-term viability of the software sector.

The fundamentals of US High Yield market have improved, with the net leverage at the index level falling to 3.9x on 22 May 2026, from 4.85x in December 2025. BB-rated credits as a share of the index have reached an all-time high of 56%, while single-B credits have reached 9%, the lowest level since 2002. However, company default rate has been rising steadily, from a recent low of 0.78% in October 2025 to 2.01% in April 2026, just below the 10-year-average of 2.31%. From a technical perspective, strong demand for higher-yielding bonds has pushed credit spreads tighter. This strong demand has also translated to oversubscriptions in the HY primary market.

We remain underweight on DM US High Yield as we believe tight spreads in HY names do not adequately compensate investors for elevated volatility and tail risks. In our view, overhanging issues from the Middle East conflict, Business

Development Companies (BDCs) liquidity concern, and stress in the software sector are underpriced by the market. Also, the deeply negative convexity profile of HY bonds limits price upside. Therefore, we believe the risk-to-reward ratio in the HY space is less attractive than in DM IG.

US HY credit spreads near historical low, leaving limited room to further tighten

Source: Bloomberg, UOB Private Bank.



Emerging Markets Asia Investment Grade: Higher yields, stable spreads, and selective risks

2025 proved to be a strong vintage for EM Asia credits, with JACI IG delivering a full year total return of 7.8%, supported by c. 65bps rally in both spreads and UST. However, this constructive backdrop has not carried into 2026. Year-to-date, the JACI IG index total return stands at c. -0.03%, as higher UST yields eroded carry gains. Asian IG credit spreads, on the other hand, have remained relatively stable, tightening by -4bps year-to-date despite the broader risk-off environment. This resilience is underpinned by supportive all-in yields and resilient corporate fundamentals with net leverage, measured by net debt-to-Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), for the MSCI AC Asia Pacific remaining near cyclical lows at 1.47x as of April 2026.

The Trump-Xi summit yielded commitments to cooperate on Middle East de-escalation and cross-strait stability, alongside China's pledge to increase purchases of US goods—though sectoral detail remains scant. US officials, for their part, signalled willingness to roll back tariffs and receptivity to greater Chinese investment flows. Working-level negotiations continue, with tariff timelines and investment framework specifics likely to serve as near-term catalysts. For Asian IG credits, a sustained de-escalation in trade tensions would be supportive of spread stability and could improve the odds of extending the US-China trade truce beyond its November 2026 expiry.

JACI IG credit spreads are trading near historical lows—as if the Middle East conflict is resolved—and further tightening, in our view, faces a high bar. In addition, primary issuance has turned net positive for the first time in four years, driven by cheaper USD funding relative to local-currency alternatives and Asia's industrial super-cycle—a shift that may cap further spread compression.

That said, the rates backdrop offers a different story. We believe episodic rates volatility is likely to present attractive entry windows for locking in elevated all-in yields; while resilient corporate fundamentals should provide a strong backstop against spread widening. JACI IG YTW stands above 5% as of 25 May 2026, a level that screens attractively against historical ranges. Disciplined credit selection and geographical diversification across Asia would help mitigate idiosyncratic risk, while targeting a portfolio duration of c. 4–5 years through barbell strategies could capture upside if the UST yield curve bull steepens.

From a sector perspective, we favour ASEAN regional champion financials, selected Asia-focused insurers, quasi-sovereign, strategic state-owned enterprises, as well as defensive consumer and utilities credits.

Attractive risk-to-reward ratio and appealing all-in yield level

Source: Bloomberg, UOB Private Bank.



Emerging Markets Asia High Yield: Stay selective in HY credit

EM Asia HY has rebounded strongly from peak US-Iran tensions in March 2026, delivering a year-to-date return of +2.25% as of 25 May 2026, outperforming its DM HY counterpart. EM Asia HY credit spreads have tightened c. 10bps to 363bps supported by yield-seeking demand, supply scarcity, and benign default rates. With the Bloomberg EM Asia USD Credit High Yield Index yielding 7.93%, the absolute carry profile looks compelling. However, we note HY's pick-up over IG could narrow, as the latter has been more affected by recent Treasury softness.

Our preference for EM Asia HY over DM HY remains well-founded with the credit spread differential between the two compressing to 72bps, from 88bps at the start of 2026. On average, EM Asia HY issuers tend to exhibit HALO—High Asset, Low Obsolescence—type of characteristics, which leave them better placed to withstand significant disruptions from AI. From a market structure perspective, EM Asia HY has transitioned from a market that was highly concentrated in property to one that is more diversified with a greater share of domestically oriented borrowers.

Oil prices and their residual impact on inflation could have a dispersive effect, particularly for EM Asia which is a net energy importer. That said, issuers are starting from a stronger fundamental position, and we expect EM Asia HY default rates to remain manageable given 2025 earnings and promising outlook guidance.

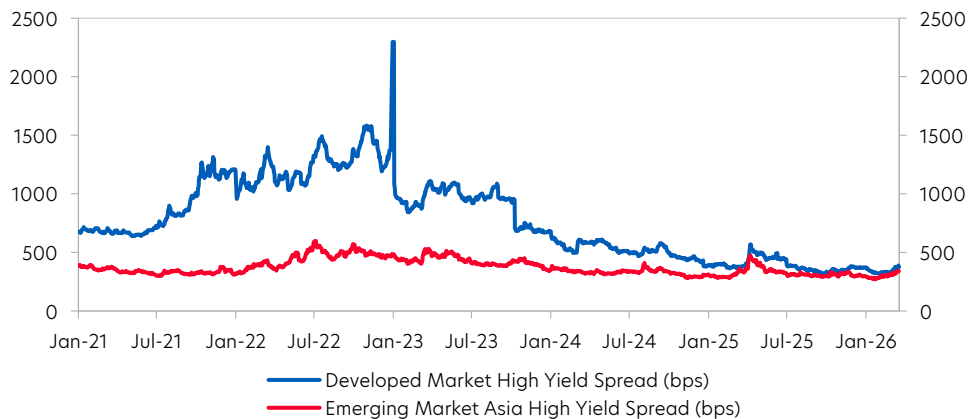
Near-term refinancing risks in EM Asia HY are likely to be limited, in our view. 2026 bond maturities are concentrated in infrastructure credits, Indian renewables, and Macau gaming operators which retain strong access to funding markets. We have also observed decent investor take up rates on tender and exchange offers, reflecting healthy investor appetite and pent-up demand.

We expect favourable technical backdrop for EM Asia HY as net supply for 2026 is likely to remain negative. Local currency funding (i.e. CNH, IDR etc.) has been a viable alternative channel for issuers which in turn increases the scarcity value of USD bonds.

Although we do not anticipate a broad and abrupt deterioration in EM Asia HY credit fundamentals, rigorous bottom-up credit selection remains essential to avoid exposure to idiosyncratic credit stress.

Emphasise selectivity amid spread tightening

Source: Bloomberg, UOB Private Bank.



AUD Bond Market - Elevated carry, enduring quality: The AUD credit opportunity

The Reserve Bank of Australia (RBA) has shifted toward tightening in 2026 and delivered three rate hikes to date and the cash rate to, fully reversing the rate cuts delivered in 2025. This policy pivot reflects an upward revision to inflation expectations, driven partly by energy price pressures stemming from the Middle East crisis.

UOB Global Economics and Markets Research expects the RBA to keep the cash rate on hold going forward on the view that recent geopolitical shocks and elevated energy prices will weigh on household and business spending while contributing to a gradual rise in unemployment. The AU-US 10-year spread traditionally sits at +/-20bps but has widened to c. 50-80bps since August 2025. The diverging yield differential indicates a markedly different tolerance level to inflation pressure and differing central bank responses to geopolitical risks.

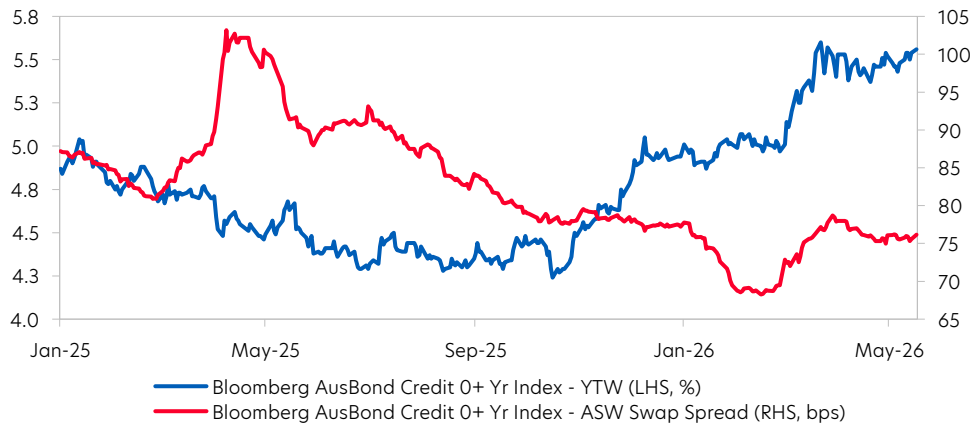
While we acknowledge the potential for near-term mark-to-market volatility, we view current AUD yield levels as attractive, as more than one additional rate hike has been priced in for the remainder of 2026.

From a credit perspective, AUD credit, as represented by the Bloomberg AusBond Credit 0+ Year Index, has delivered a modest year-to-date total return of +0.28% (as of 25 May 2026). The benefit of elevated all-in yields was offset by spread widening and rates volatility. Spreads widened by c. 7bps amid the escalation of the Middle East conflict, while the impact of three consecutive RBA rate hikes further weighed on returns. Increased primary supply has also contributed to spread softness, with Kangaroo issuance reaching c. AUD 40.7 billion year-to-date (~50% higher YoY).

Looking ahead, we believe AUD credit continues to offer attractive diversification benefits for investors with heavy exposure to USD or SGD assets. This reflects its combination of relatively attractive all-in yields, market stability supported by a deep domestic buy-and-hold investor base, and strong credit quality (with c. 75% of the index rated A or above). Within the asset class, we see value in bonds issued by Australian major banks, Global Systemically Important Banks (G-SIBs), select utilities, energy and infrastructure names, as well as high-quality foreign corporate issuers.

AUD credit yields near year-to-date peak amid RBA policy normalization

Source: Bloomberg, UOB Private Bank.



FX, Interest Rate & Commodities Forecasts

| FX | 05 Jun | 3Q26F | 4Q26F | 1Q27F | 2Q27F | POLICY RATES | 19 Jun | 3Q26F | 4Q26F | 1Q27F | 2Q27F |
|-------------|--------|--------|--------|--------|--------|----------------------------|--------|--------|--------|--------|--------|
| USD/JPY | 160 | 157 | 155 | 153 | 151 | US Fed Funds Rate | 3.75 | 3.75 | 3.75 | 3.75 | 3.50 |
| EUR/USD | 1.16 | 1.18 | 1.19 | 1.21 | 1.22 | JPY Policy Rate* | 1.00 | 1.00 | 1.25 | 1.25 | 1.50 |
| GBP/USD | 1.34 | 1.35 | 1.37 | 1.38 | 1.39 | EUR Refinancing Rate | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 |
| AUD/USD | 0.71 | 0.72 | 0.73 | 0.74 | 0.75 | GBP Repo Rate | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 |
| NZD/USD | 0.59 | 0.60 | 0.61 | 0.62 | 0.63 | AUD Official Cash Rate | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 |
| DXY | 99.4 | 97.9 | 97.0 | 95.7 | 94.9 | NZD Official Cash Rate | 2.25 | 2.50 | 2.50 | 2.50 | 2.50 |
| USD/CNY | 6.77 | 6.80 | 6.76 | 6.73 | 6.70 | CNY 7D Reverse Repo | 1.40 | 1.40 | 1.40 | 1.40 | 1.40 |
| USD/HKD | 7.83 | 7.83 | 7.80 | 7.80 | 7.80 | HKD Base Rate | 4.00 | 4.00 | 4.00 | 4.00 | 3.75 |
| USD/TWD | 31.5 | 31.5 | 31.2 | 31.0 | 30.7 | TWD Official Discount Rate | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| USD/KRW | 1,539 | 1,530 | 1,510 | 1,490 | 1,480 | KRW Base Rate | 2.50 | 2.75 | 3.00 | 3.00 | 3.00 |
| USD/PHP | 61.6 | 63.0 | 62.5 | 62.0 | 61.5 | PHP O/N Reverse Repo | 4.75 | 5.00 | 5.00 | 5.00 | 5.00 |
| USD/MYR | 4.02 | 4.00 | 3.98 | 3.94 | 3.92 | MYR O/N Policy Rate | 2.75 | 2.75 | 2.75 | 2.75 | 2.75 |
| USD/IDR | 18,033 | 18,000 | 17,800 | 17,700 | 17,700 | IDR 7D Reverse Repo* | 5.75 | 6.25 | 6.50 | 6.50 | 6.50 |
| USD/THB | 32.7 | 32.9 | 32.7 | 32.5 | 32.3 | THB 1D Repo | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| USD/VND | 26,333 | 26,500 | 26,400 | 26,300 | 26,100 | VND Refinancing Rate | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 |
| USD/INR | 95.8 | 96.0 | 95.5 | 95.0 | 94.0 | INR Repo Rate | 5.25 | 5.25 | 5.25 | 5.25 | 5.25 |
| USD/SGD | 1.28 | 1.28 | 1.27 | 1.26 | 1.25 | INTEREST RATES | 05 Jun | 3Q26F | 4Q26F | 1Q27F | 2Q27F |
| EUR/SGD | 1.49 | 1.51 | 1.51 | 1.52 | 1.53 | USD 3M SOFR (compounded) | 3.64 | 3.62 | 3.62 | 3.62 | 3.45 |
| GBP/SGD | 1.72 | 1.73 | 1.74 | 1.74 | 1.74 | SGD 3M SORA (compounded) | 1.06 | 1.24 | 1.42 | 1.56 | 1.64 |
| AUD/SGD | 0.92 | 0.92 | 0.93 | 0.93 | 0.94 | 10Y US Treasuries Yield | 4.47 | 4.60 | 4.65 | 4.70 | 4.70 |
| SGD/MYR | 3.13 | 3.13 | 3.13 | 3.13 | 3.14 | SGD 10Y SGS | 2.07 | 2.30 | 2.45 | 2.65 | 2.80 |
| SGD/CNY | 5.27 | 5.31 | 5.32 | 5.34 | 5.36 | COMMODITIES | 19 Jun | 3Q26F | 4Q26F | 1Q27F | 2Q27F |
| JPY/SGDx100 | 0.80 | 0.82 | 0.82 | 0.82 | 0.83 | Gold (USD/oz) | 4,185 | 4,600 | 4,800 | 5,000 | 5,200 |
| | | | | | | Brent Crude Oil (USD/bbl)* | 79 | 85 | 80 | 70 | 70 |
| | | | | | | Copper (USD/mt) | 13,691 | 13,500 | 13,000 | 12,500 | 12,500 |

Updated as of 19 June 2026

* Forecasts updated as compared to previous report dated 05 June 2026

Source for spot rates: Bloomberg

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