

UOB House View 4Q 2026

Tuesday, 13 October 2026

The Team
Global Economics & Markets Research
Private Bank

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Global Macro

The Sep 2026 Fed hike signals the start of a renewed US tightening cycle. Our macroeconomic team now projects two additional 25bp hikes, in Dec 2026 and 1Q27, with the Fed on hold thereafter through the remainder of 2027.

Asset Allocation

We moved Equities from Overweight to Neutral post the Fed hike in Sep. This is a tactically cautious decision, not a strategic retreat. 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 upgrade Money Market to Overweight, maintaining flexibility to gradually deploy dry powder as market volatility presents opportunities.

Equities

We downgrade US to Neutral as a prolonged Fed tightening cycle and higher bond yields are creating a less supportive backdrop. We remain Neutral in Europe, seeing selective opportunities in areas like AI infrastructure and utilities amid modest growth. 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 downgrade EM Asia to Neutral, as AI hardware exposure and China's uneven recovery cloud near-term outlook.

Fixed Income

We stay Overweight on Developed Markets (DM) Investment Grade (IG) as attractive all-in yields support portfolio income, although Fed tightening could generate near-term duration volatility. 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

As the US/Iran War drags on, Brent crude oil is not out of the woods yet in terms of supply disruption, with increasing concerns over dwindling inventory and further distillate shortage. As such, we raise our forecasts by USD 10 / bbl across the board to USD 90 / bbl in 4Q26, USD 85 / bbl in 1Q27 and USD 80 / bbl in 2Q and 3Q27. As for gold, while we remain confident of gold's long term positive outlook due to strong central bank buying, but near term, further Fed rate hikes and climb in US Treasuries yield limits any immediate recovery. As such, we forecast gold at USD 4,500 / oz in 4Q26, USD 4,800 / oz in 1Q27, USD 5,100 / oz in 2Q27 and USD 5,400 / oz in 3Q27.

FX & Interest Rates

The Fed tightening trajectory is expected to catalyze a meaningful recovery in US rate differentials relative to G10 peers, and we revise our USD view from bearish to constructive. Updated DXY forecasts are 102.0 in 4Q26, 102.8 in 1Q27, and 103.6 in 2Q27 and 3Q27. As for USD rates, consistent with Fed hiking cycle, we forecast 3M compounded-in-arrears SOFR at 3.96% in 4Q26, 4.21% in 1Q27, 4.32% in 2Q27 and 4.36% in 3Q27. Concurrently, we raise our 10Y UST yield forecasts to 5.30% in 4Q26, and 5.50% from 1Q27 through 3Q27. For Singapore, given broadening price pressures, our view is for MAS to tighten policy further via another "very slight" slope-steepening move (+25bps) on 14 Oct MPS, taking the S\$NEER slope to 1.5% p.a. We expect 3M SORA at 1.40% in 4Q26, 1.50% in 1Q27, 1.57% in 2Q27, 1.63% in 3Q27.



Global Macro & Markets Strategy

Stronger USD & higher rates as Fed embarks on new hiking cycle

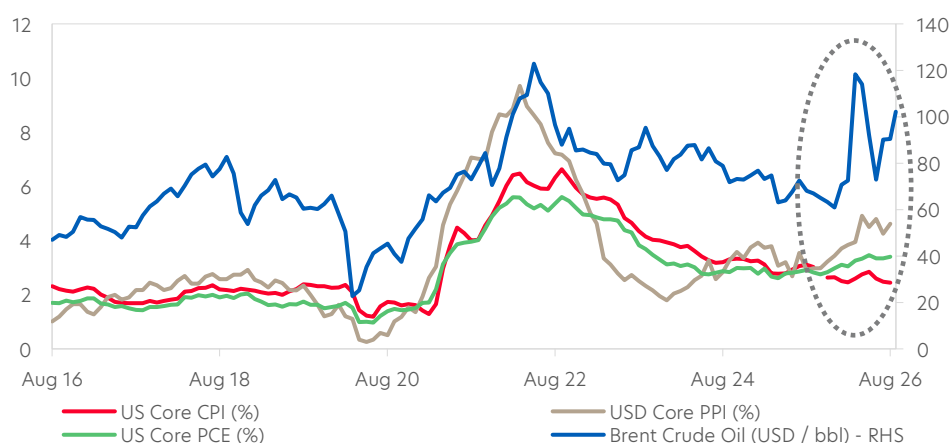
Growing list of worries: higher energy prices, renewed inflation risk, start of Fed hiking cycle and worsening US fiscal stress

Since we published our Quarterly Global Outlook 4Q 2026 on 4th Sep, geopolitical risks in the Middle East have intensified. The Houthis have since joined the widening regional conflict and appear to have gained control of the strategic Bab el-Mandeb Strait. Investors worry that a second key artery for crude oil exports from the Middle East is now at risk of being blocked as well.

As such, Brent crude oil staged a strong rebound, and in a matter of just 2 weeks, jumped from USD 90 / bbl at the beginning of Sep, to almost as high as USD 110 / bbl by mid Sep. In the US, pump prices climbed anew with the national average for gasoline price rising back up to USD 4.5 / gallon and the national average for diesel price shooting up to a new high of USD 6.50 / gallon. In short, it is not just crude oil prices that have rebounded, the on-going inventory drawdown coupled with supply disruption has triggered a rebound in energy prices across the entire energy distillate complex, including jet fuel, liquified natural gas, polyethylene, naptha etc.

Chart 1: Persistent rise in crude oil price triggers renewed inflation risk for US

Source: Bloomberg, UOB Global Economics & Markets Research

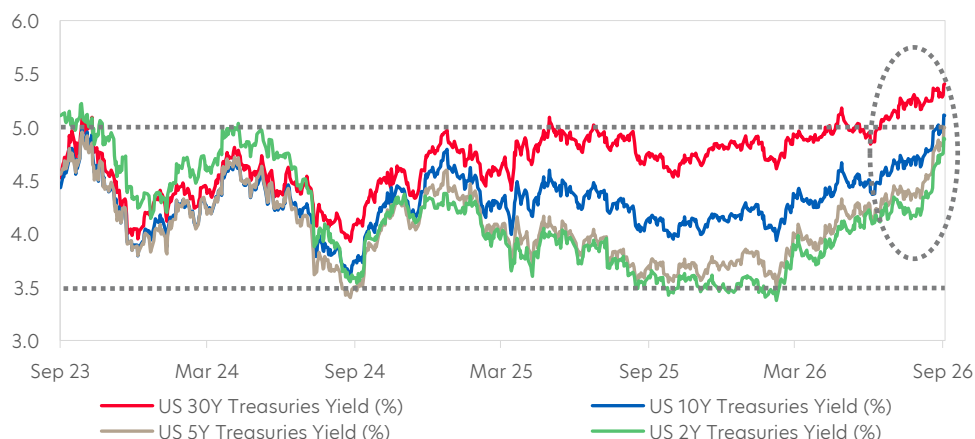


This rebound in crude oil and energy prices comes at a rather inconvenient time for the US Federal Reserve. Chairman Warsh did the right thing by leading his Fed officials in making a unanimous 25 bps hike at the 15-16 Sep FOMC, lifting the Federal Funds Rate to 4.0%. Chairman Warsh sounded decidedly hawkish in his post FOMC press conference, warning that the Fed has its eyes on inflation risk with inflation being "too high for too long". Most tellingly, Chairman Warsh no longer deems interest rates as restrictive as he characterized the Fed's rate hike as "removing a dose of accommodation".

As such, our macroeconomic team has revised our FOMC outlook and now expect two more 25 bps rate hikes ahead, in Dec 26 and 1Q27, lifting Fed Fund Rates from 4.0% now to 4.50%. Thereafter, Fed Fund Rates are expected to stay stable at 4.50% throughout the rest of 2027. For more details, kindly refer to Macro Note: "[US Sep 2026 FOMC: A 25 bps hike as Fed focused on inflation](#)" dated 17 Sep 26. Against this backdrop, several global central banks have hiked and sounded increasingly hawkish as well. This is especially so for the European Central Bank (ECB) with President Christine Lagarde characterizing the latest hike by the ECB as a "no brainer".

Chart 2: The unmistakable march in US Treasuries yield higher

Source: Bloomberg, UOB Global Economics & Markets Research



Concurrently, over the past month, US Treasuries encountered heavy selling, leading to the further rise of 10 Year Treasury yield above 5.0% at the moment of writing by late September. This further climb in Treasuries yield is symptomatic of persistent investor concerns over the increasingly difficult fiscal outlook for the US as well as a lack of investor confidence over Treasury Secretary Scott Bessent's plan to cap the rise in yield with a larger repurchase program which is deemed inadequate.

In addition, there are growing concerns that the Bank of Japan (BOJ) may have resorted to funding its increasingly expensive intervention against JPY weakness with US Treasuries sales. Strictly speaking, there is no concrete evidence as yet that the BOJ is actively selling US Treasuries, although their monthly holdings have started to ease modestly.

Chart 3: Core PCE adjusted 10Y UST real yield is still relatively low on a historical basis

Source: Bloomberg, UOB Global Economics & Markets Research



Taken together, these developments constitute a growing list of worries (persistently high energy prices, renewed inflation risk, start of Fed hiking cycle and increasing US fiscal stress) for investors that we may well be entering a new cycle of higher interest rates. Indeed, the Fed's own Adrian-Crump-Moench (ACM) 10 Year Treasury Term Premium model has turned positive as well, implying that long term rates will be sticky on the upside.

At the risk of sounding alarmist, while 10Y Treasuries yield looks high at 5% in our current post Covid period, over a much longer 50-year historical horizon, 10Y Treasuries yield traded above 10% to as high as 15% in the early 1980s. Objectively, the core PCE adjusted 10Y Treasuries yield is still relatively low on a historical basis at "just" 1.71% on a real basis.

We had warned previously in our Quarterly Global Outlook 4Q 2026 that our constructive outlook of Asian FX as well as medium term bearish outlook of the USD are at risk should the Fed embark on a new rate hiking cycle. In addition, the new Fed rate hiking cycle may well push 10Y US Treasuries yield beyond 5.0% while triggering a quicker normalization of the discount between SG Sora and US Sofr.

FX Strategy: Shifting to a constructive view on USD as Fed starts tightening cycle

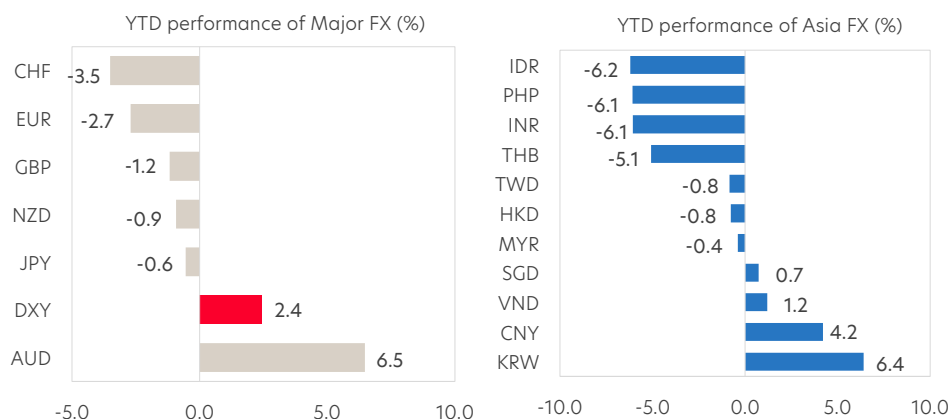
Our medium-term bearish USD view was anchored on three pillars: an extended Fed pause through 2026 followed by two rate cuts in 2027; concurrent hawkish repricing across G10 central banks eroding the USD's relative rate advantage; and the expanded Treasury buyback programme, which revived the USD debasement trade and added a further near-term headwind against the dollar.

The Sep FOMC rate hike represents a material departure from this framework and warrants a reassessment of our medium-term bearish USD outlook. The hike signals the start of a renewed US tightening cycle – a development that was not in our base case. Our macroeconomic team now projects two additional 25bp hikes, in Dec 2026 and 1Q27, with the Fed on hold thereafter through the remainder of 2027. This front-loaded tightening trajectory is expected to catalyze a meaningful recovery in US rate differentials relative to G10 peers, particularly given that most other G10 central banks are at a more advanced stage of their respective tightening cycles and are projected to deliver fewer hikes over the same horizon.

On balance, we revise our near to medium-term USD view from bearish to constructive. Therefore, we expect DXY to snap its losing streak since 2Q25 and strengthen anew, driven primarily by a recovering rate differential advantage. The magnitude of the USD rebound will, however, be conditioned by the degree to which renewed rate support can offset the structural headwinds – fiscal deterioration, the buyback-driven debasement narrative, and diminished safe-haven demand – that have weighed on the dollar in recent quarters. The currency-specific dynamics of key G10 pairs, which may serve to amplify or partially offset the broader USD move, are examined in the discussion that follows.

Chart 4: Differentiated Major and Asia FX performance this year likely to persist.

Source: Bloomberg, UOB Global Economics & Markets Research



The Fed's Sep hike materially alters the near-term Asia FX calculus. Our constructive 4Q26 Asia FX thesis had rested on three conditions: consolidating oil prices affording the Fed sufficient cover to hold rates through year-end, a narrowing US rate advantage, and a resumption of Asia regional portfolio inflows. The Fed hike directly undermines the second condition and raises the risk that Asia regional portfolio inflows may stall or worse, reverse. With two further rate increases now projected over the next six months, Asia FX faces a more challenging external environment than our prior baseline assumed.

Asia FX has demonstrated notable resilience over the past two years, weathering significant headwinds including elevated trade tariffs of 2025 and the Middle East conflict in 2026. However, the resumption of a US tightening cycle introduces a qualitatively different challenge – one that strikes at the heart of rate differential and capital flow dynamics that have underpinned regional currency stability.

We now believe a more defensively positioned regional FX stance is warranted. That said, the sharply bifurcated year-to-date performance across Asia FX is likely to persist. Currencies with stronger fundamental buffers — current account surpluses, lower external financing needs, or greater monetary policy flexibility — may prove more resilient to renewed USD strength, and we continue to differentiate accordingly within the region.

Major FX Strategy: Rate differentials now seen boosting the USD

The Sep FOMC decision to raise the federal funds rate by 25bp to 4.00% — the first hike since Jul 2023 — marks a decisive change in the US monetary policy cycle and serves as the primary catalyst for our revised constructive USD view. The DXY gained 1.1% in the week ending 18 Sep, its strongest weekly performance since Jun, as markets moved to re-price the forward rate path. The futures-implied Fed trajectory as of 23 Sep places the policy rate at approximately 4.21% by Dec 2026, with a 75% implied probability of a Dec hike, and at 4.62% by Dec 2027 — broadly consistent with our macroeconomic team's projection of two additional 25bp hikes in Dec 2026 and 1Q27.

Monetary policy divergence, which had acted as a persistent headwind for the USD over the preceding two quarters, is now turning into a tailwind. Over the past six months, several G10 central banks — including the ECB, BOJ, RBA, and RBNZ — have tightened policy in response to the inflationary spillover from the global oil shock, while the Fed maintained a patient stance. The Sep hike signals a shift in that posture: Fed Chair Warsh has emphasized that inflation has remained "too high for too long," explicitly opening the door to a sustained tightening sequence. Critically, our macroeconomic team assesses that most G10 peers are at a more advanced stage of their respective tightening cycles and are projected to deliver fewer hikes over the same horizon. The resulting recovery in US rate differentials relative to G10 peers constitutes the central rationale for our revised USD view. On balance, we shift to a constructive, upward trajectory for the DXY, with USD gains frontloaded to the immediate two quarters as the Fed delivers the projected rate hikes. The updated DXY forecasts are 102.0 in 4Q26, 102.8 in 1Q27, and 103.6 in 2Q27 and 3Q27.

Across the G10 complex, the constructive USD view is most pronounced against EUR, GBP, NZD, and CHF, where the respective central banks are furthest from matching the Fed's renewed tightening trajectory and rate differentials are set to widen most materially. JPY presents a more nuanced setup: near-term USD/JPY upside is supported by differential widening, though USD gains are likely to be capped by intervention risk as the pair approaches levels around 160 that have recently prompted MOF action. AUD stands out as the most resilient G10 counterpart, underpinned by the RBA's own active tightening cycle and the AUD's status as the highest-yielding currency within the G10 complex.

Asia FX Strategy: Defensive pivot warranted as Fed tightening cycle alters regional FX calculus

The Fed's Sep hike materially alters the near-term regional Asia FX calculus. Our constructive 4Q26 Asia FX thesis had rested on three conditions: consolidating oil prices affording the Fed sufficient cover to hold rates through year-end, a narrowing US rate advantage, and a resumption of regional portfolio inflows. The Fed hike directly undermines the second condition and raises the risk that portfolio inflows stall or even reverse. With two further rate increases now projected over the next six months, Asia FX faces a more challenging external environment than our prior baseline assumed.

Asia FX has demonstrated notable resilience over the past two years, weathering significant headwinds — including elevated trade tariffs in 2025 and the Middle East conflict in 2026. However, the resumption of a US tightening cycle introduces a qualitatively different challenge, one that strikes at the very heart of the rate differential and capital flow dynamics that have underpinned regional currency stability. We now believe a more defensively positioned regional FX stance is warranted.

The renewed Fed tightening cycle is likely to strike Asia FX in a non-uniform fashion. The region's central banks are at markedly different stages of their respective policy cycles, and the degree to which each can absorb or offset the widening USD rate advantage varies considerably.

Three broad groupings emerge:

1. Rate buffer economies, where domestic policy rates remain above the Fed's and central banks are expected to mirror Fed moves to maintain the carry cushion and stabilise capital flows: India (RBI at 5.25%, two further hikes expected), Indonesia (BI at 5.75%, two further hikes expected), and the Philippines (BSP at 5.00%, on hold). Notably, most economies in this cohort carry current account and fiscal deficits, which may subject their currencies to a larger drawdown during a Fed tightening cycle, notwithstanding the nominal rate buffer.
2. Policy-constrained economies, where rates are well below the Fed's and central banks have limited room to tighten further without compromising growth: Thailand (BOT at 1.00%, on hold) and Malaysia (BNM at 2.75%, one hike expected in Nov 2026). In this cohort, THB is the most exposed as the BOT has no credible room to hike without inflicting significant damage on an already-sluggish domestic economy. Also, the Fed-BOT differential stands at 300 bps, one of the widest in Asia.
3. AI-semiconductor linked economies, where currency performance — KRW and TWD — is driven primarily by equity flows and the broader AI investment narrative rather than rate differentials. That said, both economies have delivered strong GDP outperformance, and the prospect of rate hikes in response provides a secondary layer of support.

To a certain extent, the SGD belongs to this category. Singapore's exposure to the AI cycle includes higher-value activities such as wafer fabrication, advanced packaging, memory production, and semiconductor manufacturing equipment.

Our updated base case is premised on the following conditions: the Fed delivers the projected Dec 2026 and 1Q27 hikes; oil prices stabilizing below \$100/bbl; China's 2026 growth holding at 4.5%; and regional central banks respond with targeted FX intervention and selective rate adjustments. Under this scenario, Asia FX collectively undergoes a controlled, differentiated depreciation against the USD. The headwinds on Asia FX are expected to be concentrated in the immediate 4Q26 and 1Q27 coinciding with the expected Fed hikes before tapering off.

Any assessment of Asia FX trajectory is incomplete without addressing CNY. A PBOC commitment to CNY stability would serve as a critical anchor for the region, allowing the bifurcation to play out along fundamental lines. In this environment, SGD, TWD, KRW, and MYR are expected to demonstrate relative resilience, supported by stronger external positions and strong exports growth tied to the AI cycle. Conversely, IDR, PHP, INR, and THB are more vulnerable to resurgent USD strength, given their combination of external financing needs and higher energy prices depleting fiscal buffers.

RATES STRATEGY: Navigating a higher interest rate regime

US Rates: Start of new hiking cycle

At the Sep FOMC, the Fed raised its Fed Funds Target Rate (FFTR) by 25 bps to a target range of 3.75-4.00%, the first increase since 2023. The decision also reflected a unified front from the Fed, with the outcome being unanimous (12-0).

As such our macroeconomic team has updated its FOMC outlook and now expects two additional 25 bps rate hikes in Dec 2026 and 1Q27, followed by an extended pause through the remainder of 2027. For more details, please refer to the Macro Note dated 17 Sep 2026. Consistent with this revised outlook, we forecast 3M compounded-in-arrears SOFR at 3.96% in 4Q26, 4.21% in 1Q27, 4.32% in 2Q27 and 4.36% in 3Q27.

At the long end, markets received the first test of Treasury's long-end buyback programme on 10 Sep, when the Treasury sought to redeem up to USD6bn of bonds in the 10-20 year segments, three times the previous maximum buyback size of USD2bn. However, market reaction suggested that much of the operation had already been priced in. On the day of the buyback, the 30Y Treasury yield rose 7.6 bps to 5.365% from 5.289% in the previous session, despite the Treasury ultimately redeeming only USD5.187bn. Given the still-elevated level of long-dated Treasury yields, Treasury Secretary Scott Bessent's "Treasury Twist" strategy has yet to demonstrate clear success. The box below gives a sense of how significant the long-end Treasury buyback is, compared to the quantum of quarterly long-end issuance and maturing US bills, notes and bonds.

The 10Y UST yield has now decisively broken above the psychologically important 5.0% threshold, as we previously cautioned, and has since made new highs to 5.20% in recent days. The combination of factors highlighted in our prior outlook has largely materialized, including higher oil prices, a September FOMC rate hike, and the possibility that Treasury's long-end buybacks could prove less effective than intended.

Given our revised Fed outlook, which incorporates two additional 25 bps hikes in Dec 2026 and 1Q27, we raise our 10Y UST yield forecasts by 45-70 bps over the next four quarters to 5.30% in 4Q26, and 5.50% from 1Q27 through 3Q27. In our view, 10Y Treasury yields are likely to remain elevated amid the resumption of the Fed's hiking cycle and persistently high energy prices. The 20 bps increase from 4Q26 to 1Q27 reflects the anticipated transmission of the Fed rate hikes, while yields are expected to remain around 5.50% thereafter, supported by structural fiscal challenges in the US and increased term premium. The downside risk could involve an increased long-end Treasury buyback or reduced coupon issuance in the next refunding announcement in Nov.

SG Rates: A clearer move higher in SG rates

Growth and exports remain resilient, with Aug NODX rebounding 10.9% m/m sa, confirming our macroeconomic team's earlier assessment that the weakness in semiconductor exports and industrial production observed in Jun and Jul was likely temporary. Inflation ticked up in Aug as core inflation rises to nearly two-year high of 2.2%. CPI in Aug 2026 rose 0.6% from the previous month and 2.3% from a year earlier. CPI-All Items inflation edged up to 2.3% y-o-y in Aug 2026, from 2.2% in Jul 2026. As such, our macroeconomic team has raised our core inflation forecast for 2026 to 1.8% from 1.7% previously, incorporating a smaller-than-previously anticipated decline in 4Q26 electricity tariffs.

Against this backdrop, our macroeconomic team's updated base case is for the MAS to tighten monetary policy further via another "very slight" slope-steepening move (+25 bps) in the Oct 2026 Monetary Policy Statement (MPS), taking the S\$NEER slope to 1.5% p.a. This is a very close call given the broadening price pressures and the soft labor market conditions. The modest S\$NEER appreciation path for the exchange rate should continue to help contain imported inflationary pressures. For more details, refer to [Macro Note](#) dated 23 Sep.

In our previous quarterly outlook, we highlighted several factors supporting a higher SORA trajectory, including: (1) a gradual increase in the banking system's loan-to-deposit ratio (LDR); (2) spillover effects from higher global and US interest rates; and (3) continuing firming in overnight SORA fixings. September developments have provided further confirmation of this view, most notably through the Fed's latest 25 bps rate hike.

Given our view that the recent increase in the Fed Funds Rate represents the resumption of a hiking cycle rather than a "one-and-done" move, with our macroeconomic team expecting an additional 25 bps hike in Dec 2026 and a final 25 bps hike in 1Q27, we view the upward path for SORA as increasingly certain.

Nevertheless, several factors could still exert downward pressure on SORA. These include: (1) continued growth in non-resident deposits, which adds liquidity to the banking system, although Jul recorded a sizeable outflow; and (2) recent MAS bill operations, where negative net issuance has effectively injected liquidity into the financial system.

On balance, however, we believe the factors supporting higher SORA are likely to dominate. Recent evidence suggests that the underlying trend in SORA fixings has continued to move higher, albeit gradually. Most notably, 3M compounded-in-arrears SORA has recently risen above 1.20%, its highest level since Dec 2025.

While the overall direction of rates appears increasingly clear, the pace of normalisation in Singapore-US interest rate differentials remains considerably more uncertain. We have long maintained the view that SORA-SOFR spreads across tenors should gradually normalise from their historically wide discounts. Accordingly, we forecast 3M compounded-in-arrears SORA at 1.40% in 4Q26, 1.50% in 1Q27, 1.57% in 2Q27, and 1.63% in 3Q27. These forecasts represent an upward revision of 5-15 bps relative to our projections published on 4 Sep, reflecting the transmission of a higher US interest rate path following the Fed's renewed tightening cycle, and another "very slight" S\$NEER slope steepening in Oct MPS.

For more details, kindly refer to Monthly FX & Rates Strategy: "[Stronger USD & higher rates as Fed embarks on new hiking cycle](#)" dated 25 Sep 26. For more details on specific FX and rates analysis and forecasts, please see our latest [FX, Interest Rates & Commodities Forecasts](#).

Asset Allocation

Asset Class Summary 4Q 2026

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

Asset Classes	U/W	N	O/W	Comments
Equities				We downgrade Equities to Neutral, reflecting a less compelling near-term risk-reward profile amid rising market headwinds.
North America				Downgrade to Neutral. A prolonged Fed tightening cycle and higher bond yields are creating a less supportive backdrop.
Europe				Stay Neutral. We see selective opportunities in areas like AI infrastructure and utilities amid modest growth.
Japan				Stay Neutral. We see structural tailwinds but cyclical risks. Favour companies riding on fiscal-policy driven themes.
EM Asia				Downgrade to Neutral. AI hardware exposure and China's uneven recovery cloud near-term outlook.
Fixed Income				Stay Neutral. Stay opportunistic on recent credit spread widening. Prefer an average duration of 4-5 years.
DM IG				Stay Overweight. Attractive all-in yields support portfolio income, although Fed tightening could generate near-term duration volatility.
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				Stay Neutral. Beyond near-term inflation risks, Gold can thrive on safe-haven demand and continued central bank allocation.
Money Market				Upgrade to Overweight. 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			27.5	▼ -2.5	45.0	▼ -5.0	60.0	▼ -5.0	70.0	▼ -5.0	
North America			18.0	▼ -0.9	29.4	▼ -2.1	39.4	▼ -1.6	46.1	▼ -1.2	
Europe			4.2		7.0		9.1		10.5		
Japan			1.8		2.5	▼ -0.5	3.3	▼ -0.6	3.8	▼ -0.7	
EM Asia			3.8	▼ -1.3	6.1	▼ -2.4	8.2	▼ -2.9	9.6	▼ -3.2	
Fixed Income	90.0		65.0		32.5		12.5				
DM IG	45.0		29.2		14.6		5.6				Avg. duration: 4 to 5 years
DM HY			3.3		1.6		0.6				
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		7.5	▲ 2.5	12.5	▲ 5.0	12.5	▲ 5.0	12.5	▲ 5.0	

Following the September FOMC meeting, we downgraded equities from Overweight to Neutral. This is a tactical adjustment rather than a strategic retreat. The earnings backdrop remains healthy, but the balance between oil prices, inflation, interest rates and valuations has become less favourable after a strong year-to-date rally.

The key challenge today is that while corporate earnings continue to grow, the valuation investors are willing to pay for those earnings is coming under pressure. Higher oil prices risk keeping inflation elevated, while the Federal Reserve has left the door open to further tightening. Equities can cope with higher rates, but markets become more volatile when the outlook for rates and inflation remains uncertain.

Positioning is another consideration. Investor exposure remains heavily concentrated around the AI theme. We remain constructive on the long-term AI opportunity, but expectations have become demanding and market leadership increasingly narrow. Encouragingly, AI adoption continues to broaden across both consumer and enterprise applications, supporting the longer-term investment case. However, regulatory, geopolitical and implementation hurdles could affect the pace and timing of future investment.

Importantly, we are Neutral, not negative. We continue to expect healthy earnings growth through the second half of the year and remain constructive over a 12-month horizon. However, we are seeing evidence that good news is having less impact on share prices than before. Earnings beats are generating smaller market rewards, suggesting expectations are already high and the margin for disappointment has narrowed.

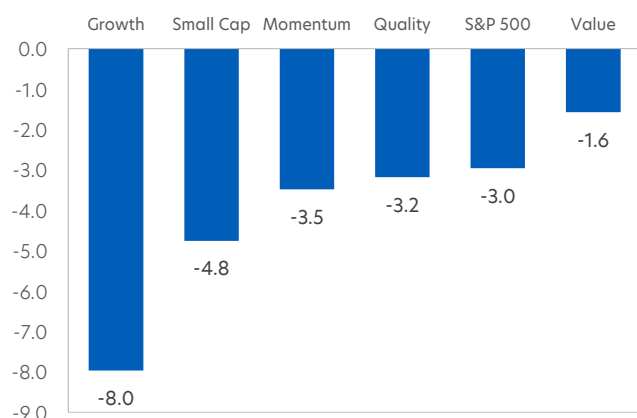
Regionally, we have moved the US, Emerging Asia and China to Neutral, while maintaining Neutral positions in Japan and Europe. Within portfolios, we favour companies generating strong cash flows today. Banks remain attractive provided economic conditions stay resilient, while healthcare and defence offer diversification away from the technology cycle.

Three developments would make us more positive on equities again: a sustained decline in oil prices driven by improving supply conditions, greater clarity from the Fed on the path of interest rates, and a market correction that leaves earnings expectations intact.

Overall, our stance remains tactically cautious but strategically constructive. We are reducing risk, not abandoning the market, while preserving flexibility to add exposure when the risk-reward balance improves.

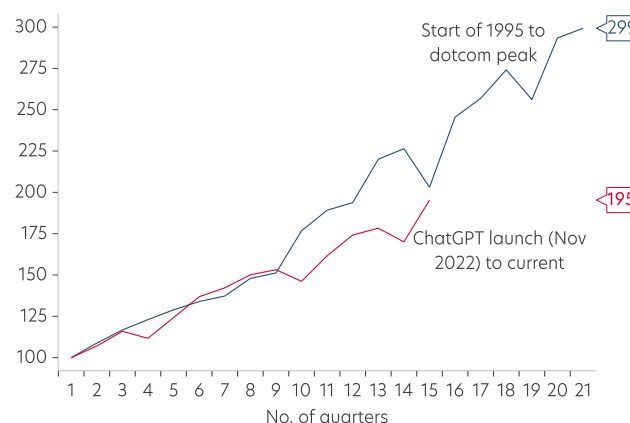
3 month average returns when Fed starts hiking

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



S&P500 since the ChatGPT launch versus the 1995-2000 dot-com rally

Source: Bloomberg, UOB Private Bank



Equities

US Equities

Constructive outlook, narrower risk-reward

Stance: We downgraded US Equities from Overweight to Neutral entering 4Q26. The shift reflects a less attractive near-term risk-reward balance rather than a bearish view on fundamentals. The economy and earnings remain resilient, while AI-related investment continues to support capital spending and productivity. However, renewed Fed tightening, elevated oil prices, high bond yields and crowded positioning have reduced the market's margin of safety.

Strong beat-and-raise results are generating less consistent share-price rewards, suggesting considerable optimism is already priced in. With the sharp 2026 earnings expansion creating a higher base for 2027, further gains should depend more on earnings delivery and broader profit growth than multiple expansion.

We favour increasing dry powder without abandoning the market. Pullbacks may offer opportunities to redeploy capital selectively if earnings estimates remain resilient and oil prices and bond yields stabilise.

Macro and rates backdrop

Fed path: The Fed raised the Fed Funds Target Rate by 25 basis points (bps) to 3.75%-4.0% in September, its first hike since 2023. The decision and projections had a hawkish tilt as policymakers prioritised persistent inflation despite resilient growth. Our latest house view expects another 25bps hike in December 2026 and one in 1Q27, taking the upper bound to 4.5%, followed by a pause through the rest of 2027.

Inflation and growth: August headline CPI rose 0.4% m/m and 3.4% y/y, while core CPI rose 0.3% m/m and 2.4% y/y. The data reinforce the prospect of restrictive monetary policy and elevated bond yields. We forecast 2026 Gross Domestic Product (GDP) growth of 1.9%, but higher energy and tariff-related costs may pressure margins and lower-income consumption.

Politics and fiscal risks: The 3 November mid-terms may drive volatility. A divided government could limit major policy changes but may also impede fiscal consolidation and raise shutdown and debt-ceiling risks. Structurally large deficits and rising interest costs could keep the Treasury term premium and long-end yields elevated.

Earnings and valuations: Robust earnings, higher hurdle ahead

Earnings dynamics: US corporate reporting should remain robust into 4Q26, supported by resilient demand, AI-related investment, cost discipline and productivity gains. Consensus expects S&P 500 earnings to grow 28.9% y/y in 3Q26, potentially marking a third consecutive quarter of growth above 25%. However, growth is front-loaded into 2H 2026 and comparisons become more demanding in 2027 after the high 2026 base, particularly for technology and semiconductor leaders. This does not imply an earnings recession, but the hurdle for positive surprises and favourable share-price reactions is rising.

Valuations: The S&P 500 traded at 19.2x twelve-month forward P/E (as of 22 September 2026), slightly below its five-year average of 19.9x but close to its ten-year average of 19.1x. Index-level valuations are therefore decent, although Treasury yields near 5%, a higher fiscal term premium and uneven sector valuations limit the scope for broad multiple expansion. Markets may remain sensitive to oil, inflation and Fed signals.

Market positioning: AI remains a structural growth theme, supported by sustained data centre investment and widening enterprise adoption. However, crowded hardware and infrastructure exposures could face sharper pullbacks if spending slows or outlook misses demanding expectations. We prefer balancing infrastructure beneficiaries with profitable AI adopters, quality cash-generative businesses and selected cyclical or defensive exposures. Diversification remains important, as concentrated positioning and high earnings expectations can amplify volatility during market corrections.

Investment Strategy: Build dry powder, redeploy selectively

Strategy: Following the downgrade to Neutral, we favour reducing excess risk and increasing dry powder rather than exiting the market. Investors should avoid chasing crowded or overextended names, prepare buy lists and scale into quality companies during pullbacks. A market reset could create a better entry point if earnings estimates remain stable, while easing oil prices, lower bond yields or clearer Fed guidance would improve the risk-reward balance.

Within AI, investors may balance infrastructure holdings with profitable adopters that can use the technology to lift productivity and margins without equally heavy capital commitments. We also favour quality cash generators, banks that may benefit from higher rates absent a recession, healthcare for defensive earnings, and selected industrial and defence names supported by structural spending.

Risk flag: Key risks include additional Fed tightening, persistently high oil prices, rising Treasury yields, geopolitical shocks, crowded positioning and slower AI infrastructure spending. Large fiscal deficits, mid-term-related policy uncertainty, another government shutdown after 11 December and future debt-ceiling negotiations may add volatility.

Investment takeaways

The outlook remains strategically constructive but tactically balanced. Robust earnings, resilient growth and AI adoption provide support, but the high 2026 earnings base, renewed tightening cycle and demanding expectations reduce near-term upside. Maintain diversified exposure, build dry powder and use pullbacks selectively rather than chase momentum.

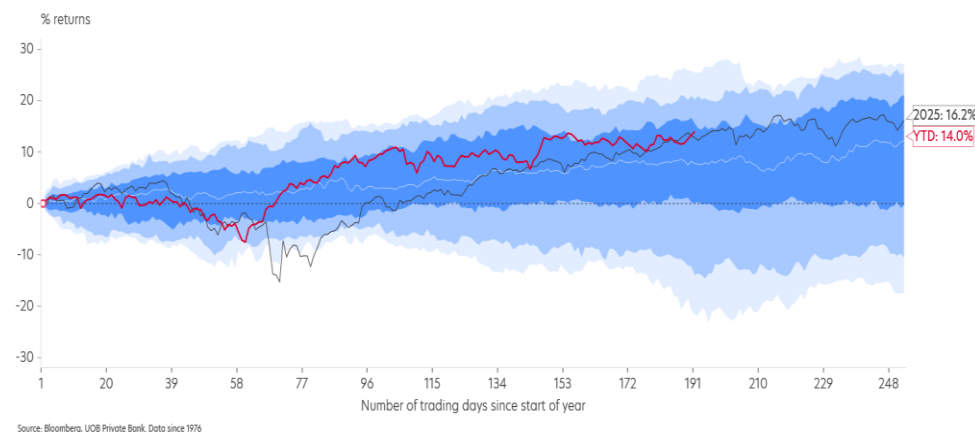
Use market pullbacks to add exposure. Expect key support levels at 7000 and 7300

Source: Bloomberg, UOB Private Bank



Current year-end 2025 returns compared with a historical distribution since 1976

Source: Bloomberg, UOB Private Bank



Europe Equities

Neutral with selective opportunities

Stance: We enter 4Q with a Neutral stance on European equities. The macro backdrop has proven more resilient than anticipated, underpinned by solid labour markets, improving domestic demand, and a sustained step-up in fiscal spending on infrastructure and defence. Meanwhile, elevated energy prices and renewed inflation have kept the ECB in tightening mode, and richer valuations following a strong run have narrowed the scope for further broad-based multiple expansion.

This environment increasingly favours selectivity over market beta. The STOXX Europe 600 has advanced around 11% year-to-date, repeatedly setting record highs above the 650-660 level, with the DAX, CAC 40 and FTSE MIB all reaching all-time peaks of their own. Market leadership has broadened meaningfully, with banks, steel, industrials and semiconductor-equipment names joining, and in some cases overtaking, the luxury and pharmaceutical franchises that traditionally anchored the region's equity story.

Roughly three-quarters of index constituents now trade above their 200-day moving average, near the top of the decade-long range. Against this backdrop, we recommend balanced portfolio positioning, combining high-quality defensive franchises and dividend payers with selective exposure to structural growth beneficiaries.

Macro and policy backdrop: Policy stays restrictive amid inflation

ECB path: The ECB has turned more hawkish as energy-driven inflation has resurged through 2026. Eurozone growth has held up better than feared, but headline inflation is expected to stay above target into 2027, with policymakers prioritising price stability over an uneven recovery. Following its September 25bps rate increase, we expect the Governing Council to maintain a restrictive stance through year-end, with rates remaining elevated until clearer evidence emerges that inflation is durably returning toward the 2% goal.

Eurozone growth: Economic activity has held up better than expected despite lingering geopolitical uncertainty. ECB projections point to eurozone GDP growth of 0.9% in 2026, supported by resilient labour markets, improving consumer confidence, and increased public investment in infrastructure and defence. Unemployment remains stable at 6.4%, while negotiated wage growth of around 2.6% suggests a tight rather than overheating labour market, though policymakers remain watchful for energy costs feeding into wage demands.

EUR consolidation: Beyond the rate differential, positioning dynamics reinforce the bearish EUR/USD outlook. Net-short positioning in the currency pair has persisted since Jul, and absent a further material hawkish surprise from the ECB or a deterioration in the US growth outlook, this positioning overhang is likely to amplify downside pressure on the pair rather than unwind. On balance, we revise our EUR/USD forecasts lower, projecting a gradual depreciation path: 1.12 in 4Q26, 1.11 in 1Q27, and 1.10 in 2Q27 and 3Q27.

Earnings & valuations: Improving backdrop, limited upside

Earnings dynamics: European corporate earnings have exceeded expectations through most of 2026, with growth stronger than anticipated despite energy-price volatility and geopolitical disruption. 2Q Earning Per Share (EPS) growth for the STOXX Europe 600 reached roughly 24% y/y, while consensus expects FY26 EPS growth in the mid-teens. Crucially, the improvement has broadened beyond index heavyweights, supported by bank profitability, infrastructure spending, and continued investment tied to AI and electrification.

Looking ahead, we expect the earnings outlook to remain constructive, though growth should moderate from this year's exceptionally strong levels. Consensus continues to support positive earnings revisions, underpinned by resilient domestic demand, defence spending, grid modernisation and AI-related capex.

Valuations: The STOXX Europe 600 currently trades near 14.5x twelve-month forward P/E (as of 22 September 2026), broadly in line with its historical average but toward the upper end of its range in recent years. The region continues to trade at a discount to US equities, but that gap has narrowed considerably. We therefore view current valuations as broadly fair rather than cheap, with future returns increasingly dependent on earnings delivery rather than further re-rating.

Market positioning: We continue to favour companies exposed to structural themes where earnings visibility is high and investment cycles remain intact. Key areas of conviction include AI infrastructure and digitalisation beneficiaries, power and grid investment, defence modernisation, and select financials.

Investment strategy: Structural winners over broad market exposure

AI infrastructure: As hyperscalers and enterprises continue to expand AI-related capex, European beneficiaries across semiconductors, data centre infrastructure and specialised equipment remain well positioned to capture sustained demand.

Utilities and power infrastructure: Grid modernisation, renewable investment and energy-security needs are driving infrastructure spending, while rising electricity demand from data centres and electrification initiatives should support long-term capex.

Defence and strategic autonomy: Rising geopolitical fragmentation and security concerns are driving a multi-year expansion in defence spending, supporting military modernisation, ammunition replenishment and greater strategic autonomy.

Financials: We remain constructive on select European banks, as higher-for-longer rates support net interest income and profitability, alongside healthy balance sheets and attractive capital returns.

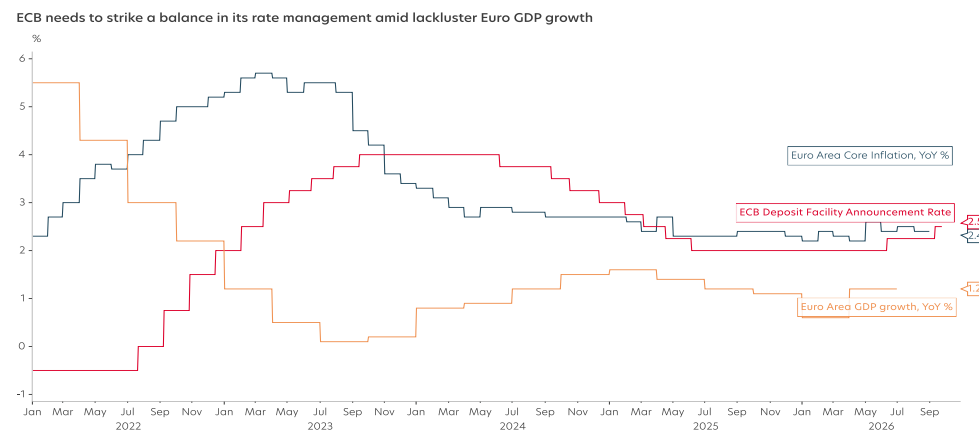
Risk flags: Key risks remain skewed toward policy uncertainty and geopolitical developments rather than fundamentals.

Investment takeaways

European equities are likely to remain a stock-picker's market heading into 4Q. Earnings momentum has improved, but tighter monetary policy and elevated energy prices limit the scope for broad market upside. We favour selective exposure to structural growth themes: AI infrastructure, power and grid investment, defence modernisation, and high-dividend financials.

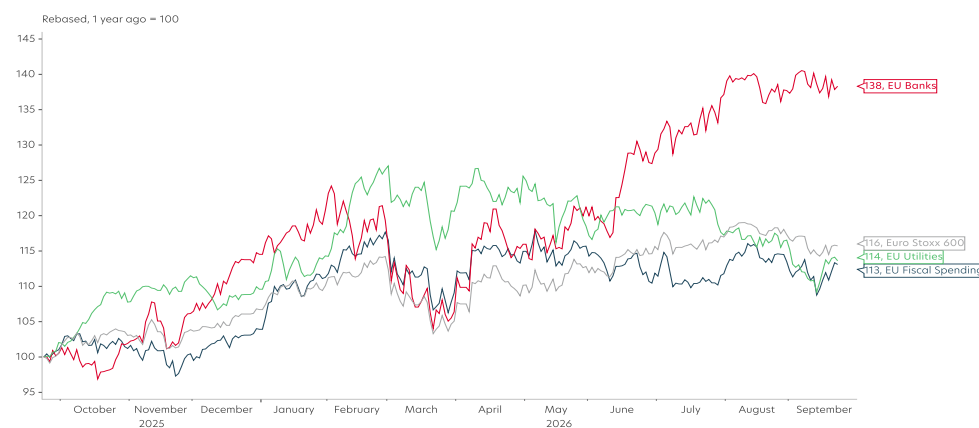
ECB needs to strike a delicate balance in its rates management amid lackluster Euro GDP growth

Source: Bloomberg, UOB Private Bank



Stick to the winning themes

Source: Bloomberg, UOB Private Bank



Emerging Asia

AI technology drives regional growth

Stance: We have a Neutral view on EM Asia equities entering 4Q26. While China's economic recovery has remained uneven, with real GDP growth slowing more than expected in 2Q26, resilient technology exports have helped offset some domestic weakness. The sustainability of export momentum, however, will likely depend on the pace and durability of global AI infrastructure investment.

North Asia, particularly Taiwan, South Korea, and China's AI ecosystem, continues to benefit from strong demand for semiconductors and AI infrastructure, supporting earnings growth and capex. Taiwan and South Korea remain key beneficiaries of the AI and semiconductor cycle, although elevated positioning in AI-related hardware stocks could leave parts of the market more sensitive to shifts in interest-rate expectations and global risk sentiment.

China's export resilience increasingly reflects its expanding role in the global AI supply chain, even as domestic growth remains subdued. Beyond North Asia, AI-driven investment is gradually extending to ASEAN through supply-chain diversification, technology spending, and manufacturing relocation. Singapore remains a high-quality gateway to ASEAN growth, supported by strong financial institutions, capital inflows, and rising demand for digital and infrastructure investment. While EM Asia continues to offer attractive valuation discounts relative to developed markets, a selective and bottom-up investment approach remains important.

Macro backdrop: China growth moderates while export momentum remains resilient

China growth: China's real GDP growth slowed more than expected to 4.3% y/y in 2Q26, down from 5.0% y/y in 1Q26. While AI-related exports continue to support external demand, softer domestic consumption and investment remain headwinds to growth. As a result, our economist has revised the 3Q26 GDP growth forecast to 4.3% and now expects full-year 2026 GDP growth of 4.5%. Overall, resilient technology exports have helped offset some domestic weakness, highlighting the increasing contribution of AI-related industries to China's economic activity.

China exports: Exports remained a key source of support in August, rising 25.0% y/y in USD terms, driven by resilient global demand and continued investment in AI infrastructure. Technology-related products were the main growth engines, with semiconductor exports increasing 129.8%, followed by refined petroleum products (+80.5%) and computers (+76.5%). Ongoing AI-related capex and firmer technology pricing have supported both exports and imports, reinforcing China's role within the global AI supply chain. Meanwhile, the trade outlook has benefited from a more stable US-China relationship following the May summit.

Monetary policy: The PBOC continues to maintain an accommodative policy stance despite recent liquidity operations aimed at stabilising money market conditions. Moderating inflationary pressures and renewed growth headwinds could provide scope for further policy support.

Earnings & valuations: Tech-led earnings growth

Earnings trajectory: Technology-related sectors remain key drivers of regional earnings growth, supported by the ongoing memory cycle and AI investment trend. Consensus forecasts approximately 59% EPS growth for MSCI EM Asia over the next 12 months. While regional earnings growth is expected to continue, the pace of expansion is likely to moderate from current levels.

China earnings: All-China earnings growth accelerated to 24% y/y in 2Q26, up from 6% in 1Q26, marking the strongest quarterly earnings growth in five years. Earnings sentiment remained constructive, with 45% of MSCI China constituents reporting results above consensus expectations. Although offshore internet companies delivered slightly softer-than-expected results, earnings trends showed signs of stabilisation, supported by easing competition in food delivery.

China's AI profit pool continued to shift toward hardware, particularly semiconductors, with semiconductor earnings surging about 150% q/q to US\$23 billion in 2Q26. AI investment momentum remained robust, supported by ongoing hyperscaler capex growth. Beyond semiconductors, China expanded its share of global AI profits across power, infrastructure, and physical AI segments in 2Q26. Overall, the market continues to benefit from policy support for advanced manufacturing and technology development, although growth trends remain uneven across sectors.

Valuations & market positioning: MSCI EM Asia trades at 9.7x twelve-month forward P/E while HSCEI trades at 9.3x twelve-month forward P/E (as of 22 Sep 2026); both are trading at a discount to developed markets despite their strong growth potential. We expect the recovery path across the region to remain gradual and uneven, supporting a selective investment approach. For China, we have moved to a diversified “Tribell” approach (with a strong focus on dividend stocks) to help balance opportunities and portfolio volatility.

Structural growth themes: AI, advanced manufacturing and ASEAN growth

Semiconductor value chain: Taiwan and South Korea are home to leading semiconductor manufacturers and are well positioned to benefit from demand related to AI, high-performance computing, and memory chips. Continued growth in AI-driven compute demand, together with a gradual shift toward longer-term contracts, may support earnings visibility. However, elevated investor positioning in AI-related hardware stocks could leave parts of the market more sensitive to changes in interest-rate expectations and broader risk sentiment.

China tech and industrial transformation: China continues to advance technological self-sufficiency and high-end manufacturing as key pillars of its long-term growth strategy. Key focus areas include AI, semiconductor localisation and advanced industrial automation.

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

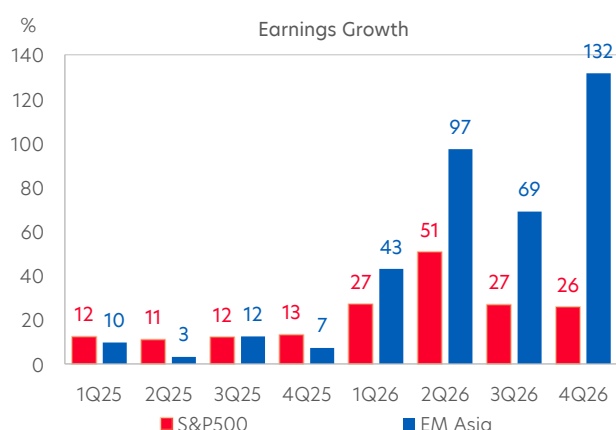
Risk flags: Geopolitical tensions and higher energy prices may drive volatility. Global tech demand could slow after the current investment cycle.

Investment takeaways

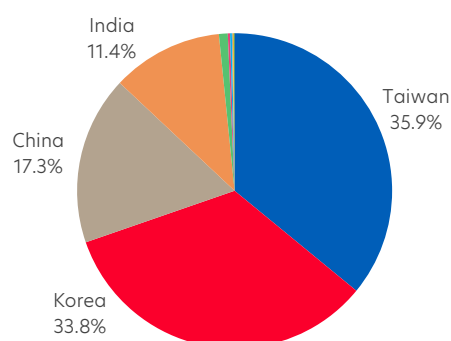
Overall, EM Asia continues to be supported by earnings growth, technology-related investment, and ongoing economic transformation. In China, we continue to see opportunities in areas aligned with national priorities, particularly technological self-sufficiency and advanced manufacturing. Within ASEAN we favour Singapore equities for their resilience and defensive characteristics.

EM Asia supported by solid earnings growth with heavy contributions by tech heavy countries

Source: Bloomberg, UOB Private Bank



Contribution to 2027 EPS growth



Japan

Structural tailwinds intact but earnings delivery matter more

Stance: We maintain a Neutral stance on Japanese equities into 4Q26. Structural reforms, stronger shareholder returns and strategic policy support remain constructive, but above-average valuations, slower economic growth, tighter monetary policy and Middle East-related oil risks warrant a selective approach.

Japan's investment case continues to shift from cyclical recovery toward structural transformation. Corporate governance reform, national resilience, economic security and supply-chain investment should support medium-term earnings quality and Return on Equity (ROE). However, after strong market gains, further upside should depend increasingly on earnings delivery, pricing power, cash generation and disciplined capital allocation rather than broad multiple expansion.

We favour quality companies aligned with defence, grid investment, infrastructure renewal and supply-chain security. Selected technology companies remain beneficiaries of AI investment, but their performance is increasingly correlated with US and global technology trends. We therefore prefer firms with durable earnings and multiple growth drivers rather than exposure based mainly on the AI narrative.

Macro and policy backdrop: Oil risks complicate gradual normalization

The government's economic strategy prioritises national resilience, economic security, supply-chain investment, AI infrastructure and advanced manufacturing. These initiatives should support capex, although the near-term macro backdrop remains clouded by Middle East uncertainty and elevated oil prices.

Bank of Japan (BOJ) path: The BOJ raised its policy rate by 25bps to 1.25% in September, its highest level in 31 years. We expect a pause for the rest of 2026, followed by a final 25bps hike to 1.50% in late 2Q27. However, there is a meaningful 40% risk that the next hike is brought forward to 4Q26 if inflation risks rise, external pressure intensifies and a steeper rate path becomes more acceptable to the government.

Japan growth: We lowered our 2026 real GDP growth forecast to 0.7%, reflecting subdued consumption, softer business investment and elevated energy costs. Japan's reliance on imported energy leaves household purchasing power and corporate margins exposed to a prolonged Middle East conflict. Inflation is forecast to average 2.0% in 2026, with upside risks from oil prices, wage-price dynamics and yen weakness.

JPY trajectory: On balance, we revise our USD/JPY forecasts higher to reflect the extended carry trade dynamic and the delayed normalisation path: 159 in 4Q26, 161 in 1Q27, and 162 in both 2Q27 and 3Q27. The path may remain volatile amid intervention risk, policy repricing and shifts in global risk appetite.

Earnings & valuations: Resilient profits, narrower margin for error

Earnings dynamics: Japanese corporate earnings remain resilient, but leadership is broadening and dispersion is rising. Robust second-quarter results and a low incidence of guidance cuts point to potential upgrades during subsequent reporting seasons. However, Middle East-related oil risks could raise raw-material, electricity and transportation costs, pressuring margins where pricing power is weak. Exporters also face uncertainty from volatile yen moves and softer external demand.

Valuations: TOPIX trades at 16.1x twelve-month forward P/E (as of 22 September 2026), moderating from its 18.5x peak earlier this year in February but still above its longer-term norm. This reduces, but does not remove, valuation risk as BoJ normalisation and higher global yields could pressure multiples. Further upside should increasingly depend on earnings delivery and ROE improvement rather than broad re-rating.

Market positioning: We favour large-cap quality companies with pricing power, strong cash generation and credible capital allocation. Megabanks offer exposure to wider lending margins, robust corporate loan demand and diversified fee, trading and wealth income, backed by resilient credit quality and buyback capacity. In technology, we prefer selected AI beneficiaries with durable earnings, while recognising their sensitivity to US technology performance, global AI spending and interest rates.

Structural growth themes: Selectivity across AI, infrastructure and financials

AI-linked technology: Japan remains well positioned in semiconductor equipment, advanced materials, power systems and factory automation. However, investors are becoming more discerning about the durability of AI-related earnings. Selected Japanese technology stocks may increasingly move with US and global AI sentiment, making valuation discipline and earnings visibility essential.

Infrastructure renewal: Ageing transport, utility and communications assets support a multi-year replacement cycle. Japan's FY2026 national-resilience budget is expected to exceed JPY 5 trillion, benefiting construction, engineering, grid and disaster-prevention companies.

Strategic Industries: Policy support for defence, energy security, strategic technologies, communications and cybersecurity should sustain investment. Corporate governance reform and pressure to use corporate cash more productively provide additional structural support.

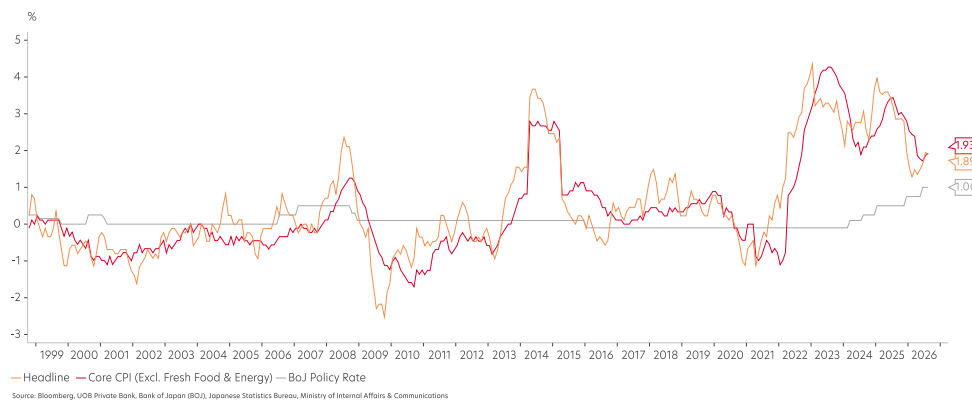
Investment takeaways

We stay Neutral and selective. Japan's structural reform case is intact, but modest growth, policy normalisation and valuation sensitivity limit broad-based multiple expansion. We favour quality firms aligned with national resilience, governance improvement and durable AI infrastructure demand, alongside megabanks benefiting from higher rates and strong capital returns.

BOJ has raised its policy rate to the highest level in 31 years

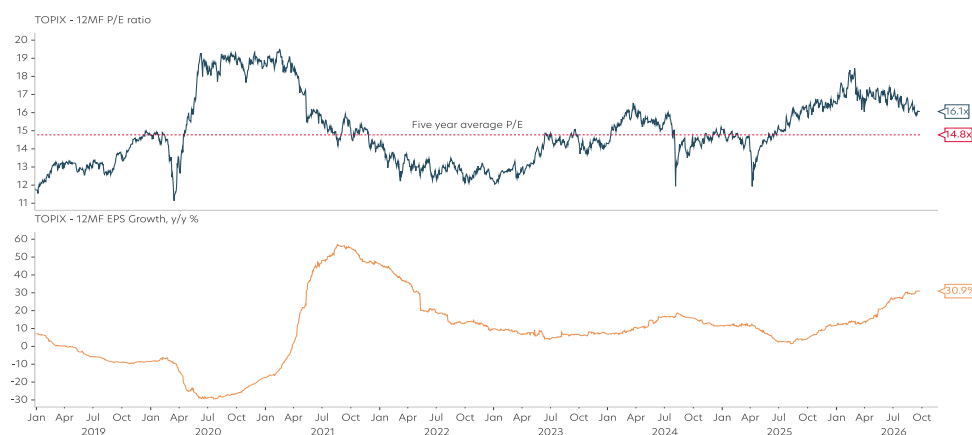
Source: Goldman Sachs, Bloomberg, UOB Private Bank.

Policy Rates vs CPI Inflation



Relatively rich equity valuations warrant a selective approach

Source: Bloomberg, UOB Private Bank.



Fixed Income

Developed Markets Investment Grade: Prioritise quality carry amid higher-for-longer interest rate environment

Developed Markets Investment Grade (DM IG) entered 3Q26 at historical tights and exited the quarter in a similar position from a spread perspective. Spreads (OAS) remained broadly stable, widening by 2bps quarter-to-date (as of 18 Sep 2026) and declining by 3bps year-to-date. Since Jun-2026, the DM IG Index has delivered a total return of -2.2%, with coupon income of 1.04% offset by a price decline of 3.3%. Importantly, the negative performance reflects a duration-driven repricing rather than a weakening of underlying credit quality.

The 10-Year US Treasury (UST) yield pushed above the 5% level as stronger-than-expected inflation data and resurgence of oil prices driven by the ongoing Middle East tensions overshadowed the Treasury Secretary's stated willingness to support long-end Treasury market liquidity. The UST yield curve bear-flattened as front-end yields rose by c.30-40bps since Aug-2026, while the increase in long-end (30-Year) yields was more modest as markets reassessed the Fed's commitment to restoring price stability following the September FOMC meeting.

The Fed delivered a unanimous 25bps rate hike in September and indicated that financial conditions have yet to become meaningfully restrictive. Chairman Warsh's move away from forward guidance reinforces a more data-dependent and hawkish policy framework, suggesting a higher bar for future easing. The September dot plot indicates one additional rate hike by end-2026 and a gradual easing cycle beginning in 2028. UOB Global Economics & Markets Research now expects a more prolonged tightening cycle, with additional hikes in December 2026 and 1Q27, followed by a hold through 2027.

Despite rising UST yields, rate volatility remains subdued, while DM IG spreads remain broadly stable, trading in a tight range of c.87-95bps since July. Although AI-related issuance supply continues to rise which could challenge the technical backdrop, recent issuances have generally been well-absorbed by the market. The benign spread environment is also a reflection of resilient corporate balance sheets, healthy credit metrics and strong earnings growth.

While continued volatility in oil prices and a more hawkish Fed remain live risks, a combination of elevated all-in yields, steady US economic growth and strong corporate fundamentals suggests DM IG credit spreads should remain well supported. Nonetheless, with spreads close to historical tights, future returns are likely to be driven primarily by carry income.

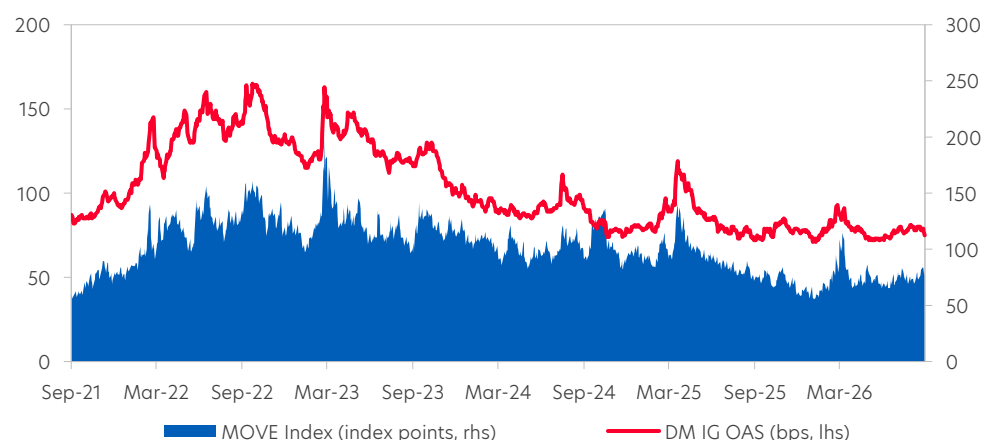
We remain cautiously constructive on DM IG credit and emphasise a disciplined approach to duration. The open-ended tightening path reinforces our preference for a modified duration of 4-5 years, which we see as the sweet spot for balancing carry and interest rate sensitivity.

We also remain disciplined on credit selection, favouring high-quality spread exposure that offers attractive carry while preserving portfolio resilience as the macro backdrop becomes more challenging amid ongoing Fed tightening.

Our sector preferences are driven by a combination of defensive resilience and structural growth opportunities. We favour AI electrification beneficiaries and leading US AI hyperscalers, defence leaders, regulated and integrated utilities, infrastructure, financials, insurers, telco, and select upstream oil & gas credits.

Spreads remain near historical tights with subdued rate volatility

Source: Bloomberg, UOB Private Bank.



Developed Markets High Yield: Stay cautious amidst stretched valuations

Developed Markets High Yield (DM HY) bonds delivered a resilient year-to-date return of +1.73%, primarily driven by strong coupon income (+4.72%), underscoring income generation as a key value proposition of the asset class. The relatively shorter duration profile of the US HY market helped mitigate the impact of sharply higher UST yields, while spreads (OAS) remained broadly stable, trading in a tight range of c.257-289bps since May 2026.

Corporate balance sheets and credit fundamentals remain healthy. Net leverage at the index level was broadly stable at 3.8x in 2Q26, while default rates remained low at approximately 2.0%, broadly in line with the historical average. Overall, credit quality has remained stable despite the higher-rate environment. While all-in yields remain attractive and earnings continue to be supportive, we see limited scope for further spread compression. The current US HY index OAS of 267bps (as of 18 Sep 2026) remains well below the five-year average of 342bps, indicating valuations are rich relative to historical levels.

Beyond valuation concerns, geopolitical developments and AI-related issuance have contributed to increased sector dispersion within the asset class. The ongoing conflict in the Middle East has supported the energy sector, a meaningful component of the index, through higher oil prices.

In contrast, sectors such as communications, technology and transportation continue to trade at wider spreads relative to the broader index, partly reflecting the outsized representation of several distressed issuers. A disorderly increase in oil prices could further exacerbate inflationary pressures, potentially leading to tighter monetary policy and weaker economic growth, which may weigh on market sentiment and credit spreads.

Market technicals, however, remain supportive. The US primary HY market continues to exhibit healthy issuance activity, with gross issuance increasing +11% y/y during January - August 2026 as issuers maintain access to capital markets. Importantly, most financing activity has been directed towards refinancing existing debt rather than funding incremental leverage or balance-sheet expansion, which should help preserve overall credit quality.

We stay Underweight on DM HY bonds. While credit fundamentals remain resilient, tight spreads do not adequately compensate investors for the prevailing macroeconomic and geopolitical backdrop. Fiscal and monetary policy uncertainty in the US, prolonged tensions in the Middle East and elevated UST yields could adversely affect investor sentiment and corporate margins, potentially resulting in spread widening. While attractive all-in yields continue to provide carry support, valuations near historical tights suggest a more selective approach is warranted.

Limited room for spread compression given current stretched valuations

Source: Bloomberg, UOB Private Bank.



Emerging Markets Asia Investment Grade: Defensive qualities underpin Asia IG resilience

EM Asia Investment-grade (EM Asia IG) credits faced a more challenging environment in 2026, delivering a year-to-date total return of -0.61% (as of 18 Sep 2026). Despite the negative absolute return, the asset class outperformed US IG bonds by 0.77%, underscoring its relative resilience amid a challenging rates backdrop. Performance was primarily weighed down by higher UST yields, with the 10-year yield rising above 5%.

Despite higher UST yields, credit spreads have remained resilient, tightening by 10bps to 74bps year-to-date (as of 18 Sep 2026). This resilience continues to be supported by healthy inflows to Asian markets as investors diversify away from US assets, strong issuer quality and solid corporate fundamentals. Corporate balance sheets remain a key strength, with MSCI AC Asia Pacific net leverage remaining relatively conservative at 1.6x net debt-to-EBITDA in 2Q26.

Supply-demand dynamics also remain supportive. While Asia Pacific gross issuance was relatively stable y/y at USD 164.8 billion (as of end-Aug 2026), maturities of USD 187.6 billion have left the market in a net redemption position of USD 22.8 billion (excluding coupons). This has created a supportive technical backdrop, with excess liquidity continuing to underpin secondary market demand and facilitate the absorption of new supply.

Looking ahead to 4Q26, returns are expected to be increasingly driven by carry rather than spread compression. Credit spreads are trading near historical lows, limiting further tightening potential. We expect greater sector dispersion as rising AI-related capex among Chinese technology issuers increases scrutiny of free cash flow generation and funding requirements. Meanwhile, elevated energy prices stemming from the Middle East conflict, persistent inflation uncertainty and continued upward pressure on yields could weigh on market sentiment. Nonetheless, we think the asset class will remain well-supported by robust credit fundamentals, continued negative net supply and attractive all-in yields.

We maintain our Overweight stance on EM Asia IG credit and continue to favour the asset class for its defensiveness, supported in part by its relatively higher exposure to sovereign-linked issuers. Attractive all-in yields, healthy fundamentals and supportive technicals should continue to underpin risk-adjusted returns, even as markets transition into a more carry-driven phase. That said, with spreads near historical tights, we continue to favour issuers with strong balance sheets, resilient business models and stable cash flows such as ASEAN regional champion banks, selected Asia-focused insurers, quasi-sovereigns, defensive consumer and infrastructure-related issuers.

All-in yield remains attractive relative to historical levels

Source: Bloomberg, UOB Private Bank.



Emerging Markets Asia High Yield: Supportive fundamentals underpin carry, but tight valuations constrain upside

Emerging Markets Asia High Yield (EM Asia HY) delivered a resilient +4.6% total return year-to-date (as of 18 Sep 2026) despite a challenging rates environment. 2-Year UST yields rose above 4.7% as markets repriced the expected path of Fed policy higher. Nonetheless, c.60bps of spread tightening helped offset the drag from rising risk-free yields, supported by healthy corporate fundamentals, low default activity and favourable market technicals.

However, headline returns mask a more nuanced reality. Excess returns were concentrated in a small number of special situations, particularly China and Hong Kong property-related credits and select frontier sovereigns where recovery expectations improved materially. Outside these segments, returns were primarily driven by carry income, with only modest contributions from spread compression.

This distinction is important because the opportunity set is evolving. Many of the strongest-performing recovery trades have already repriced from distressed levels, while EM Asia HY spreads (OAS: 302bps) offer less scope for further compression. In our view, current valuations broadly reflect the improvement in corporate credit fundamentals, limiting the potential for another broad-based rerating cycle.

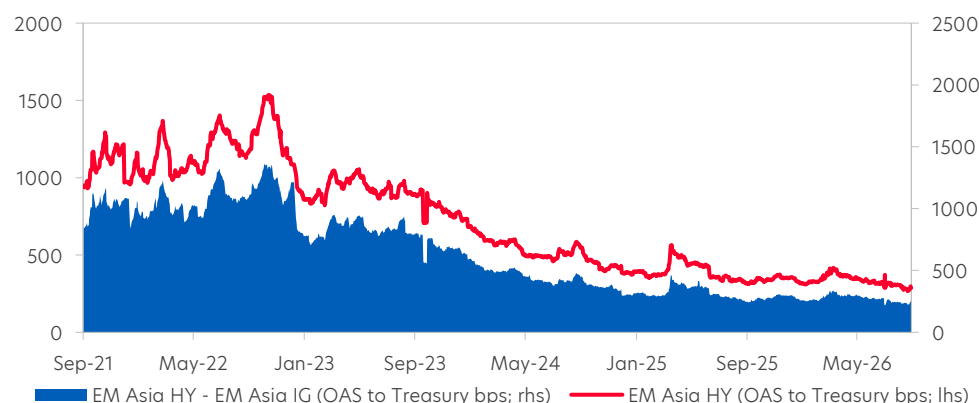
That said, we see limited risk of a disorderly widening in spreads. Corporate balance sheets remain resilient, default rates are contained, and net supply continues to be supportive as bond maturities and redemptions outpace new issuance. Importantly, many issuers have strengthened funding flexibility and reduced reliance on offshore USD markets, making the asset class less exposed to the refinancing pressures that historically drove periods of volatility.

As a result, we expect returns over the next 6 to 12 months to be driven primarily by carry income rather than capital gains from spread compression. In a market environment where broad beta-driven gains have largely been realised, excess returns will increasingly depend on disciplined credit selection.

We stay Neutral on EM Asia HY. While fundamentals and technicals remain supportive, the spread differential between EM Asia HY and EM Asia IG has narrowed meaningfully, leaving limited incremental compensation for moving down the credit-quality spectrum. We therefore favour selective exposure to issuers with durable cash flows, strong liquidity and refinancing flexibility. We also see better value in subordinated hybrids issued by high-quality IG corporates, while remaining cautious on idiosyncratic special situations where diminished valuation upside and persistent information asymmetries do not justify aggressive positioning.

EM Asia HY increasingly expensive vis-à-vis EM Asia IG

Source: Bloomberg, UOB Private Bank.



US Technology Credits and Issuance Supply: Look selective to capture premia

New bond supply from AI-related companies continued at a blistering pace over the summer months, pushing year-to-date 2026 issuance from hyperscalers alone to approximately USD 220 billion. AI-related issuance is modestly steepening credit curves, as increased long-dated supply and uncertainty over the long-term returns of AI investments are prompting investors to demand additional spread compensation.

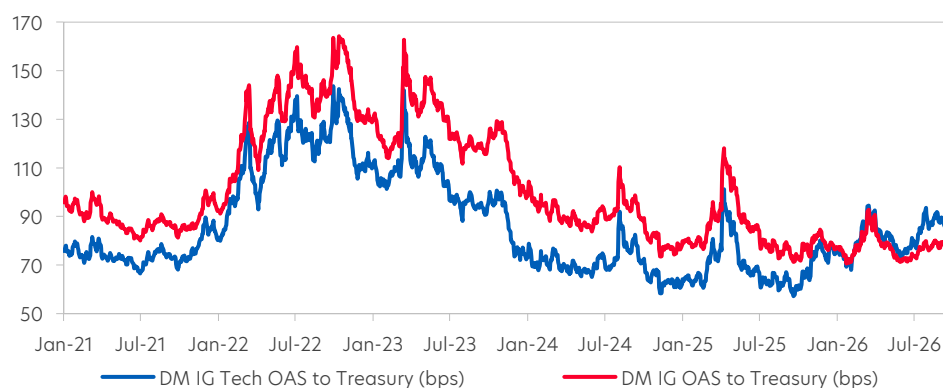
We take this opportunity to reaffirm two key uncertainties shaping our view of the sector: first, whether credit markets can continue absorbing supply of this scale without meaningful spread widening; and second, the pace at which AI capex can be monetised and translate into earnings validation.

US IG technology credit spreads have remained wider than the broad Bloomberg US Corporate Index — reflecting an inflection point that has persisted from earlier this year. In our view, this presents a compelling entry point for investors seeking quality exposure to high-grade hyperscaler credits. Anchored by stronger issuer ratings on average, we continue to favour hyperscalers with strong balance sheets, consistent free cash flow generation, and durable core business models. Separately, chip and memory producers have benefited from record organic profitability with many having been upgraded and/or are currently on positive outlook. Stronger free cash flow generation reduces reliance on external funding markets which in turn should provide meaningful credit buffers as we progress through the capex monetisation cycle.

Beyond hyperscalers and chipmakers, the AI theme also presents opportunities through industrials and utilities. As digitalisation accelerates and the energy transition gathers pace, rising power demand across data-intensive industries will drive growth in electrical equipment and power infrastructure — an increasingly attractive complement to core hyperscaler credit allocations

US IG technology sector offers attractive relative value post recent spread widening

Source: Bloomberg, UOB Private Bank.



FX, Interest Rate & Commodities Forecasts

FX	25 Sep	4Q26F	1Q27F	2Q27F	3Q27F
EUR/USD*	1.14	1.12	1.11	1.10	1.10
GBP/USD*	1.32	1.31	1.29	1.27	1.27
USD/JPY*	159	159	161	162	162
USD/CHF*	0.83	0.84	0.85	0.86	0.86
AUD/USD*	0.70	0.70	0.69	0.68	0.68
NZD/USD*	0.57	0.56	0.55	0.54	0.54
DXY*	101.3	102.0	102.8	103.6	103.6
USD/CNY*	6.71	6.75	6.80	6.85	6.85
USD/HKD	7.84	7.84	7.82	7.80	7.80
USD/TWD*	31.8	32.0	32.3	32.5	32.5
USD/KRW*	1,369	1,370	1,380	1,390	1,390
USD/PHP*	62.7	64.0	65.5	66.0	66.0
USD/MYR*	4.08	4.11	4.16	4.20	4.20
USD/IDR*	17,901	18,200	18,400	18,600	18,600
USD/THB*	33.5	33.8	34.2	34.6	34.6
USD/VND*	25,992	26,300	26,600	26,800	26,800
USD/INR*	96.0	97.0	98.0	99.0	99.0
USD/SGD*	1.28	1.28	1.29	1.30	1.30
EUR/SGD*	1.46	1.43	1.43	1.43	1.43
GBP/SGD*	1.69	1.68	1.66	1.65	1.65
AUD/SGD*	0.90	0.90	0.89	0.88	0.88
SGD/MYR*	3.19	3.21	3.22	3.23	3.23
SGD/CNY*	5.25	5.27	5.27	5.27	5.27
JPY/SGDx100*	0.81	0.81	0.80	0.80	0.80

POLICY RATES	25 Sep	4Q26F	1Q27F	2Q27F	3Q27F
US Fed Funds Rate*	4.00	4.25	4.50	4.50	4.50
EUR Refinancing Rate*	2.65	2.90	2.90	2.90	2.90
GBP Repo Rate	3.75	3.75	3.75	3.75	3.75
JPY Policy Rate	1.25	1.25	1.25	1.50	1.50
CHF Policy Rate	0.00	0.00	0.00	0.00	0.00
AUD Official Cash Rate	4.35	4.60	4.60	4.60	4.60
NZD Official Cash Rate	2.75	2.75	2.75	2.75	2.75
CNY 7D Reverse Repo	1.40	1.40	1.40	1.40	1.40
HKD Base Rate*	4.25	4.50	4.75	4.75	4.75
TWD Official Discount Rate	2.00	2.13	2.25	2.25	2.25
KRW Base Rate	3.00	3.25	3.25	3.25	3.25
PHP O/N Reverse Repo	5.00	5.00	5.00	5.00	5.00
MYR O/N Policy Rate	2.75	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo*	5.75	6.00	6.25	6.25	6.25
THB 1D Repo	1.00	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	5.50	5.75	5.75	5.75

INTEREST RATES	25 Sep	4Q26F	1Q27F	2Q27F	3Q27F
USD 3M SOFR (compounded)*	3.66	3.96	4.21	4.32	4.36
SGD 3M SORA (compounded)*	1.22	1.40	1.50	1.57	1.63
10Y US Treasuries Yield*	5.19	5.30	5.50	5.50	5.50
SGD 10Y SGS*	2.48	2.65	2.80	2.95	3.00

COMMODITIES	25 Sep	4Q26F	1Q27F	2Q27F	3Q27F
Gold (USD/oz)	4,270	4,500	4,800	5,100	5,400
Brent Crude Oil (USD/bbl)	106	90	85	80	80
Copper (USD/mt)	14,621	13,500	13,000	12,500	12,500

Updated as of 25 Sep 2026

* Forecasts updated as compared to previous report dated 04 Sep 2026

Source: UOB Global Economics & Markets Research

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