CIO Insights 4Q26

Resilience Rewarded

Broadening Rally

Robust earnings support our constructive view on equities. Stay with the AI theme while adding energy, healthcare, and financials as the rally broadens.

Redefining Quality

Despite renewed rate hike risks, favour the 5-7Y duration bucket and BBB/BB-rated credit for optimal risk-adjusted returns.

Diversify through Alternatives

Remain constructive on private assets and hedge funds. Equity long-short strategies are well-positioned to thrive on the wide dispersion of returns.

Gold Endures

Expect gold to revisit its previous highs with sustained central bank purchases amid growing geopolitical and fiscal sustainability concerns.

DBS

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Executive Summary

Dear valued clients,

Despite a challenging backdrop of high energy prices and rising bond yields, equity markets remained remarkably resilient, holding up at record highs.

Market leadership broadened meaningfully in 3Q26, with energy, healthcare, and financials rallying while technology consolidated. Our barbell portfolio was well positioned for this rotation and, together with an overweight exposure to alternatives, this strategy contributed favourably to performance. Since inception seven years ago, the strategy has delivered net annualised returns of +9% (as of 9 Sep 2026), demonstrating its efficacy across a full market cycle.

My key message to investors is simple: Stay invested for the long term. A diversified, multi-asset portfolio is the best defence against geopolitical uncertainty and growth headwinds. Within equities, technology and AI stocks remain our long-term capital gain compounders, complemented by successful AI-enabling and AI-adapting companies across the energy, financials, and healthcare sectors. On bonds, coupon interest income should continue to act as a stabiliser despite inflationary headwinds. Meanwhile, alternatives such as private assets, hedge funds, and gold offer valuable sources of diversification and alpha returns.

In this publication, we highlight the growing importance of alternatives and our approach to incorporating them into a traditional stock and bond portfolio to increase resilience. I hope you enjoy the read.

Hou Wey Fook, CFA
Chief Investment Officer

Navigating a Midlife Crisis


Source: Unsplash

Asset Allocation 4Q26

Markets are entering a "midlife crisis" as topics surrounding AI capex, surging bond yields, and Fed unpredictability dominate the narrative. Look beyond technology for AI opportunities and ride the broadening rally in equities, rising fiscal profligacy, and return of debasement trade to buoy gold. For the upcoming US midterm election, our base case assumption of split congress is supportive for equities as policy gridlock limits major legislative shifts.

Asset Class Views

Despite trade wars and a crisis in the Middle East, the US economy has managed to stay robust as a result of the AI capex cycle. The Atlanta Fed's GDPNow forecast is pointing to c.4.6% growth, while ISM Manufacturing is looking robust at 55.6 in July. For risk assets, surging bond yields and Fed unpredictability continue to dominate the narrative. Look beyond technology for AI opportunities and ride the broadening rally in equities. Rising fiscal profligacy and the return of debasement trade to buoy gold. For the upcoming US midterm election, our base case assumption of split congress is supportive for equities as policy gridlock limits major legislative shifts.

	Asset Class	- Views +	Commentary
Macro	US		Sufficient comfort with GDP growth, consumption, the labour market, and productivity is likely to retain the Fed's focus on inflation. We expect two more hikes to a 4.5% peak by early 2027.
	Eurozone		1H26 resilience reinforced our marginal 2026 GDP upgrade. Lingering geopolitical risks and elevated energy prices will keep the ECB on a cautious footing. The ECB is likely to deliver an additional 50 bps rate hike at its Dec 2026 and Mar 2027 meetings.
	Japan		We raised Japan's GDP forecast, reflecting the upcoming consumption tax cut and increased fiscal spending on strategic sectors, while fiscal risks remain elevated. The BOJ is likely to accelerate the pace of normalisation.
	Asia		China's strong exports and a thriving domestic tech cycle should support a 2026 GDP growth forecast of 4.5% despite slowing domestic demand. Asia's AI-led export boom remains a powerful growth engine.
Equities	US		AI capex cycle continues to drive US macro and earnings resilience, but investor positioning is broadening beyond technology. Potential policy "collision course" between US Treasury and Fed to pose uncertainties for bond yields and equity valuation. Maintain conviction view on financials as a key beneficiary of easing regulation and stronger capital markets activity. Ride AI theme with AI adopters.
	Europe		Improving earnings momentum among Europe's distinct AI beneficiaries and financials should drive further re-rating, though limited innovation and AI exposure may constrain relative overall performance. Favour selective beneficiaries of the structural capex cycle and banks.
	Japan		Stronger earnings breadth, corporate reform, and reasonable valuations to support further re-rating. Favour technology and banks offering complementary exposure to global AI-led capex and domestic reflation.
	Asia ex-Japan		Asia ex-Japan offers a compelling blend of structural growth and dependable income. Sustained AI investment, improving earnings, and corporate-governance reforms underpin our constructive outlook. Favour China, Taiwan, and Singapore, combining technology-led growth with quality dividend assets through a balanced barbell strategy.
Credit	Investment Grade		Rising sovereign and hyperscaler issuance is challenging the traditional safety of AA credit. Stay within 5–7Y and favour resilient BBB issuers over debt-expanding AA names. Complement with TIPS, Agency MBS, and selective financials for inflation protection and income.
	High Yield		The credit sweet spot has shifted towards BBB/BB, where quality HY may outperform longer-duration IG at comparable yields. Prefer asset-rich cyclicals and commodities with strong cash flows and deleveraging capacity. Wider dispersion reinforces the need for active credit selection.
Rates	Global		Persistent AI-related funding needs are competing with governments, which are also running large deficits, for investor funds. This dynamic should lead to elevated developed market bond yields amidst a modest bias for central banks to keep policy settings somewhat tight.
	Asia		Stresses in Asia rates arising from the Middle East conflict have eased. There is K-shaped divergence between low CNY rates versus higher rates across Asia.
Currencies	US Dollar Index		Divergent pressures on the USD into end-2026. Non-US growth has been broadly resilient, and undermines the US exceptionalism narrative. The Fed is also not unique in its hawkish bias. These USD-negatives are offset by higher energy prices and USD's yield advantage. At the September FOMC, the Fed also appears to be communicating a hawkish policy trajectory.
	G7 (excluding US Dollar)		AUD is positioned to outperform once again on recovering gold prices and reviving RBA rate hike expectations. Domestic factors are unlikely to have a major impact on the EUR, but the opposite is true for the JPY. Domestic factors now favour JPY strength, triggering the repatriation of foreign assets back to Japan. CHF continues to underperform.
	Asia		RMB strength has been persistent on the back of high trade surplus and exporter selling. Domestic factors also lean in favour of SGD strength as resilient growth and stubborn inflation allows for more MAS tightening ahead. Hawkish Fed puts other SE Asian currencies under pressure.
Alternatives	Private Equity		Higher financing costs favour disciplined entry and operational value creation. Prefer secondaries, co-investments, and middle-market buyouts, while remaining cautious on venture capital amid AI concentration and elevated valuations.
	Private Credit		Private credit's floating-rate income can buffer against rate uncertainty, but quality is paramount. Prefer senior secured loans and asset-backed finance, while remaining cautious on mezzanine, BDCs, and crowded large-cap lending.
	Hedge Funds		Greater dispersion and policy divergence support relative value, low-net equity, and discretionary macro strategies. Multi-strategy platforms also remain attractive for flexibility in allocating capital across opportunities as conditions change.
	Gold		Gold has bottomed amid robust Asian demand, restrictions on leveraged trading in China and renewed fiscal concerns. In the long-term, its diversification qualities remain compelling, with 5–10% allocations improving portfolio risk-reward.
	Commodities		Commodities remain attractive for inflation protection and diversification, but strong gains demand selectivity. Energy benefits from constrained supply and structural demand; copper and aluminium offer long-term upside; fertiliser disruptions and El Niño support targeted opportunities across agricultural markets.

Market Data

Equities

	2026 EPS Growth (% y/y)	2027 EPS Growth (% y/y)	Forward P/E	P/Book (x)	P/Sales (x)	ROE (%)
Global	34.1	14.5	18.2	3.5	2.7	18.5
Developed Markets	28.0	12.4	19.8	3.8	2.8	18.4
Emerging Markets	71.1	23.7	11.4	2.2	1.9	19.0
US	34.6	14.4	21.6	5.2	3.5	22.9
Europe	16.2	8.2	15.7	2.4	1.8	14.6
Japan	25.0	10.6	17.1	1.9	1.6	10.8
UK	23.8	3.9	13.1	0.2	1.6	1.4
Asia ex-Japan	76.3	26.6	11.7	2.2	2.0	18.6
Latin America	40.5	2.6	10.0	1.8	1.4	18.0
EMEA	31.3	7.5	11.1	1.9	2.1	16.7
China	5.5	15.2	11.3	1.3	1.2	11.2
India	7.4	10.9	21.1	3.1	2.4	14.3

Source: Bloomberg, DBS (as at 18 Sep 2026)

Fixed Income

	Yields (%)	Average Rating	Average Time to Maturity (Years)	Average Coupon (%)	Market Valuation (USDbn)
10Y UST	5.0	-	-	-	-
2Y UST	4.7	-	-	-	-
US IG	5.8	A3/Baa1	10.2	4.6	7,471
Europe IG	4.2	A3/Baa1	5.1	3.0	2,954
Asia IG	5.5	A2/A3	7.1	4.3	556
US HY	7.7	Ba3/B1	4.7	6.7	1,474
Europe HY	6.8	Ba3/B1	4.1	5.5	405
Asia HY	8.2	Ba3/B1	4.1	6.3	82
EM USD	6.5	Baa2/Baa3	9.4	5.4	2,303
Asia USD	5.7	A3/Baa1	7.4	4.6	535
Global AT1s	6.2	Baa3/Ba1	4.8	6.3	410

Source: Bloomberg, DBS (as at 18 Sep 2026)

Forecast: Interest Rates

		3Q26	4Q26	1Q27	2Q27	3Q27
US	2Y	4.60	4.65	4.70	4.70	4.70
	10Y	5.00	5.10	5.20	5.20	5.20
Japan	2Y	1.60	1.70	1.85	1.95	1.95
	10Y	2.80	2.85	2.95	3.00	3.00
Eurozone	2Y	2.90	3.00	3.00	3.00	3.00
	10Y	3.30	3.40	3.50	3.60	3.70
China	2Y	1.25	1.25	1.25	1.25	1.25
	10Y	1.75	1.80	1.80	1.85	1.85
India	2Y	6.50	6.70	6.75	6.75	6.75
	10Y	7.00	7.10	7.15	7.15	7.15

Source: Bloomberg, DBS (as at 18 Sep 2026)

Forecast: Currencies

Exchange rates / eop	3Q26	4Q26	1Q27	2Q27	3Q27
USD/CNY	6.69	6.60	6.63	6.65	6.68
USD/SGD	1.28	1.26	1.27	1.27	1.28
AUD/USD	0.71	0.71	0.71	0.70	0.70
USD/CAD	1.40	1.37	1.38	1.39	1.40
EUR/USD	1.15	1.18	1.17	1.17	1.16
USD/JPY	156	151	153	154	155
NZD/USD	0.57	0.59	0.59	0.58	0.58
USD/CHF	0.82	0.81	0.82	0.83	0.83
GBP/USD	1.34	1.36	1.35	1.34	1.33
DXY Index	100.1	97.6	98.3	99.0	99.7

Source: Bloomberg, DBS (as at 21 Sep 2026)

Forecast: Oil

(USD per barrel)	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F
Brent Crude Oil	90.0	86.5	83.5	79.5	76.5
WTI Crude Oil	85.0	82.5	79.5	75.5	73.5

Source: Bloomberg, DBS (as at 18 Sep 2026)

Forecast: GDP, Inflation, and Policy Interest Rates

	GDP growth, % y/y		CPI inflation, % y/y, ave			Policy interest rates, eop				
	2026F	2027F	2026F	2027F		3Q26	4Q26	1Q27	2Q27	3Q27
China	4.5	4.3	1.0	1.0	China**	3.00	3.00	3.00	3.00	3.00
India	7.8	6.8	4.5	4.2	India	5.25	5.75	5.75	5.75	5.75
India (FY basis)	7.3	6.8	4.9	4.0	Eurozone^	2.50	2.75	3.00	3.00	3.00
Eurozone	1.2	1.2	3.1	2.1	Japan	1.25	1.25	1.50	1.75	1.75
Japan	0.9	1.0	1.8	1.5	US	4.00	4.25	4.50	4.50	4.50
US*	1.9	1.7	3.5	3.0						

Source: CEIC, Bloomberg, DBS (as at 18 Sep 2026)
*eop for CPI inflation; ** 1-yr Loan Prime Rate; ^ Deposit Facility Rate

Asset Allocation

Hou Wey Fook, CFA
Chief Investment Officer

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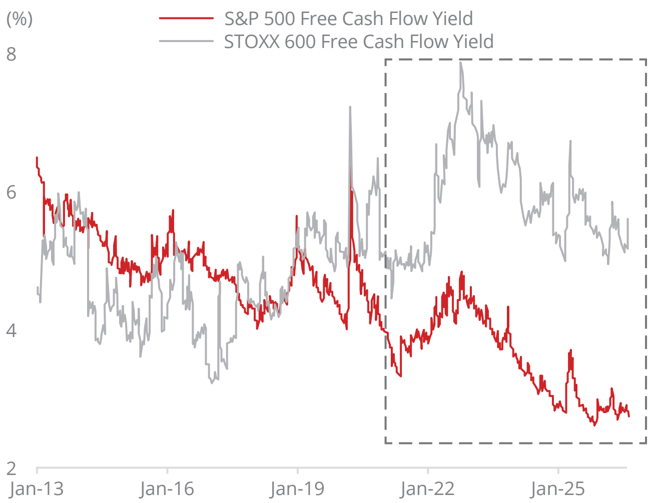
Strategist

A midlife crisis is often defined by periods of emotional turbulence and self-doubt. It is a transitional phase where middle-aged adults question their identities, sense of mortality and ultimately, life choices. In financial markets, signs of a midlife crisis are emerging as well with investors starting to question portfolio concentration risks, valuations, and the sustainability of the current rally. But make no mistake. This period of thoughtful evaluation and deep questioning is not necessarily a bad thing as it keeps us nimble – and honest in our portfolio construction. As we head into the final stretch of 2026, these are the key issues confronting investors today:

Capex and bifurcations. For most seasoned investors, the subprime crisis of 2008 was a watershed moment. Apart from the spectacular collapse in financial markets, the crisis also exposed systemic flaws in global financial engineering. Above all, it heralded the start of unconventional monetary policy where quantitative easing became a core feature of central banking policy playbooks. Post-crisis, investors navigated an era of zero interest rate policies as central banks vastly expanded their balance sheets. This period of fiscal largesse also coincided with the rise of Big Tech. Propelled by strong growth in smartphone adoption and cloud computing, Big Tech with capital-light business models shined, given their high profitability and strong return-on-equity. Prevailing low interest rates further enhanced the appeal of long duration assets like technology companies.

The arrival of AI has changed that narrative since. AI possesses tremendous growth potential; there's no question about that. At the same time, the technology also necessitates heavy investments on capex today and the impact is twofold. As we have highlighted in our mid-year market outlook, the ongoing AI capex cycle is akin to a new Industrial Revolution that will propel economic momentum and underpin broad-based resilience in risk assets. However, market returns will be uneven and bifurcated. Companies with falling free cash flow yield and heavy borrowing (to fund their capex) will be put under tighter scrutiny. Conversely, companies that utilised AI to boost operational efficiency will be rewarded.

Free cash flow yield for US companies trending south amid rising capex needs

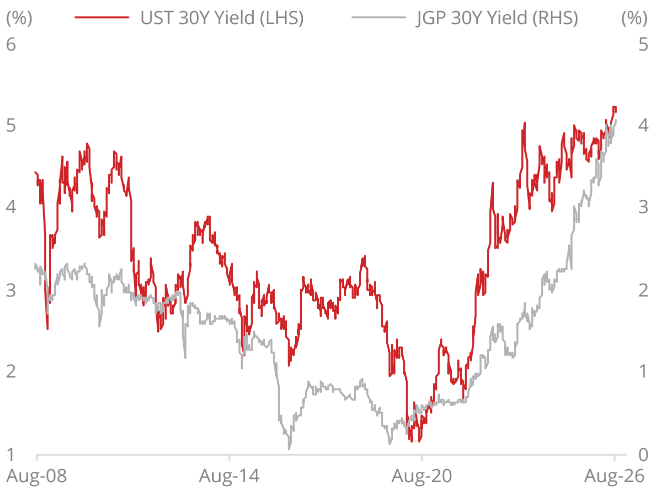


Source: Bloomberg, DBS

Yield surge & Fed unpredictability. Beyond AI capex concerns, headwinds arising from the uptrend in long-term bond yields as a result of rising fiscal profligacy, Fed unpredictability, and sticky inflation are other issues facing investors. Let's not delude ourselves. The very notion of fiscal conservatism is a farce in a "winner takes all" culture at Capitol Hill. Cutting back on public spending is simply not possible in the current political setup – not with the Trump administration's tax cut program in place (one that it can ill afford), and definitely not with the ongoing quagmire in Iran. And investors know that. Adding further pressure to long-term bond yields are the complications arising from Fed regime change.

Traditionally, the US central bank provides clear forward guidance that introduces certainty which, in turn, help to suppress market volatility. But this has become a thing of the past as Fed Chair Warsh actively dismantled such practice and reintroduced unpredictability in policymaking – a move which has since translated to greater volatility and higher risk premium for bonds. If the seismic change in central banking regime is not enough, the inflation angle is also weighing on risk sentiment. It has often been said that AI will bring about higher efficiency and lower production cost. But this is only true from a longer-term perspective. At present, the heavy capex spending on data centres and infrastructure will push inflation higher.

Long-term government bond yields on the rise



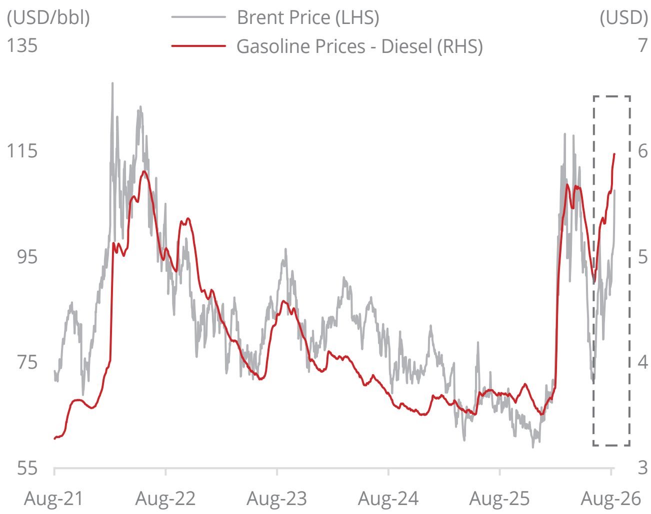
Source: Bloomberg, DBS

Geopolitics, energy shock, and inflation. The ongoing geopolitical stalemate between US and Iran necessitates close monitoring. Initially, there was an air of complacency in the markets when crude oil price retraced below the USD100/bbl mark, but this sense of calm is delusional as end-consumers do not purchase crude oil. They purchase refined products like diesel instead and prices for these refined products are skyrocketing. Historically trading in tandem, the prices for crude and refined products have diverged since the US-Iran crisis. With millions of barrels of crude stuck at the Strait of Hormuz, China has cut back on refinery runs – a move which alleviates price pressure on the upstream while increasing pressure on the downstream. Nonetheless, this pricing gap has narrowed since as the resurgence of attacks at the Strait of Hormuz pushed crude oil beyond USD100/bbl, and the impact on inflation could be substantial. The Fed has unleashed its first rate hike since 2023 at the September FOMC meeting as the combination of persistent inflationary pressure and strong AI capex build-out pushed the central bank into tightening mode. Given the overall hawkish stance, we are now expecting one more rate hike this year, followed by another one in early-2027.

So as investors navigate this midlife crisis phase, portfolio diversification and the careful selection of underlying themes/securities are key. We maintain a broadly constructive stance for 4Q26 and believe that the following themes will dominate the market narrative during the quarter:

- Broadening rally
- Return of debasement trade
- Navigating US midterm election

Narrowing gap between crude oil and gasoline prices



Source: Bloomberg, DBS

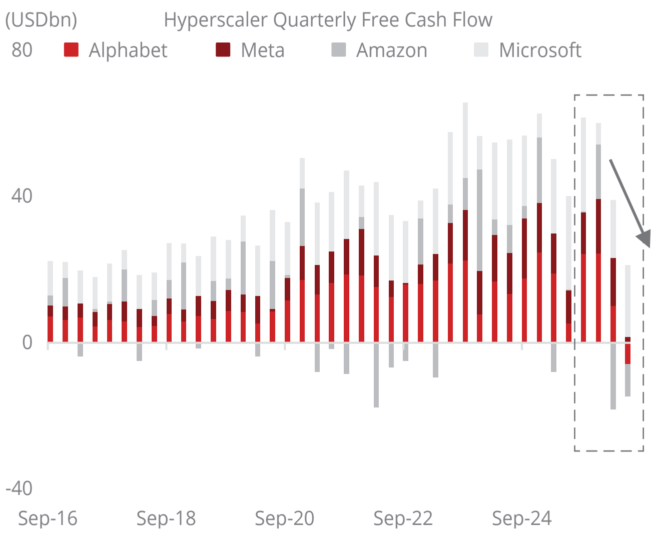
Broadening Rally

Look beyond technology for AI opportunities. Investors' sentiment on the AI trade has evolved. Long gone are the days where a company's share price would surge higher on the back of earnings beat. Instead, investors pay close scrutiny to the size of AI capex these days and any perception of excessive spending will translate to a potential sell-down in the equity markets. However, such paranoia is justified, given that on a combined basis, the total capex for hyperscalers has increased by c.155% since the launch of ChatGPT, while capex guidance for 2026 is now approaching c.USD725–750bn (nearly double the 2025 level).

Once revered for their impregnable cash fortress, hyperscalers are now putting their balance sheets to the test. Rapid acceleration in AI capex is weighing on free cash flow and increasingly, these technology giants are turning to the debt markets to fund their capex needs. Meta, for instance, has recently issued USD25bn worth of bonds in May, its second jumbo sized debt issuance in a span of six months. Beyond cash flow and debt financing concerns, the plausibility of a "higher-for-longer" rate environment persists as prices for downstream energy products trend higher. This is negative for long-duration assets like technology.

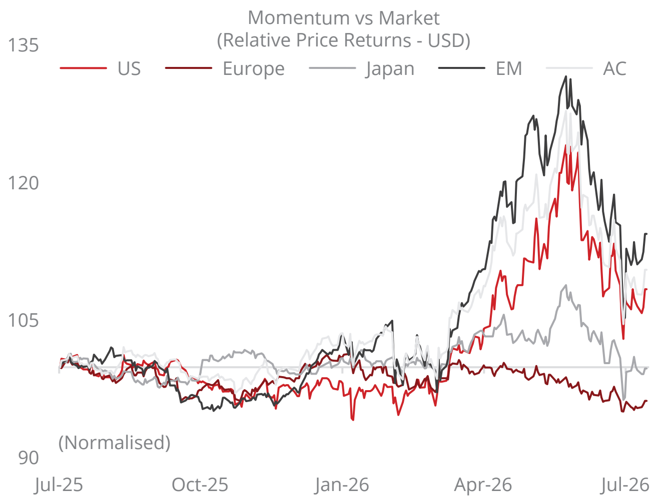
Ride the broadening rally. Using the S&P 500 as proxy, the equity market is broadening. This is evident from the outperformance of the S&P 500 Equal Weight Index over its market cap-weighted counterpart. The price action suggests investors are increasingly rotating from technology to non-technology plays and we expect this momentum to persist as earnings strength broadens across the sectors. During the 2Q26 earnings season, c.88% of the companies reported positive earnings surprises. Apart from technology, many non-technology sectors like healthcare, energy, and financials also reported extremely strong earnings. This underscores the growing breadth of broad-based earnings resilience. We expect the persistence of strong AI capex to underpin the earnings momentum and sustain the broadening rally.

Rising hyperscaler capex weighs on free cash flow



Source: Bloomberg, DBS

Portfolio rotational shift away from momentum plays is underway



Source: Bloomberg, DBS

Return of Debasement Trade

Inflation: Benefitting borrowers while punishing savers. Inflation reduces the purchasing power of consumers by driving up the prices of goods and services. By the same token, rising inflation will also mean that the real value of a government's debt erodes over time as they are being repaid in nominal terms using cheaper currencies. This situation gives rise to an agency problem, one where borrowers are incentivised to debase their currencies and reduce their debt load (at the expense of savers) and this is the key concern prevailing in the developed world today.

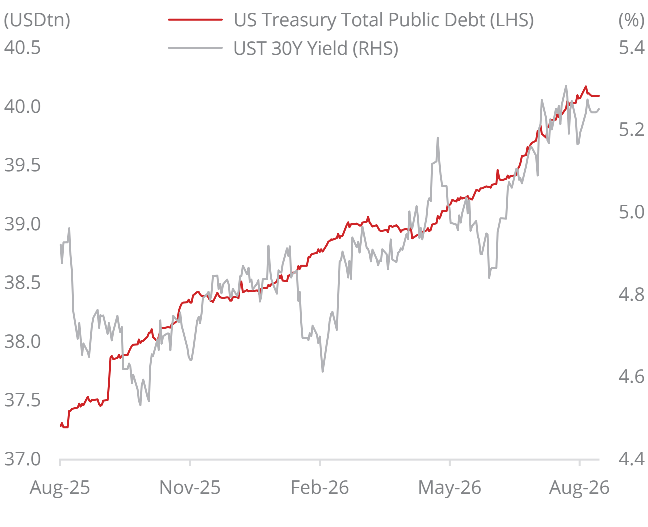
Global debt outstanding has currently exceeded USD34tn and major economies are running deficits that one would only see during war time or a recession. There are four ways a government can exit from a debt spiral: (i) economic growth, (ii) taxation, (iii) default, and (iv) inflation. Economic growth is, without doubt, the most ideal solution, but this process takes a long time and it is not easy for economic growth to catch up with the rapidly growing debt load. Funding debt repayment via taxation is not ideal either as such a move (if overdone) may alienate voters and cost the government politically. The notion of defaulting on one's debt is worse as it translates to lower credit ratings and higher interest cost for future borrowings.

This leaves inflation as the only viable option for governments to reduce their enormous debt loads and the advantage is two-fold: (i) unlike an official default, inflation allows credit lines for a government to stay open since the latter continues to repay its debt in nominal terms; and (ii) unlike taxation, inflation is a form of "silent taxation" that does not need to be passed in parliament.

Gold: Geared beneficiary of the "debasement trade". Broadly speaking, the "debasement trade" refers to the selling of fiat currencies by investors to purchase scarce hard assets to protect one's portfolio against hyperinflation and fiscal profligacy. The recent resurgence of such fears is driven by two factors: (i) Treasury Secretary Bessent's interventionist effort in restraining long-term bond yields via massive bond buybacks (yield curve control) is leading to further dollar weakness; and (ii) total national debt in the US hitting the USD40tn mark as government spending remains unrestrained with the potential to worsen as the US-Iran crisis drags on.

To protect one's portfolio against rising debasement concerns, we recommend that investors build exposure to gold at current levels. Due to its scarce nature and limited supply, gold is perceived as a good store of value during times of volatility. Besides, demand from central banks is robust as this group has been accelerating their gold purchases since 2022 (likely exacerbated by concerns surrounding the freezing of Russian dollar reserves). According to World Gold Council, central banks bought 289 tonnes of gold in 2Q. This trend is expected to persist as governments seek to reduce their exposure to dollar assets.

Long-term Treasury yields are rising in tandem with rising debt in the US



Source: Bloomberg, DBS

Navigating US midterm election

With less than three months to the midterms, the fight for Congress looks increasingly hostile to the party in power. Trump's approval ratings fell to c.34%, according to YouGov polling (9 Aug) – a new low for this presidency – matching the low point in his first term during the aftermath of 6 Jan 2021. The CNN/SSRS poll in July shows 65% of Americans found his policies have made economic conditions worse. This is hardly surprising as the US economy shed 23,000 jobs in July, vastly missing consensus forecasts. In the generic congressional ballot, the Democrats' lead has been in the mid to high single digits with CNN/SSRS putting it as high as D+8 points in late July. Listed below is the prevailing state of play for both the house and senate races:

- House of Representatives Election: This November, Republicans enter the midterms defending the thinnest House majority in nearly a century, 218 to 212 seats. This means Democrats would only need to flip six seats while Republicans can't afford to lose a single seat. Since World War II (WWII), there have been 20 midterm elections, and in 18 of them, the President's party has lost seats in the house. On average, the president's party has lost an average of 26 House seats and four Senate seats in midterm elections. Based on historical record alone, this is the Democrats' race to lose.

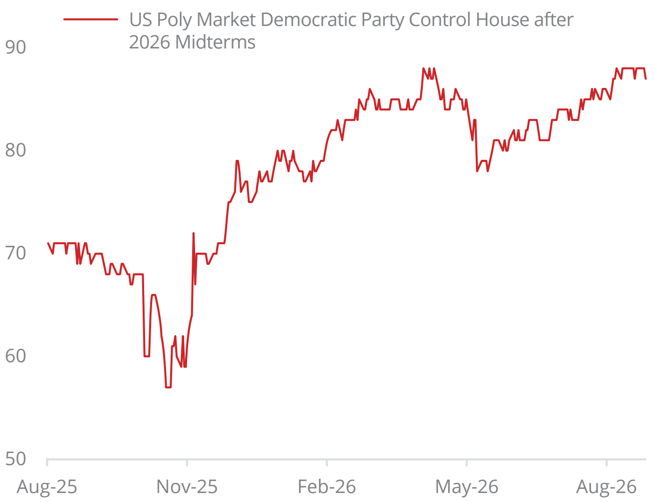
- Senate Election: In the Senate race, the map is less favourable to Democrats as they need a net gain of four seats against a Republican held 53-47 majority. Most of the competitive seats are in states where Trump has historically won by wide margins. The most plausible path runs through a handful of key states; North Carolina and Maine present a genuine pickup opportunity, while in Michigan and Georgia, Democrats are playing defence. A full Senate flip would require Democrats to run the table on nearly all of these states, which is why most forecasters still treat a Republican-held Senate as the more likely outcome, even in an otherwise favourable Democratic environment.

Split congress: (i) the most likely outcome. Our base case for the upcoming midterm election would be a split congress with the Democrats retaking the House on a relatively narrow margin, while Republicans hold on to the Senate, likely with a reduced majority. A full Republican hold of both chambers would require voter sentiment to swing sharply between now and November – a situation which is not likely based on prevailing poll trends. A full Democratic sweep is only possible if the Senate map breaks almost entirely in the Democrats' favour.

Split congress: (ii) not a bad thing for risk assets. Historically, a split congress is associated with decent equity market returns – and the numbers speak for themselves. Based on data going all the way back to 1946 after WWII, the S&P 500 has garnered average returns of 16% in the year after the midterm elections. Paradoxically, the strong performance could be attributed to the fact that a split congress prevents sudden legislative surprises, which in this case, means no sweeping new tax package or massive regulatory overhauls as no single party has the necessary votes to reshape policies unilaterally. Investors like policy certainty and the gridlock on Capitol Hill ensures that.

Our base case assumption of a split congress is for the Republicans to hold the Senate and for the Democrats to retake the House. Historically, this combination (under Republican presidency) has occurred twice since 1946 and the average gains in the following year averaged 23%, well above the other outcomes. The key take-away here is that a split congress under a Republican president has historically removed single-party legislative risk for the following two years and this has been a net positive for risk assets.

Rising odds of Democrats controlling the House in prediction markets



Source: Bloomberg, DBS

S&P 500 performance during past US midterm elections

Year	President	House Control	Senate Control	Government Type	S&P 500 Returns
1946	Truman	Republican	Republican	Divided (Fully Opposed)	0%
1950	Truman	Democratic	Democratic	Unified	16%
1954	Eisenhower	Democratic	Democratic	Divided (Fully Opposed)	26%
1958	Eisenhower	Democratic	Democratic	Divided (Fully Opposed)	8%
1962	Kennedy	Democratic	Democratic	Unified	19%
1966	Johnson	Democratic	Democratic	Unified	20%
1970	Nixon	Democratic	Democratic	Divided (Fully Opposed)	11%
1974	Ford	Democratic	Democratic	Divided (Fully Opposed)	32%
1978	Carter	Democratic	Democratic	Unified	12%
1982	Reagan	Democratic	Republican	Split Congress	17%
1986	Reagan	Democratic	Democratic	Divided (Fully Opposed)	2%
1990	Bush Sr.	Democratic	Democratic	Divided (Fully Opposed)	26%
1994	Clinton	Republican	Republican	Divided (Fully Opposed)	34%
1998	Clinton	Republican	Republican	Divided (Fully Opposed)	20%
2002	Bush Jr.	Republican	Republican	Unified	26%
2006	Bush Jr.	Democratic	Democratic	Divided (Fully Opposed)	4%
2010	Obama	Republican	Democratic	Split Congress	0%
2014	Obama	Republican	Republican	Divided (Fully Opposed)	-1%
2018	Trump	Democratic	Republican	Split Congress	29%
2022	Biden	Republican	Democratic	Split Congress	24%

Source: Bloomberg, DBS

4Q26 Asset Allocation – Goldilocks

4Q26 CIO Asset Allocation (CIO AA)

Categories	Indicators	Score Range	Equities				Bonds		
			US	Europe	Japan	AxJ	DM Govt.	DM Corp.	EM
Fundamentals	PMI	-1 to +1	0	0	1	1	0	0	0
	Economic Surprise	-1 to +1	0	0	0	1	0	0	0
	Inflation	-1 to +1	0	0	0	0	0	0	0
	Monetary Policies	-1 to +1	0	0	-1	0	0	0	0
	Forecasted EPS Growth	-2 to +2	2	0	1	1	-	1	1
	Earnings Surprise	-2 to +2	2	0	1	2	-	0	0
Valuation	Forward P/E	-2 to +2	0	0	-1	1	-	-	-
	P/B vs ROE	-2 to +2	0	0	1	2	-	-	-
	Earnings Yield - 10Y Yield	-2 to +2	-1	-1	-1	1	1	1	0
	Free Cashflow Yield	-2 to +2	-1	0	0	0	-	-	-
	Credit Spread	-2 to +2	-	-	-	-	-	-1	-1
Momentum	Fund Flows	-2 to +2	0	0	0	0	0	1	-2
	Volatility	-1 to +1	0	0	0	0	0	-	-
	Catalysts	-2 to +2	0	0	0	0	-1	-1	0
Raw Score			2	-1	1	9	0	1	-2
Adjusted Score*			0.10	-0.05	0.05	0.43	0.00	0.06	-0.13

*Note: The "Adjusted Score" is calculated using the "Raw Score" divided by the maximum attainable score for each category.

Source: DBS

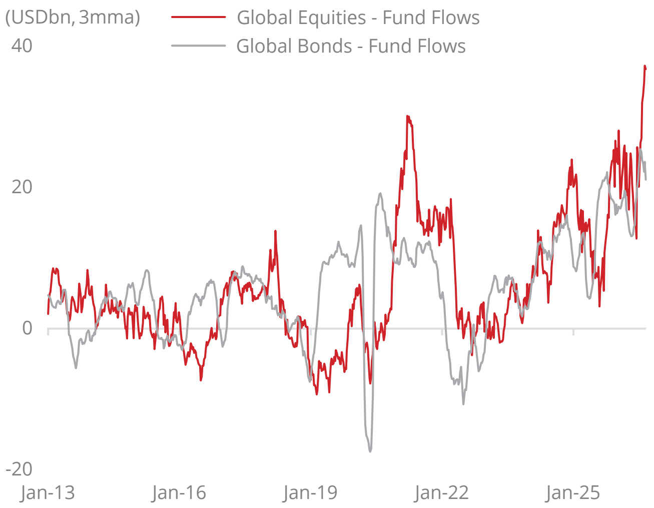
Cross assets – Finely balanced. The latest scoring on our CAA framework suggests a broadly neutral stance on both equities and bonds.

Fundamentals: Despite trade wars and the crisis in the Middle East, the US economy has managed to stay robust, and this is predominantly due to the AI capex cycle. Atlanta Fed GDPNow GDP forecast is pointing to c.4.6% growth while ISM Manufacturing is looking particularly robust at 55.6 in July. Yet, despite the strong momentum, there are no signs of overheating in the labour market and manufacturing. The overall economic resilience is, in turn, showing on corporate earnings with US corporates expected to deliver 36% EPS growth this year, followed by 13% in 2027. In Asia, China's growth momentum has stayed uneven. Even though exports and high-tech manufacturing are brights spots, domestic consumption and credit demand remain subdued. The prolonged property downturn and job uncertainties continue to weigh on household sentiment.

Valuation: On a cross-assets basis, using the UST 10Y yield as proxy, bonds remain more attractively valued compared to equities.

Momentum: Equities registered a substantially larger funds inflow of USD288bn during 3Q26 (as of 26 Aug) vs an inflow of USD196bn for bonds. This reflects improving sentiment for equities amid the "goldilocks" conditions of resilient macro momentum, moderate inflation, and strong corporate earnings. The outlook for bonds, on the other hand, has deteriorated amid uncertainties over Fed policy trajectory. The resurgence in energy prices has fuelled investors' expectations for another rate hike this year.

Equities are registering a stronger funds inflow than bonds



Source: EPFR Global, DBS

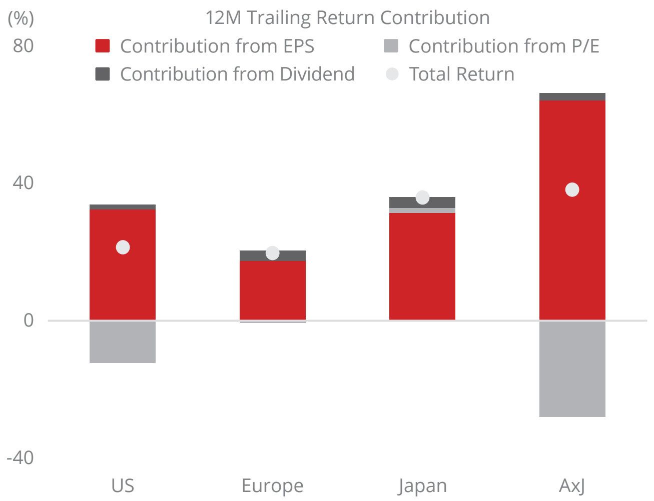
Equities: Ride the broadening rally via Asia ex-Japan (AxJ) equities and AI plays with low capex requirements. Riding on the theme of a broadening rally, the geographical performance of equities in 3Q26 reflects this portfolio shift as well. On a QTD basis (as of 26 Aug), Europe and Japan accounted for the largest gains, coming in ahead of the technology-heavy US market. This same trend is evident from a global sectoral standpoint as well, with the likes of energy (+15.5%) and materials (+12.2%) leading the gains while technology (-1.7%) and communications services (+2.6%) underperformed. As we enter 4Q26, we expect equity markets to grind higher, given prevailing tailwinds of corporate earnings strength and undemanding valuation. To ride this broadening rally, these are our recommendations:

- Seek opportunities in AxJ equities: We maintain an overweight view on AxJ equities as the unwinding of crowded positionings has cleared out market excess, leaving a healthier base for robust earnings, governance reforms, and attractive shareholder yields to reassert themselves.

  AxJ plays a key role in the global AI infrastructure theme with North Asia as the primary growth engine. Taiwan and Korea are riding the wave of sustained hyperscaler capex while China is building a domestic AI ecosystem in the technology, energy security and advanced manufacturing space. Over in ASEAN, Malaysia's data centre buildout and Indonesia's broad services adoption are key highlights. On a geographical basis, we are overweight on China, Taiwan, and Singapore. Sector-wise, we favour technology-related plays and financials.

- Seek opportunities in AI plays with low capex requirements: At this stage of the AI super-cycle, investors are becoming increasingly wary of the massive technology build-out and starting to question whether these investments would eventually translate into viable returns. Against this backdrop, we believe that the narrative will increasingly shift from AI builders to adopters as the next phase of value creation. We favour AI plays with low capex needs, such as companies in the software, applications, and services layers that monetise AI adoption without having to own the underlying data centres, chips, or generation assets.

Earnings growth has been a major driver of market returns



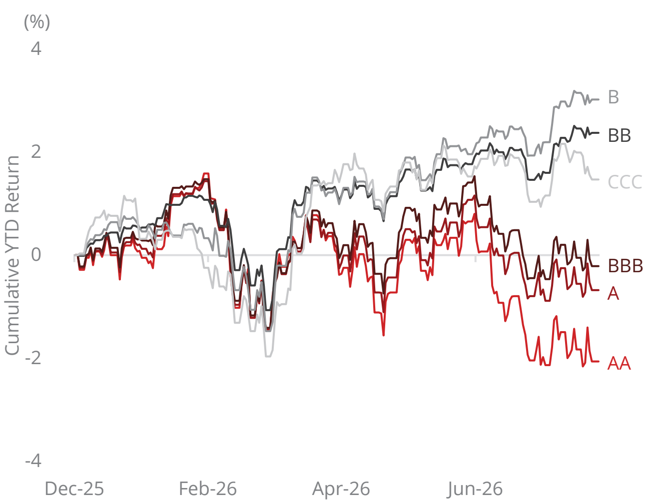
Source: Bloomberg, DBS

Bonds: Navigating the Warsh-Bessent collision course; go for quality HY with strong fundamentals while staying in the 5-7Y duration bucket. Things are starting to shift on the fixed income front. In rates, Fed Chair Warsh and Treasury Secretary Bessent are seemingly heading for a collision course. Warsh started his Fed tenure leaning dovish and offered little guidance on where his policy inclination lies, but the speech at Jackson Hole, followed by the subsequent rate hike at September's FOMC meeting, has changed the script. Projections show that 16 Fed policymakers (out of 18) are expecting one more rate hike this year and this stance ties in with Warsh's upbeat assessment of the American economy and labour market. The overall hawkish inclination at the US central bank stands in stark contrast to Bessent's attempt to bring down long-term treasury yields by massively increasing the Treasury's bond purchase.

With the US midterm election around the corner, the Treasury's attempt at yield curve control is timely as lower long-term yields translate to reduced mortgage and debt payments. While the benefits for consumers and corporates are obvious, the "Bessent Put" is clearly at odds with the Fed's mandate of achieving price stability through lower inflation. Aside from this, there is also a clear divergence between the fundamental views held by Warsh and Bessent. Warsh, for instance, believes that rising yields reflect economic strength which necessitates tighter monetary policy. Bessent, in contrast, opined that the rise in bond yields is not reflective of underlying fundamentals.

In credit, a redefinition of what constitutes "quality" bonds is necessary in light of recent HY outperformance over IG (since the US-Iranian crisis). "AA" issuers with (a) massive capex plans and/or (b) facing potential business disruption from AI, need not necessarily be safer from "BB" rated companies in the cyclical and commodity space. Hence, our preferred optimal credit rating has shifted to BBB/BB – HY names with robust fundamentals while our preferred duration stays in the 5-7Y bucket, given prevailing policy and interest rate volatility.

Outperformance of BBB/BB credit over AA/A

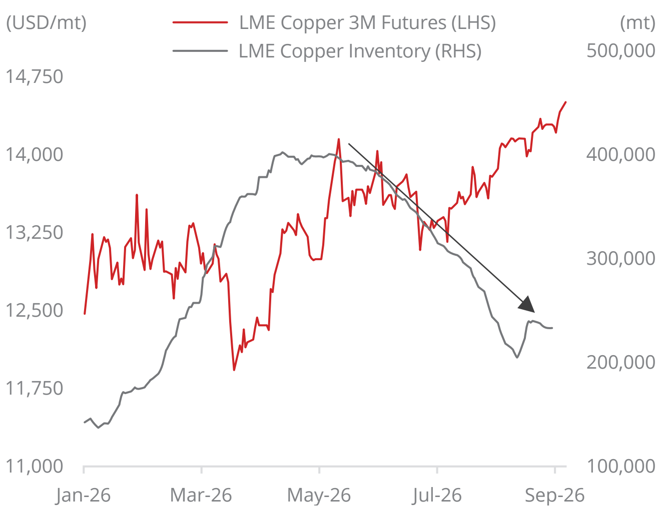


Source: Bloomberg, DBS

<u>Alternatives</u>: **Hedge portfolio with gold and selective commodity exposure.** Our "selectively bullish" call for commodities on the back of supply-side inflation shock has panned out well and our view remains as such. Despite some easing of US-Iran tension, commodities' role as an "inflation hedge" from a portfolio standpoint remains, given potential re-escalation in the Middle East. On a segmental basis, we believe that energy prices will stay higher for longer despite the partial resumption of exports out of the Middle East as LNG supplies remain under blockade. In industrial metals, we stay constructive on copper as falling inventories at LME and SHFE, coupled with actual physical tightness, will underpin copper prices. In the longer term, we expect copper to benefit from AI and clean energy transition-related uses.

Gold has been on a correction mode this year amid inflation and policy tightening fears. However, we believe that the precious metal has turned the corner and a sustained uptrend is on the table, given the following catalysts: (i) as the US national debt surpassed USD40tn and with interest cost now running above defence spending, concerns over fiscal sustainability are back, and this has rekindled gold's usage as a portfolio hedge against monetary debasement; and (ii) gold has seen a strong demand from Asian investors at around the USD4,000/oz. level; this creates an important price floor for the precious metal.

Sharp decline in inventories augers well for copper prices



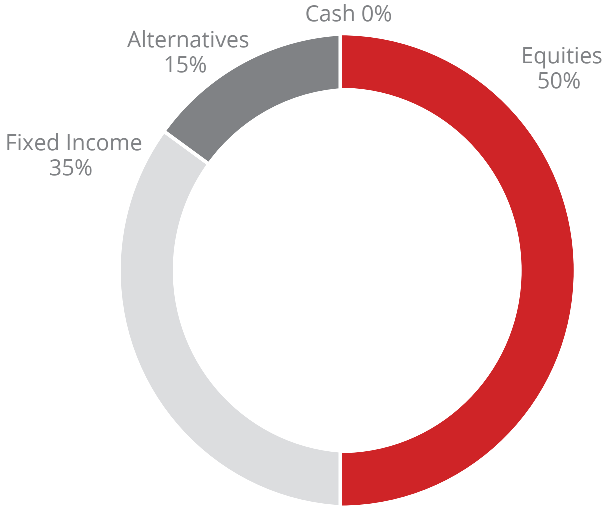
Source: Bloomberg, DBS

4Q26 CIO Asset Allocation (CIO AA)

	3-Month Basis	12-Month Basis
Equities	Neutral	Neutral
US Equities	Neutral	Overweight
Europe Equities	Underweight	Underweight
Japan Equities	Neutral	Neutral
Asia ex-Japan Equities	Overweight	Overweight
Fixed Income	Neutral	Neutral
Developed Markets Government Bonds	Neutral	Neutral
Developed Markets Corporate Bonds	Overweight	Overweight
Emerging Markets Bonds	Underweight	Underweight
Alternatives	Overweight	Overweight
Gold	Overweight	Overweight
Private Assets & Hedge Funds	Overweight	Overweight
Cash	Underweight	Underweight

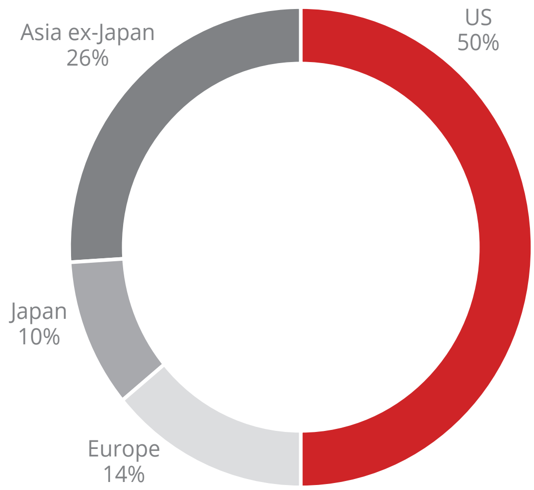
Source: DBS

CIO AA breakdown by asset class (Medium Risk)



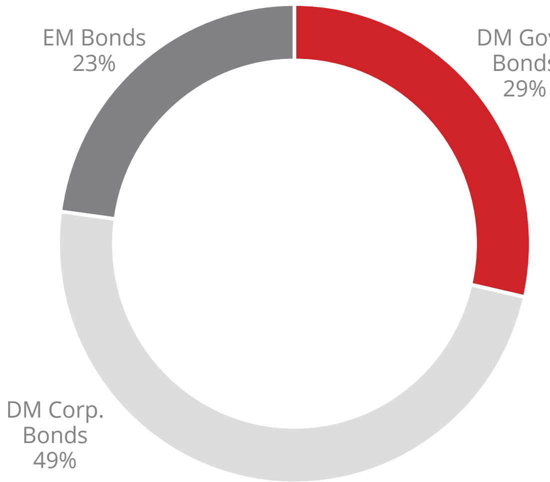
Source: DBS

CIO AA breakdown by geography within equities (Medium Risk)



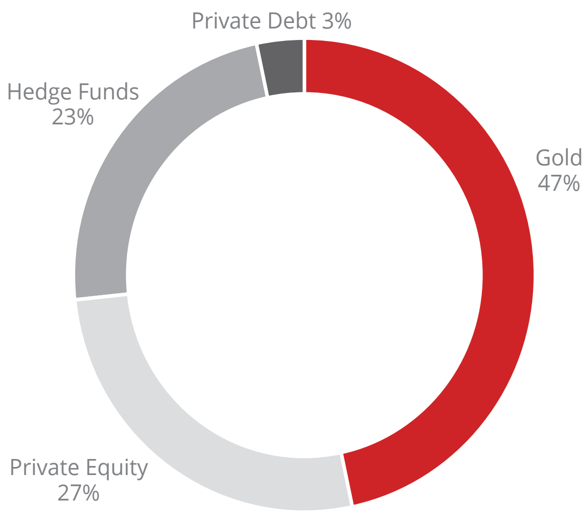
Source: DBS

CIO AA breakdown by bond types within fixed income (Medium Risk)



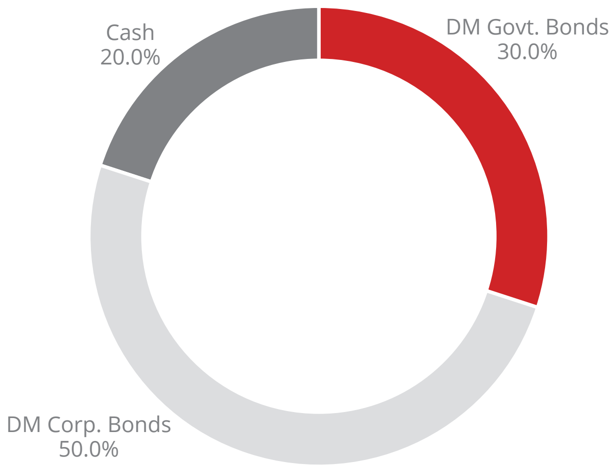
Source: DBS

CIO AA breakdown by segments within alternatives (Medium Risk)



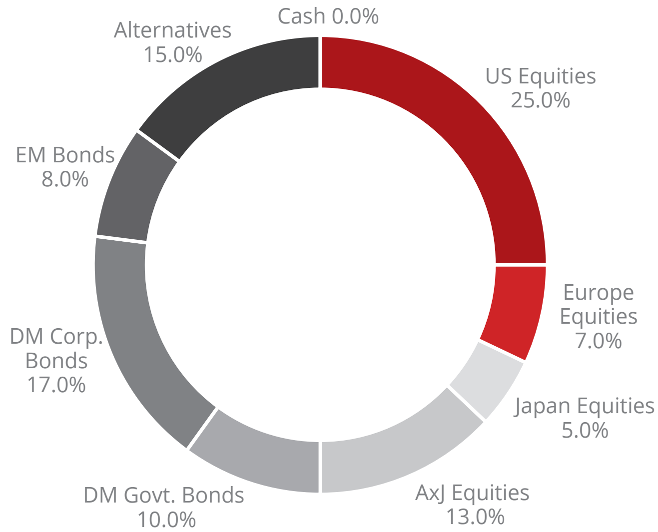
Source: DBS

Low Risk



Source: DBS

Medium Risk



Source: DBS

Low Risk

	CIO AA	SAA	Active
Equities	**0.0%**	**0.0%**	**-**
US	0.0%	0.0%	-
Europe	0.0%	0.0%	-
Japan	0.0%	0.0%	-
Asia ex-Japan	0.0%	0.0%	-
Fixed Income	**80.0%**	**80.0%**	**-**
Developed Markets - Government	30.0%	30.0%	-
Developed Markets - Corporate	50.0%	50.0%	-
Emerging Markets	0.0%	0.0%	-
Alternatives	**0.0%**	**0.0%**	**-**
Gold	0.0%	0.0%	-
Private Assets & Hedge Funds*	0.0%	0.0%	-
Private Equity	0.0%	0.0%	-
Hedge Funds	0.0%	0.0%	-
Private Debt	0.0%	0.0%	-
Cash	**20.0%**	**20.0%**	**-**

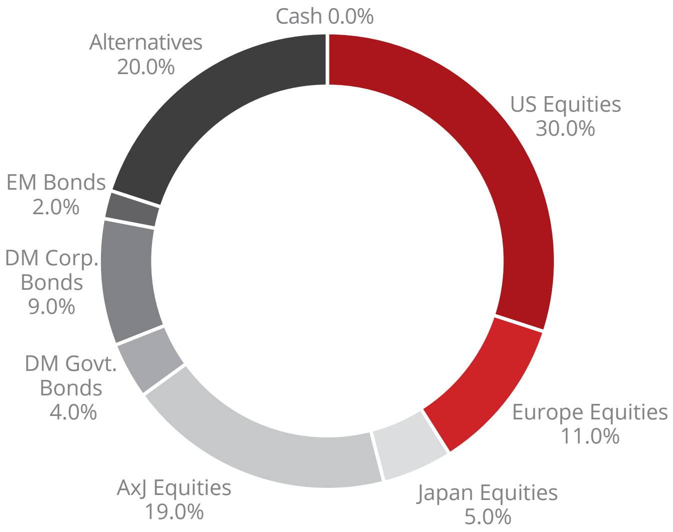
*Only P4 risk rated UCITs Alternatives

Medium Risk

	CIO AA	SAA	Active
Equities	**50.0%**	**50.0%**	
US	25.0%	25.0%	
Europe	7.0%	10.0%	-3.0%
Japan	5.0%	5.0%	
Asia ex-Japan	13.0%	10.0%	3.0%
Fixed Income	**35.0%**	**35.0%**	
Developed Markets - Government	10.0%	10.0%	
Developed Markets - Corporate	17.0%	15.0%	2.0%
Emerging Markets	8.0%	10.0%	-2.0%
Alternatives	**15.0%**	**10.0%**	**5.0%**
Gold	7.0%	5.0%	2.0%
Private Assets & Hedge Funds*	8.0%	5.0%	3.0%
Private Equity	4.0%	2.4%	1.6%
Hedge Funds	3.5%	2.0%	1.5%
Private Debt	0.5%	0.5%	-
Cash	**0.0%**	**5.0%**	**-5.0%**

*Only P4 risk rated UCITs Alternatives

High Risk



Source: DBS

High Risk

	CIO AA	SAA	Active
Equities	**65.0%**	**65.0%**	
US	30.0%	30.0%	
Europe	11.0%	15.0%	-4.0%
Japan	5.0%	5.0%	
Asia ex-Japan	19.0%	15.0%	4.0%
Fixed Income	**15.0%**	**15.0%**	
Developed Markets - Government	4.0%	4.0%	
Developed Markets - Corporate	9.0%	7.0%	2.0%
Emerging Markets	2.0%	4.0%	-2.0%
Alternatives	**20.0%**	**15.0%**	**5.0%**
Gold	7.0%	5.0%	2.0%
Private Assets & Hedge Funds*	13.0%	10.0%	3.0%
Private Equity	6.0%	4.9%	1.1%
Hedge Funds	5.9%	4.0%	1.9%
Private Debt	1.1%	1.1%	
Cash	**0.0%**	**5.0%**	**-5.0%**

*Only P4 risk rated UCITs Alternatives

Fiscal-Monetary Tussle

Macroeconomics 4Q26

Sufficient comfort with GDP growth, consumption, the labour market, and productivity is likely to retain the Fed's focus on inflation. We expect two more hikes to a 4.5% peak by early 2027. We raise our GDP forecasts for Europe and Japan, with the ECB delivering an additional 50 bps in rate hikes and the BOJ accelerating normalisation. Asia's exports and growth remain firmly supported by the AI supercycle.

Macroeconomics

Taimur Baig, PhD
Chief Economist

Radhika Rao
Economist

Ma Tieying
Economist

Suvro Sarkar
Analyst

US Economics

A late-August trip travelling through the US and interacting with a wide range of policy makers, from the Fed to the White House, and private-sector participants, from thinktanks to the financial sector, gave useful insights. Below are some takeaways, all under the overarching shadow of tense geopolitics and ballooning debt burden.

AI and the economy

Everyone found the promise of AI tantalising, but expectations of its near-term impact on inflation, productivity, jobs, and financial markets were highly uncertain and varied. Firms are spending a lot of money on procuring AI services, but the impact of that investment on their earnings is yet to be clear. AI service producers and hardware manufacturers are enjoying a revenue windfall and a low cost of funding for infrastructure buildout, but their sustainability will depend on the direction of interest rates, financial market sentiment, and likely disruption from open-source models. Meanwhile, public sentiment on AI has soured, with large tech companies being seen in a poor light, nationwide backlash against data centre buildout, and widespread cybersecurity risks. Large debt issuance by AI companies could lead to an economy-wide rise in interest rates, pushing up credit risk, while the near-term inflationary impact from surging demand for electronics and construction materials is worrisome.

The dollar

Several officials in the Trump administration continue to hold the mercantilist view that a weak dollar is necessary to bring back manufacturing and boost export competitiveness. At the same time, there is nervousness about wholesale selling of USD assets, especially US Treasuries. Heightened inflation risks and expectations of short-term rates remaining high also get in the way of a weak-dollar narrative. Nonetheless, wars and the aggressive use of sanctions on those using USD payment rails have made many actors want to reduce their USD exposure and invoicing for trade and commerce.

Midterms

Both the House of Representatives and the Senate are at play for Democratic takeovers this November. President Trump's exceptionally low approval ratings, especially on economic management, have made many races competitive. The Democrats have several constraints, including unfavourable jerrymandering of many districts in House races, internal conflict between centrists and progressives, and the unreliability of polling figures, but overall, the momentum is still with them.

Fed and monetary policy

Fed Chair Warsh gave a widely followed speech at Jackson Hole in late August, where he tried to course-correct from his earlier communications that had left the market unsure about the Fed's direction. He asserted that (i) monetary and financial conditions were not tight, (ii) inflation has missed the target for way too long and remains too high, (iii) the Fed has more work to do to ensure price stability, and (iv) policymakers must be confident that underlying inflation is moving clearly towards the target and at sufficient speed. We, however, think there is limited room for manoeuverability for Mr Warsh.

Fiscal dominance

Warsh's Jackson Hole speech was notable for its omission of fiscal indiscipline getting in the way of the Fed's price stability mandate. Treasury Secretary Bessent's interventions in recent weeks, from yen intervention to increasing bond buybacks, reveal a distinct unease with elevated long-term rates. This, however, runs counter to Warsh's desire to receive unfiltered signals from markets. The chance of fiscal risk turning into financial risk is rising as the deficit, debt, and associated interest payments keep rising. The US Treasury has been increasingly issuing debt at the short end of the duration spectrum, but that could prove to be problematic if Warsh's Fed becomes keen to hike short-term rates.

Market risks

Elevated equity market valuations reflect optimism about AI-driven productivity and earnings growth. This is a big bet, with the equity risk premium turning negative as the stock yield has fallen below safe-asset returns. Just because recent fiscal slippages or spikes in equity prices have not led to a major equity market correction does not mean the market is invulnerable.

Past episodes of large infrastructure booms around disruptive technology are instructive. Those episodes were typically characterised by overshooting investment and financial markets, and each ended with a financial market crash and recession. The reason for this is that when there is widespread optimism, many companies push up spending, but only some end up making money. If the cost of capital rises, if data centre projects face delayed completion, or if the public resists AI rollout, the financial market repercussions could be substantial. An equity market adjustment does not have to cause a systemic crisis, though. The dotcom bust was not the cause of a severe recession, although the value destruction was substantial.

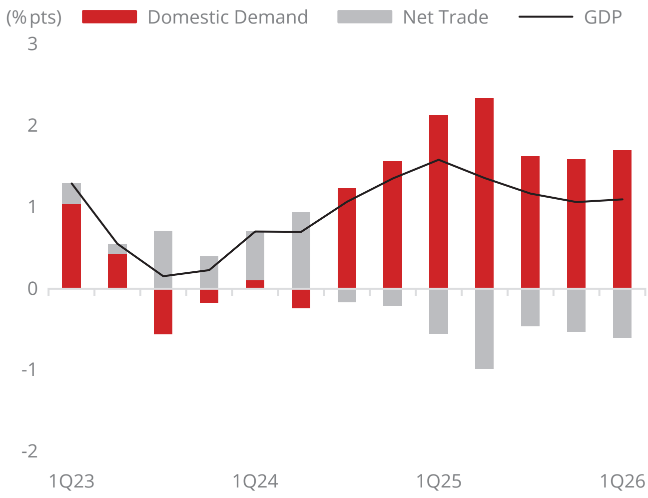
Eurozone Economics

The Eurozone economy's resilience in the first half of the year was set against the backdrop of the Middle East crisis, resultant elevated energy prices, and changes in US tariffs. The economy grew by a firm 1.3% y/y in 1H, steady from 2025, with an average quarterly run rate of 0.5% q/q sa in the first half. As has been the case in recent quarters, Spain (0.7% q/q in 2Q) outpaced the core three countries (average 0.2% q/q), helped by a strong labour market and better-performing services, especially a rebound in tourism.

Resilient growth

Given this run rate, we revise up Eurozone growth marginally to 1.2% from 1.0% earlier for 2026. Labour market conditions remain relatively supportive as expectation surveys showed employment expanding for the first time in 2026, while the European Commission's

Relatively resilient domestic demand



Source: CEIC, DBS

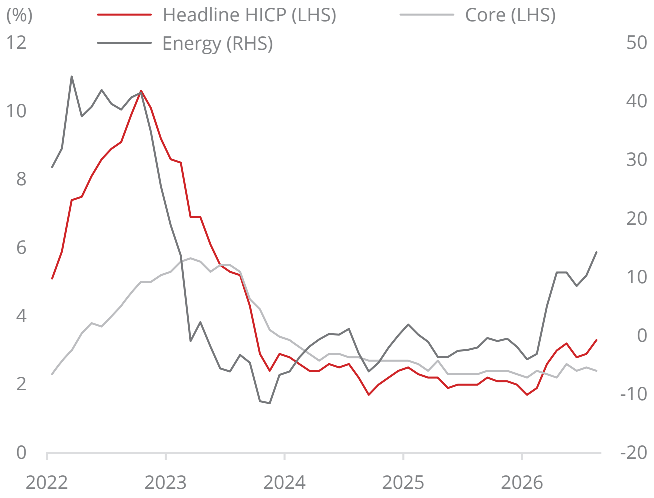
(EC) Employment Expectations Indicator moved closer to its long-run average. Retail sales slowed in June, even as the EC's economic sentiment survey proved to be resilient. The ECB's closely watched negotiated wage metrics suggest that income growth remains positive even as inflation pressures persist. A buffer from inventories likely benefitted manufacturing activity, while input costs outpaced growth in output prices. August PMI prints firmed up from July, besides a steady rise in production and steady growth in loans to non-financial corporations. While growth is far from booming, the economy is not exhibiting the degree of weakness that would justify overlooking an inflation overshoot.

ECB to stay proactive

Eurozone inflation-growth mix is likely to convince policymakers that the economy can withstand further monetary tightening. Inflation jumped to 3.3% y/y in August from 2.9% the month before, moving further from the 2% target, primarily driven by a 14.3% increase in the energy component. Core inflation, however, stayed steady at 2.4% y/y, accompanied by softening service inflation, suggesting that spillover risks are limited at this juncture. Moreover, a shift towards renewables and a changing supplier mix has contained the extent of the run-up in inflation, unlike the surge in 2022.

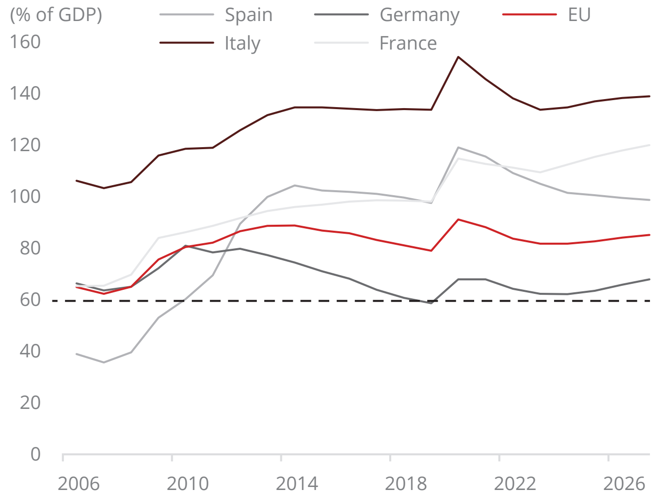
However, from the ECB's perspective, the risk is that a sustained increase in inflation eventually broadens into wages, services, and inflation expectations, prompting policymakers to prefer to act pre-emptively. Compared to

Inflation rises on the back of energy prices



Source: CEIC, DBS

General government debt levels



Source: European Commission, DBS

mixed signals from the US Fed, the ECB's framework has been more streamlined in recent months, with a clearly hawkish/cautionary bent.

Policymakers are likely to undertake a meeting-by-meeting approach and are non-committal on the path ahead. Nonetheless, lingering geopolitical risks and the resultant jump in energy prices will keep the central bank on a cautious footing. Beyond the already delivered 50 bps hikes, we expect 50 bps more rate increases by the ECB, likely at the Dec 2026 and Mar 2027 policy meetings.

Yields run-up

The sell-off in global bonds also swept European rates higher. Spreads between German and French 10Y yields broadened to their widest levels in almost two years, suggesting investors are growing wary of wide deficits in light of geopolitical tensions, higher defence expenditure, and other prevailing uncertainties. In addition to other commitments, including infrastructure needs, defence requirements are likely to push up spending. According to the EC, the EU expenditure-to-GDP ratio is projected to increase further by 0.6 %pts (vs 0.4 in 2025) by 2027. This uptrend largely reflects the projected steady rise in defence spending, from 1.6% of GDP in 2025 to 2% in 2027.

Debt burdens are elevated in larger member states (e.g. France and Italy), with sustained upward pressure on financing costs feeding into deficits as debt is refinanced. The Eurozone appears capable of absorbing a gradual hiking cycle, but a sustained rise in long-term yields could prove a bigger challenge than policy rates themselves, as fiscal pressures take centre stage.

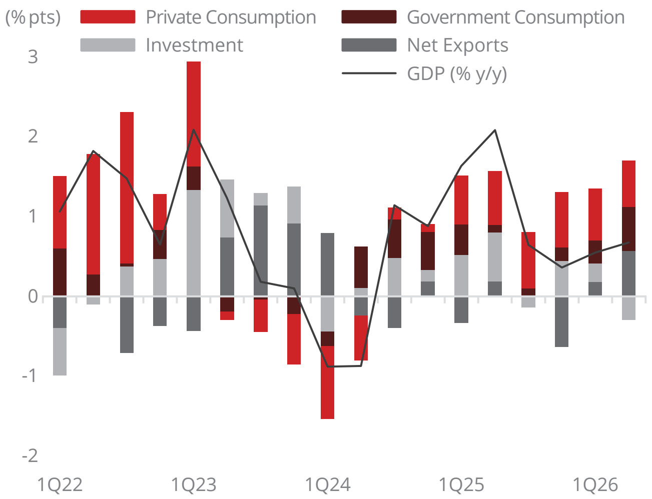
Political developments warrant attention as a leading far right party widened its lead in the regional elections in Germany, while other political leaders seek to balance growth objectives with the need to follow through with fiscal consolidation goals.

Japan Economics

We have revised up our 2026 and 2027 GDP growth forecasts to 0.9% and 1.0%, respectively. We maintain our 2026 CPI inflation forecast at 1.8% but revise our 2027 forecast down to 1.5%.

The revisions largely reflect the government's recent approval of a cut in the food consumption tax from 8% to 1%, effective Apr 2027. Given the large weight of food in Japan's CPI basket, we estimate that the tax cut will lower 2027 CPI inflation by around 1 %pt. As food is a daily necessity and a substantial portion of the tax savings is likely to be saved rather than spent, we estimate that the tax cut will provide a modest 0.2 %pts boost to 2027 GDP growth.

We also expect a modest boost to growth from increased fiscal spending. The government's "Basic Policy on Economic and Fiscal Management and Reform" incorporates the JPY370tn public-private investment plan through FY2040, targeting strategic sectors including AI, semiconductors, quantum technology, defence, aerospace, biotechnology, GDP growth remains on trend

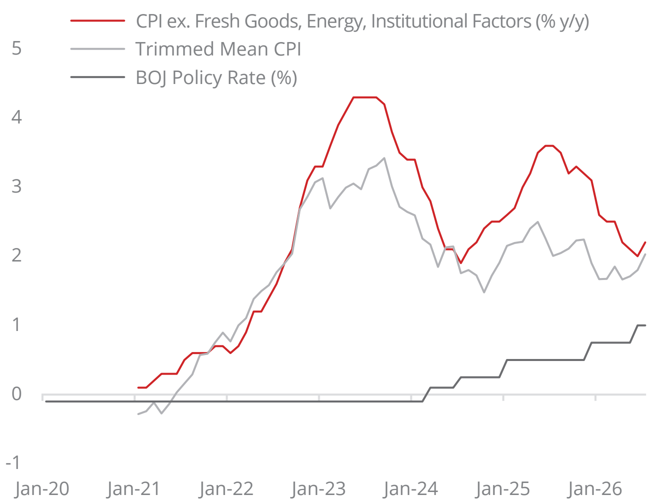


Source: CEIC, DBS

and advanced medicine. The plan aims to raise nominal GDP to JPY1,100tn by FY2040, implying average annual nominal GDP growth of more than 3% and real GDP growth of above 1%.

On monetary policy, we expect the BOJ to accelerate the pace of rate hikes to 25 bps every three to four months, compared with once every six months currently, and raise the terminal rate to 1.75% by mid-2027. The BOJ is likely to look through the temporary inflation distortion from government policy measures and focus instead on underlying price pressures. Measures such as CPI excluding fresh food, energy, and institutional factors, as well as trimmed-mean CPI, suggest that underlying inflation has

Underlying inflation converges towards 2%

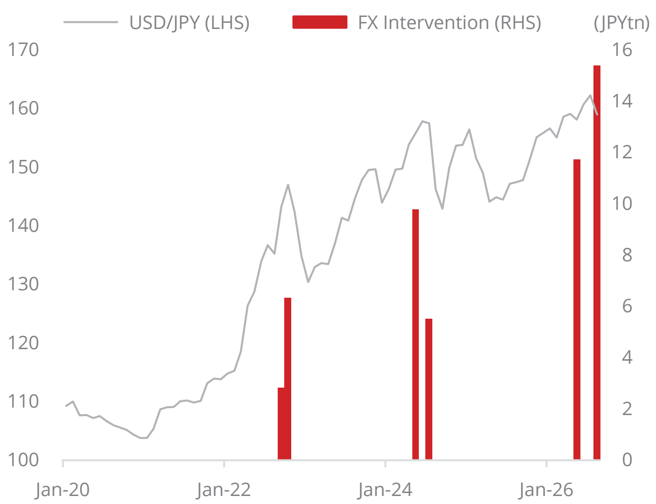


Source: CEIC, DBS

stabilised at around 2.0%, supporting a neutral rate of approximately 2%.

On FX policy, the scope for further intervention may be limited. The Ministry of Finance has conducted two rounds of yen-buying intervention this year, in May and July/August, with the US Treasury also participating in the latter. The impact has been limited and temporary. There may be only one further opportunity for intervention before November, given the IMF's reference framework under which official FX intervention for free-floating currencies should not exceed three times within a six-month period. This could increase the importance of BOJ policy normalisation in supporting the JPY.

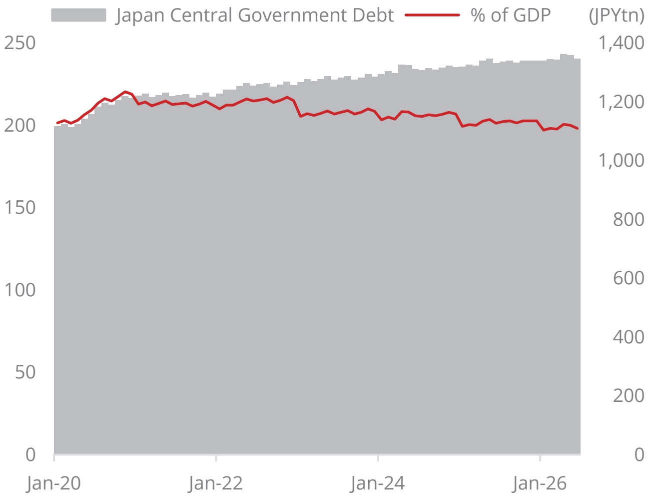
Intervention impact on JPY is temporary and limited



Source: CEIC, DBS

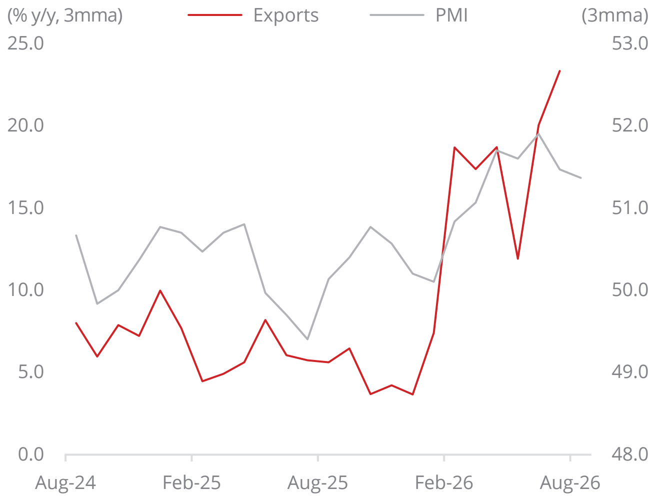
The fiscal outlook, however, remains uncertain and challenging. The food consumption tax cut is estimated to reduce annual tax revenues by JPY5tn. The FY2026–40 fiscal guideline shifts the focus towards stabilising and gradually reducing the government debt-to-GDP ratio over the medium to long term, with no specific target year for achieving a primary fiscal balance. The credibility of this strategy will ultimately depend on whether higher public and private investment generates sufficient productivity gains. Greater AI adoption and automation could help offset Japan's shrinking working-age population and expand the nominal GDP base, improving debt dynamics. Conversely, if productivity gains disappoint, weak growth and persistently high fiscal deficits could push the debt ratio higher and put further downward pressure on the JPY.

Fiscal conditions remain stable for now, but the outlook is uncertain



Source: CEIC, DBS

China's exports



Source: CEIC, DBS

Asia Economics

China's domestic demand weakness has become more pronounced in recent months. From retail sales to fixed-asset investment, credit demand to property prices, there has been a palpable deceleration this year.

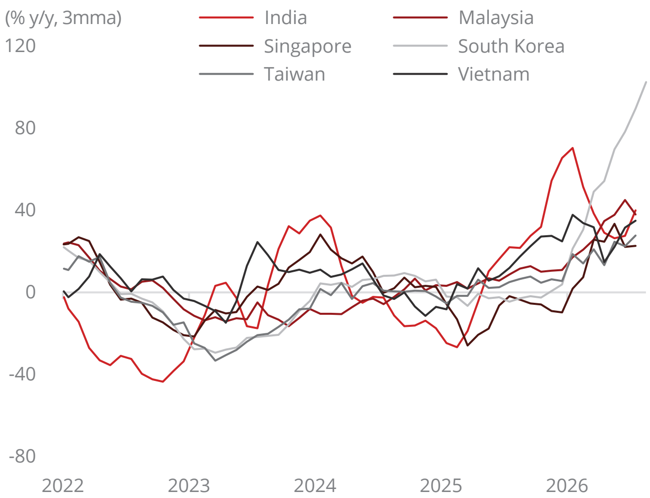
The domestic demand slowdown, however, does not compel us to revise down China's 2026 GDP growth forecast of 4.5%. With 5% growth in 1Q and 4.3% in 2Q, the ongoing deceleration in domestic demand still leaves the economy with enough momentum to chalk up mid-4% annual real growth, in our view.

There are aspects of bifurcation in the Chinese economy that contribute to our relatively constructive take. Bank lending growth may be weak, but bond and equity financing, particularly among tech and new-economy firms, continue to flourish. Core inflation at just under 1% also limits fears of price instability or deflation.

Trade continues to thrive. On external demand, tariff volatility, trans-shipment scrutiny, excess capacity concerns, and national security-related pushback have not managed to dent China's export juggernaut. Total exports during January-July exceeded USD2.5tn (up 18.5% y/y), underscoring rapidly rising demand for made-in-China products, increasingly at the higher end of the value-added spectrum. Even in the contentious area of trade with the US, exports exceeded USD40bn in both June and July, up over 20% y/y. China's thriving domestic tech cycle and strong external demand are critical offsets to its lacklustre domestic demand scenario.

A poor string of recent data flows may underscore the weakness in China's domestic demand, but that does not mean China's import engine has stalled. Although energy imports have contracted as domestic reserves are being run down this year, China's overall imports were up 30% through July. Within Asia, many economies have seen their exports to China soar, none more spectacularly than South Korea. Even India, not at the core of the regional supply chain, has seen exports to China rebound. The idea that China's markets are largely closed to overseas producers is proven to be untrue by these growth figures.

Exports to China



Source: CEIC, DBS

With the bifurcation between strong external and lacklustre domestic demand likely to last, what happens to macroeconomic policy? We expect the PBOC to keep the 1Y Loan Prime Rate unchanged at 3.00% this year. Resilient exports and stable industrial activity continue to cushion the economy, while soft retail sales, FAI, and credit demand highlight persistent domestic fragility. The PBOC has so far kept a moderately loose monetary policy stance, emphasising stronger counter-cyclical support. An immediate rate cut appears unlikely, given already very low nominal rates.

On the fiscal side, our expectations are modest. In search of tax revenues, the authorities have recently taken a string of actions to collect more dividend income and wealth taxes. For Chinese nationals parking their assets overseas, the tax net is getting tighter.

Oil price risks sustain as conflict timelines shift to the right

We have revised up our forecasts for 2026/27 as deal timelines shift. While the initial ceasefire agreement had drifted off into the dust a few weeks ago, the recent renewed escalation of hostilities between the US and Iran in early September has the potential to again change markets' reading of oil price-related risks not only for the rest of 2026, but well into 2027 now. Brent bottomed in the high 70s in early August during the brief window of high deal optimism and, since then, has rallied through the expiry of the ceasefire agreement and the series of escalations thereafter, to hover around USD105/bbl as of writing, up more than 50% y/y. The move is a combination of enhanced risk premium and physical tightness, as inventories continue to fall and further strategic petroleum reserve (SPR) support looks thin. The geopolitical risk premium can unwind relatively fast if a workable arrangement to "open" the Strait does eventually land. But we are not betting on it in the next few months. Even if the risk premium falls, unwinding below USD80-85/bbl levels looks unlikely now, as it remains uncertain how long any arrangement will last. Considering the revised timeline assumptions and expectations of market disruption continuing well into 1H27 at least, we revise up our oil price forecasts. We now expect Brent to average between USD85-90/bbl in 2026 and USD75-80/bbl in 2027 (up by USD5/bbl for both years).

Brent crude oil prices are back above 100

Source: Bloomberg, DBS

What has structurally changed over the past few weeks, and looks unlikely to reverse quickly, is the widening of the conflict's footprint from a single chokepoint dispute into a two-front shipping crisis (Hormuz and Bab al-Mandeb

Quarterly average oil price forecast 2026/27 – DBS base case view

(USD per barrel)	1Q26A	2Q26A	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F	4Q27F
Average Brent Crude Oil Price	78.5	96.5	90.0	86.5	83.5	79.5	76.5	72.0
Average WTI Crude Oil Price	72.5	92.5	85.0	82.5	79.5	75.5	73.5	69.0

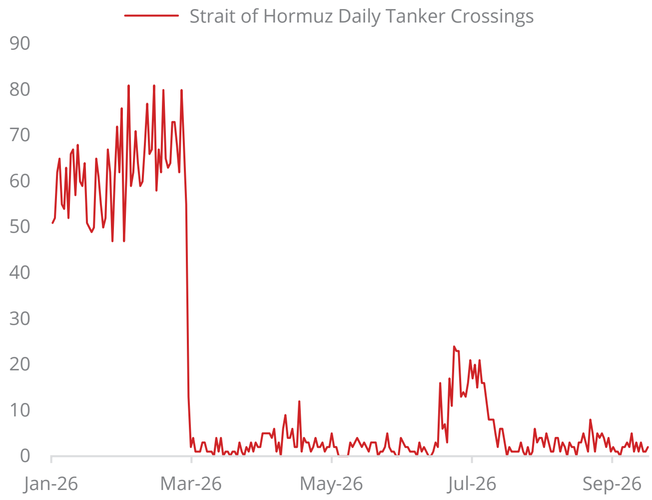
Source: DBS
Data as at 7 Sep 2026

simultaneously), the collapse of the negotiating framework that had provided a credible near-term de-escalation path, and the worsening of the regional environment, including escalation between Israel and Hezbollah in Lebanon and Houthi attacks in Saudi and the Red Sea. All of this points toward a higher sustained floor for oil prices. We had earlier expected traffic through the Strait of Hormuz to recover materially by 4Q26 and normalise by 1H27. It appears that timelines have shifted, and we could be looking at a protracted stalemate as the base case, which shifts upside risks well into 2027. Traffic through Hormuz could remain close to the depressed levels prevailing currently for a while before beginning a gradual recovery.

Unlike earlier hopes of a narrow deal, what seems to be emerging now is that Washington does not have a stable read on where Tehran stands, and there is no deal that looks even close to the 'final stages'. Underneath the noise, the substantive gap we have identified in earlier updates has not moved, as far as who controls the Strait is concerned. We are not even going to the nuclear deal – that seems eons away now. Iran remains adamant on ensuring the Strait remains under Iranian control, while the US position remains that the Strait has to be free and that Washington will not accept Iranian tolls, or Omani ones, for that matter. Trump recently escalated the rhetoric by threatening to bomb Oman itself if it gets in the way, a threat that is by all means not credible, which in itself is a signal of how frustrated and directionless the US side seems to have become after nearly six months of a war that has achieved little beyond the first day or week, at best.

What is the state of vessels traffic? The Strait itself is now best described as nominally open but functionally throttled, and considerable uncertainty remains on the pace of normalisation. While Trump maintains that the US is in complete control and that mines have been cleared, Hormuz traffic is barely trickling. In the last few weeks, supertankers have turned back mid-transit and been struck by projectiles near the Strait. US forces have fired on vessels in the Gulf of Oman after they allegedly tried to breach the US blockade of Iranian ports, meaning both sides of belligerents remain active. Houthi attacks in the Red Sea continue intermittently as well.

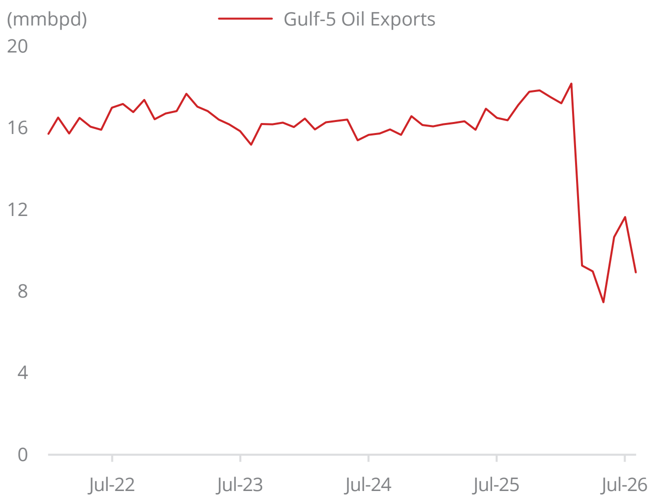
Hormuz ship traffic falling back to lows after recovery in June and July



Source: Bloomberg, DBS

Why are we not hitting panic buttons yet then? Because Gulf producers have adapted by leaning harder on alternative routes and quieter, less-tracked shipments rather than waiting for a resolution, which appears to be the more durable structural development. Thus, some of the chokepoint risk continues to be worked around by silent flows, which means we are still a way off from crisis territory. About half of the lost oil flows from the Strait of Hormuz are finding their way out, if not more, despite the depressing headlines.

Gulf oil exports rebounded from the bottom even as conflict raged



Source: Bloomberg, DBS

What are our scenarios hereon? Our base case assumes current US-Iran military engagement stays contained rather than compounding further, with no hit on Kharg Island or other major export infrastructure; we see Brent in the USD85-95/bbl range near term. The bear case envisions that this does not stay contained and that we see further US strikes on IRGC assets and Iranian retaliation against US bases or Gulf partners, sustained tanker attacks, and mining incidents in Hormuz. Under this scenario, prices could spike towards the USD120/bbl levels seen earlier in the conflict on news of major attacks, before potentially normalising back towards USD100/bbl. The worst case (low probability) is a severe intensification in hostilities: US strikes taking out material Iranian export capacity at Kharg, or Iran targeting Saudi or UAE pipeline infrastructure. Under such circumstances, Brent could easily surge above USD120/bbl, with USD150-200/bbl tail-risk fears back on the table.

The best-case scenario of a lasting deal and opening of the Strait of Hormuz is no longer a near-term reality. A full de-escalation, with oil prices headed back towards USD70-75/bbl, would require Iran to return to the table on US terms, most plausibly forced by either its exportable oil-on-water inventory running down faster than it can be replaced under a sustained blockade, or its munitions stocks degrading to a point where continued confrontation becomes unsustainable. Neither looks likely on a three- to six-month view. Iran and Gulf intermediaries have shown a consistent ability to reroute and conduct lower-visibility shipments rather than absorb the blockade at face value, and China has continued taking the bulk of Iranian volumes regardless of headline pressure, which blunts the financial-exhaustion channel. On munitions, a genuine capability squeeze is plausible over time, but history suggests that such pressure could produce sharper retaliation rather than a move towards the table, which argues that this risk moves the needle towards escalation first before it resolves through negotiated de-escalation.

Rotating & Broadening

US Equities 4Q26

The AI capex cycle continues to drive US macro and earnings resilience, but investor positioning is broadening beyond technology. A potential policy "collision course" between the US Treasury and Fed will pose uncertainties to bond yields and equity valuation. Maintain a conviction view on financials as a key beneficiary of easing regulation and stronger capital markets activity. Ride the AI theme with AI adopters.

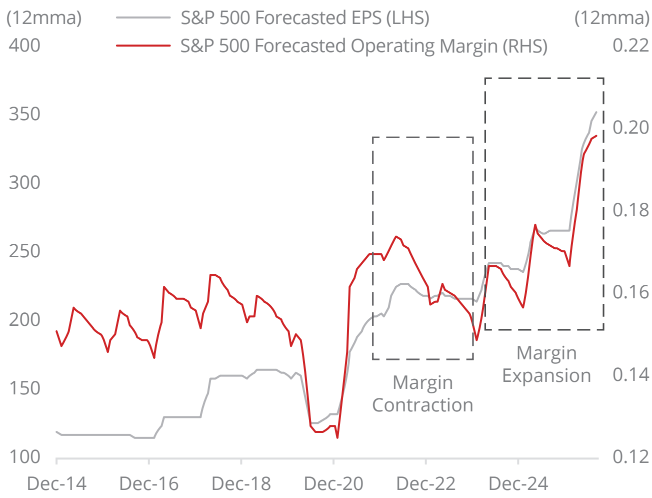
US Equities

Dylan Cheang
Strategist

AI capex underpinning US macro momentum. The old adage of "rising tide lifts all boats" is very apt in describing the current state of play for the S&P 500. In this case, the "rising tide" here refers to AI capex, which is translating to robust momentum in the US economy. Despite the resurgence of global trade tensions and supply chain disruptions in the Strait of Hormuz, the Atlanta Fed GDPNow Forecast is now pointing to GDP growth of c.4.8% (vs c.3.0% at the start of the year), and we expect this robust momentum to persist as the AI infrastructure buildout continues. According to the US Federal Reserve, the recent strength in business investment is predominantly tied to AI capex, which likely accounted for 35% to 65% of 1Q26's GDP growth.

S&P 500 earnings: A story of margin expansion. The strong US macro momentum is, in turn, translating into robust earnings growth for US companies, with the forecasted EPS revised upwards by c.34% since the start of the year. Interestingly, the increase in forecasted sales was only c.12%, while the rest of the EPS upward revision came from expectations of rising operating margin expansion. These figures suggest two things: (1) while the AI capex cycle contributes to earnings growth, the bulk of the upside actually comes from margin expansion; and (2) the expansion in operating margins could either stem from rising operating efficiency and/or through retrenchments. We believe that the adoption of AI by US companies remains in the nascent stage. Therefore, at the current juncture, a substantial amount of the "cost savings" actually stemmed from job cuts.

US earnings on the rise amid margin expansion

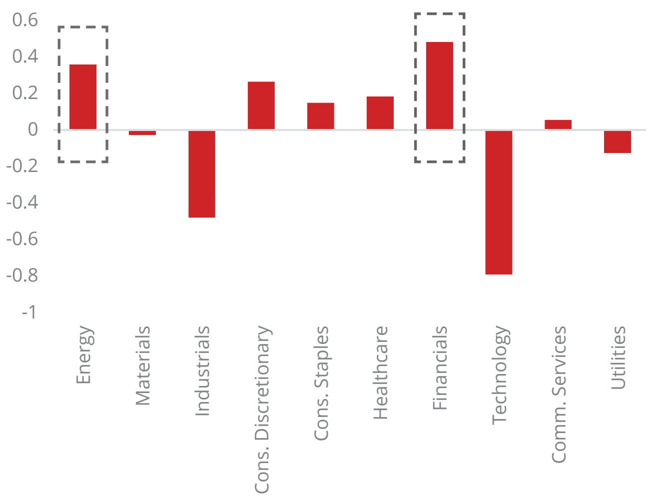


Source: Bloomberg, DBS

Portfolio rotation in play: Financials and energy are geared beneficiaries. Since the start of 3Q26, investor positioning has shown a clear rotation away from technology, with sector allocations declining by 1.4 %pts in July. This shift reflects rising investors' concerns over elevated hyperscalers' capex and the associated pressure on free cash flow (FCF), following recent earnings reports highlighting negative quarterly FCF among Big Tech firms. Sectoral allocation is broadening into the non-tech space, supported by improving earnings momentum as companies across the economy deploy AI to drive productivity and improve margins.

Financials and energy saw the largest allocation gains, at 0.5 %pts and 0.4 %pts, respectively. Financials are benefitting from the AI capex cycle through stronger capital markets activities, while expectations for a higher-for-longer rate environment provide additional support for NIM expansion. Meanwhile, energy positioning remains underpinned by geopolitical risks and heightened energy security concerns, which could tighten supply and support energy prices.

Changes in US sector allocation in Jul 2026

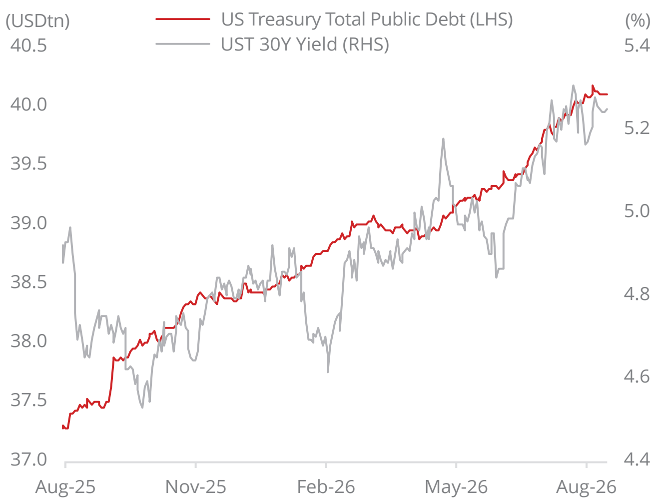


Source: EPFR Global, DBS

Strong "bottom-up" fundamentals meet "top-down" policy uncertainties. While the "bottom-up" corporate fundamentals for the US equity market remains robust, the main uncertainties for investors come from the "top-down" policy environment. Indeed, recent developments suggest that Fed Chair Warsh and Treasury Secretary Bessent may be on a collision course. Given the uptrend in long-term Treasury yields, Bessent has been attempting to control the yield curve via massive bond purchases. With the midterm elections around the corner, the benefits of lower bond yields are clear, as they translate into lower mortgage payments for consumers and lower interest payments for indebted companies.

However, the move by Bessent is, at the same time, at odds with the Fed's mandate of achieving price stability through lower inflation. As the US-Iran crisis remains unresolved and with energy prices on the rebound, the pressure for Fed to hike policy rates will rise. Hence, the ongoing "Bessent put" will pose major uncertainties to the trajectory of bond yields, and by extension, equity valuations. In any case, Bessent's desperation to lower long-term yields is implicitly an admission that the fiscal situation in the US is getting severe and therefore, the efficacy of driving yields down via bond purchases will likely be limited.

Rising debt situation in US driving long-term yields higher

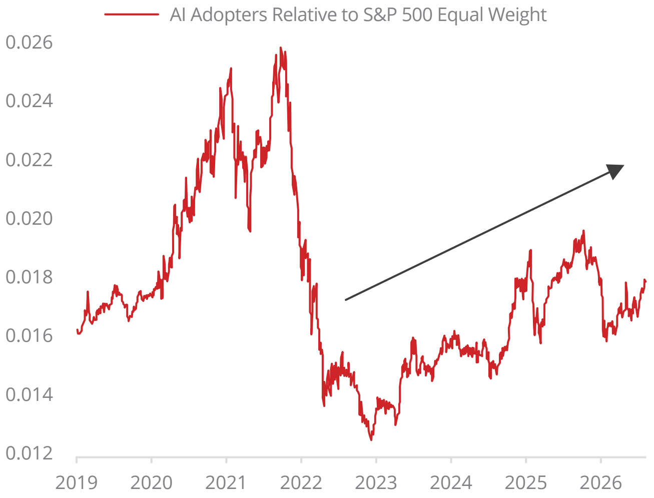


Source: Bloomberg, DBS

AI capex under scrutiny; Ride AI theme via "AI adopters". As the AI theme evolves and matures, investors are looking beyond robust earnings to reinforce their conviction on this space. Instead, significant attention is being paid on the level of capex spending, and any signs of excessive spending may translate into negative share price reactions in the markets. Investors' caution here is warranted, given that the total capex for hyperscalers has increased by c.155% since the launch of ChatGPT. Once known for their strong balance sheets, Big Tech companies are increasingly turning to debt markets for capex funding.

Falling FCF and high gearing aside, there are also concerns surrounding the return-on-investment (ROI) of such massive tech buildout. Will these investments translate into viable returns, or are companies doing this just to fight for market share? No one knows for sure and hence there are inherent risks investing in technology companies that have embarked on a capex binge. Against this backdrop, we favour AI plays with low capex needs and yet, possess a strong track record of monetising AI adoption. Since 2023, "AI Adopters" have started to outperform the S&P 500 (equal weight) and we expect this trend to persist.

Play the AI theme via "AI adopters"



Source: Bloomberg, DBS

4Q26 US Sector Strategy – Financials is King

Our US sectoral strategy delivered a strong quarter in 3Q26, as the Overweight calls returned 7.4% on average (as of 1 Sep), outperforming the Neutral and Underweight baskets by 6.6 %pts and 8.7 %pts respectively. Although our technology-related calls within the Overweight basket recorded a subdued quarter during 3Q26, overall performance was boosted by strong gains in energy (+22.4%) and financials (+6.7%). The upbeat performance in these sectors coincide with fund flow data, which indicates that fund managers are increasing their exposure there. The worst performing sectors were industrials (-6.8%, rated Neutral) and utilities (-6.1%, rated Underweight).

For the upcoming quarter, the broadening theme is expected to persist. As such, we are downgrading communication services to Neutral as investors seek opportunities beyond tech-related plays. At the same time, we are doubling-down on our conviction in US financials, supported by the positive outlook for:

- Net Interest Income: The Mar 2026 revisions to the Basel III Endgame will translate to lower capital requirements for US banks. This should ease balance sheet constraints and allow them to increase their lending capacity at a time when there is huge demand for capital from the strong capex cycle.
- Advisory Fee Income: Tech companies are increasingly turning to capital markets to fund their capex needs and this translates to higher equity and debt capital market activities for US financials. According to PR Newswire, the technology sector alone accounts for c.32% of US ECM issuance deal value in 1H26. This, coupled with the Trump administration's pro-business stance (which include a softer antitrust approach and faster approval timelines), will unlock pent up demand for capital market activities and drive advisory fee income higher. Beyond ECM and DCM, the Institute of Mergers, Acquisitions and Alliances (IMAA) is also expecting the announced M&A transaction value in the US to grow c.18% for 2026.

US Sector Allocation – 4Q26

	Overweight	Neutral	Underweight
US	Technology	Industrials	Real Estate
	Financials	Cons. Discretionary	Utilities
	Energy	Materials	Cons. Staples
		Healthcare	
		Comm. Services	

Source: DBS

US Valuation Table

	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	OPM (%)
US	21.4	5.6	17.6	21.3	4.7	16.2
Financials	15.5	2.5	9.1	15.2	1.7	23.2
Energy	13.4	2.8	9.6	14.7	7.1	12.6
Technology	26.6	14.0	28.8	35.0	16.4	30.0
Materials	18.5	3.3	13.1	11.3	4.9	13.1
Industrials	26.4	7.5	18.9	26.8	7.6	14.1
Cons. Staples	22.5	7.2	17.9	25.8	7.7	8.0
Cons. Discretionary	21.4	7.1	17.0	26.4	8.2	10.1
Comm. Services	17.2	4.9	15.9	26.3	11.7	24.0
Utilities	17.2	2.1	12.7	11.0	2.8	21.6
Real Estate	36.8	3.3	20.7	9.4	3.9	23.4
Healthcare	22.0	5.6	19.4	16.2	5.4	7.1

Source: Bloomberg
Data as at 16 Sep 2026

Selective Growth


Source: Unsplash

Europe Equities 4Q26

Improving earnings momentum among Europe’s distinct AI beneficiaries and financials should drive further re-rating, though limited innovation and AI exposure may constrain relative overall performance. Favour selective beneficiaries of the structural capex cycle and banks.

Europe Equities

Joanne Goh
Strategist

Chloe Park
Analyst

Upside, but no outperformance. Europe equities remained resilient through early September, reflecting an economy that has weathered tariffs, geopolitical tension, and the energy shock better than expected. 2Q26 GDP growth and the strongest quarterly corporate earnings growth in three years reinforce this constructive backdrop. Earnings momentum is likely to broaden, led by financials and companies exposed to structural investment themes such as AI, infrastructure, and electrification.

Nevertheless, we do not expect Europe to outperform global equities in 4Q26. The Middle East conflict remains fluid, with Europe likely to remain vulnerable, especially given elevated gas prices. Political uncertainty in Germany could also undermine confidence in the fiscal outlook, particularly as spending has so far fallen short of expectations. The region still lacks the depth of high-growth AI beneficiaries and innovative companies found in the US and North Asia, leaving its earnings growth structurally weaker. That said, Europe could regain favour if investors grow more sceptical about AI returns and capex spending given its durable cash flows, attractive dividends, and greater exposure to defensive sectors.

Strongest earnings momentum in three years. 2Q26 aggregate revenue under STOXX Europe 600 returned to growth, rising 9% y/y after four consecutive quarters of contraction, while aggregate earnings increased 25% y/y and beat expectations by 5%, supported by strong margin expansion. The energy sector saw the largest earnings growth of 134%, followed by financials and technology at c. 23-24%. Meanwhile, consumer discretionary remained the clear laggard, with earnings down 14% y/y as European automakers and luxury groups faced weak Chinese demand, intensifying local competition, and higher input costs.

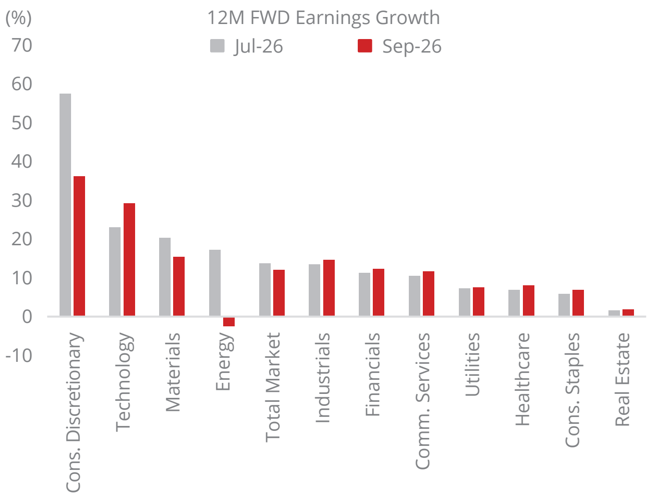
Europe 2Q26 sales and earnings by sector

	Growth (% y/y)		Surprise (%)	
2Q26	Sales	Earnings	Sales	Earnings
Energy	37%	134%	3%	10%
STOXX Europe 600	9%	25%	2%	5%
Technology	11%	24%	2%	5%
Financials	6%	23%	2%	5%
Materials	7%	23%	1%	-1%
Industrials	9%	15%	2%	3%
Cons. Staples	0%	14%	1%	6%
Utilities	6%	10%	1%	15%
Communications	3%	6%	0%	-3%
Healthcare	5%	2%	2%	9%
Real Estate	11%	1%	14%	-11%
Cons. Discretionary	0%	-14%	1%	-23%

Source: Bloomberg, DBS

Earnings upgrades concentrated in AI-related names and financials. Despite these pockets of strength, forward 12M earnings growth for European equities has remained broadly stable at low double-digit levels following the earnings season. Upgrades were concentrated in AI-related technology names, industrials, and financials, but were offset by a sharp downgrade to energy earnings growth amid a demanding base effect.

Earnings upgrades concentrated in AI-related names, financials, and industrials



Source: LSEG, DBS

Europe's distinct AI trade powering earnings growth. The region's distinct AI trade is helping to deliver strong gains in Europe equities even as the economy navigates higher oil prices, concerns on weaker growth, and delayed German spending. Europe's strongest earnings upgrades came from AI and electrification beneficiaries across tech and industrials.

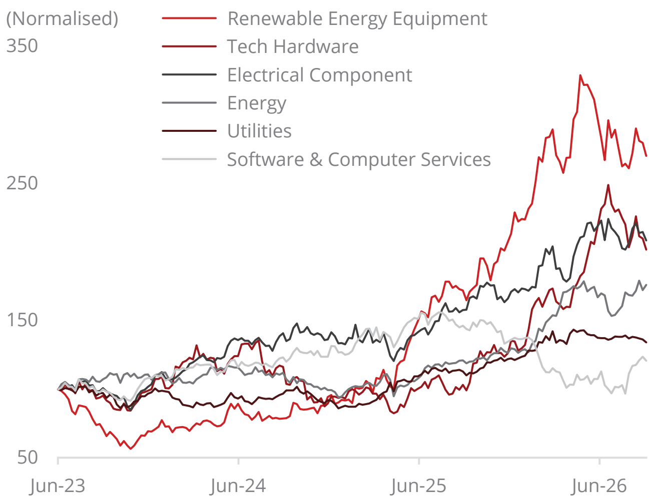
Semiconductors and equipment players should remain standout performers, supported by earnings visibility amid their planned capacity expansion to meet sustained AI-chip and memory demand.

Moreover, we see notable strength in Europe's leading industrial companies as direct beneficiaries of the global data centre build out, supplying power distribution, cooling, electrical components, and automation systems essential for AI infrastructure. Although AI-related gains have lifted their valuations towards historical highs, we believe sustained demand amid Europe's structural investment in data centres should continue to support further re-rating over the long term.

Europe's sustained investment in the energy infrastructure needed to power data centres should create a multi-year growth runway for renewables, utilities, and related-equipment providers. While higher bond yields and renewed rate-hike concerns remain near-term headwinds for utilities, we believe these pressures are increasingly overshadowed by strengthening structural demand. As Europe's electrification cycle accelerates, earnings upgrades should support further valuation re-rating.

As Europe enterprises move from experimentation to scaled deployment, AI value creation is broadening beyond model developers and chipmakers to firms that can integrate the technology into existing data, software, and workflows. This shift, with Europe's push for tech sovereignty, should drive sustained demand for integration, process redesign, secure infrastructure, and governance, favouring Europe's established software, consulting, and cloud providers.

Europe's distinct AI trade across tech, industrials, and energy infrastructure



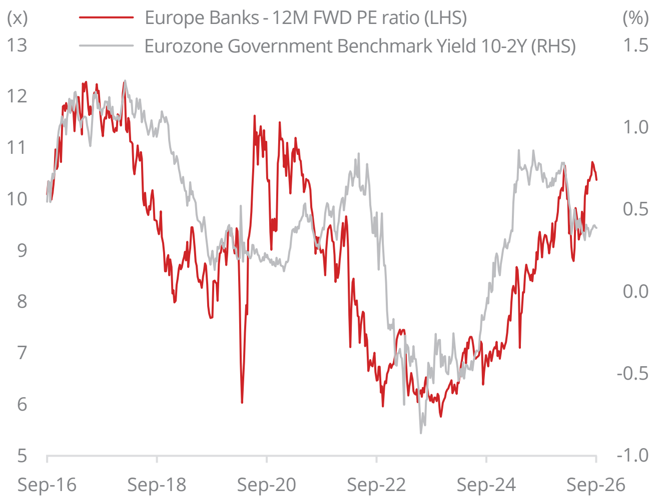
Source: LSEG, DBS

Impact of China economy on Europe equities contained for now. China's prolonged weakness in domestic consumption and Europe's lack of innovation are accelerating exports of competitively priced and increasingly high-value Chinese goods to Europe. The impact is most visible in autos as European incumbents face sustained pricing pressure and market-share erosion, even prompting some manufacturers to diversify their revenue towards domestic defence business. This reinforces our underweight stance on the sector.

Nevertheless, we expect the overall impact on Europe equities to remain contained. Autos represent only 1% of European market capitalisation, while large parts of the market are either insulated from Chinese competition or operate in areas where China has yet to establish a clear advantage. For instance, despite concerns over China's technology self-sufficiency, we believe risk for Chinese competition is overstated as China continues to trail Europe's niche technology in performance, reliability, and scalability. Moreover, several of Europe's largest sectors — including financials, industrials, energy, and utilities — are predominantly domestically oriented and have limited exposure to low-cost Chinese imports.

4Q26 sector strategy – Stay with structural winners. We continue to favour sectors positioned to benefit from durable global capital expenditure cycles in AI infrastructure, electrification, renewable energy, defence, and industrialisation. These structural growth drivers should sustain earnings momentum despite a more challenging macro backdrop. A higher-for-longer interest rate environment should support European banks while keeping defensive and consumer-oriented cyclical sectors under pressure alongside a lagging recovery in Chinese demand.

Europe banks, benefitting from steepening yield curve



Source: LSEG, DBS

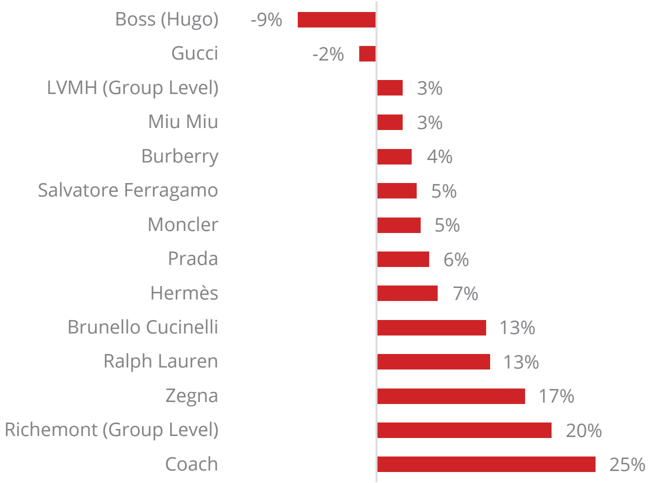
Key sector changes include:

Upgrade financials to overweight. European banks delivered strong 2Q26 results, supported by resilient net interest income (NII) following ECB's June rate hike, robust non-interest income, investment banking activities, and loan growth, while credit provisions remained well contained. Capital positions are solid, providing a firm foundation for shareholder distributions. We expect Europe banks' earnings momentum to remain intact in 4Q26. An additional ECB rate hike in September as well as a steepening yield curve, should lift NII. Sustained lending demand and increasingly diversified wealth-management and capital-markets revenues further strengthen the earnings base. With valuations still at a discount to the broader European equity market, we see further re-rating potential.

Downgrade healthcare to neutral. European large-cap pharmaceutical companies broadly beat expectations and raised 2026 guidance, highlighting the resilient demand for specialty medicines and improving traction for newer therapies despite persistent pricing pressure and intensifying competition in legacy products. However, we downgrade healthcare to neutral as we increasingly see structural headwinds. These include higher investment costs from expanding US manufacturing capacity ahead of potential 2028 tariffs; delayed European drug launches as regional prices could influence US benchmarks under most-favoured-nation (MFN) pricing; and comparatively constrained European R&D spending amid a steep patent-expiry cycle. We expect wider performance dispersion as clinical outcomes, regulatory approvals, and product launches become more critical differentiators. We therefore favour a selective approach, favouring companies with diversified portfolios, robust late-stage pipelines to alleviate near-term patent expiries, proven execution background, and strong balance sheets.

Jewellery and quiet luxury names to stay resilient despite overall luxury weakness. Europe luxury sector largely met 2Q26 revenue expectations, with margins outperforming due to cost efficiencies and price increases. Jewellery was a key bright spot while Chinese demand recovery continued to lag. We remain cautious on the broader luxury sector as soft Chinese demand and inconsistent tourism inflows in Europe due to geopolitical tension constrain the recovery. However, we see durable resilience in select companies with high exposure to jewellery and quiet luxury, where strong pricing power, product discipline, and scarcity should sustain robust sales growth.

Retail sales performance by brand in 2Q26, constant rates (% y/y)



Source: Companies, DBS

Europe Sector Allocation – 4Q26

	Overweight	Neutral	Underweight
Europe	Technology	Industrials	Cons. Discretionary
	Financials	Healthcare	Real Estate
	Energy	Materials	Cons. Staples
	Utilities	Comm. Services	

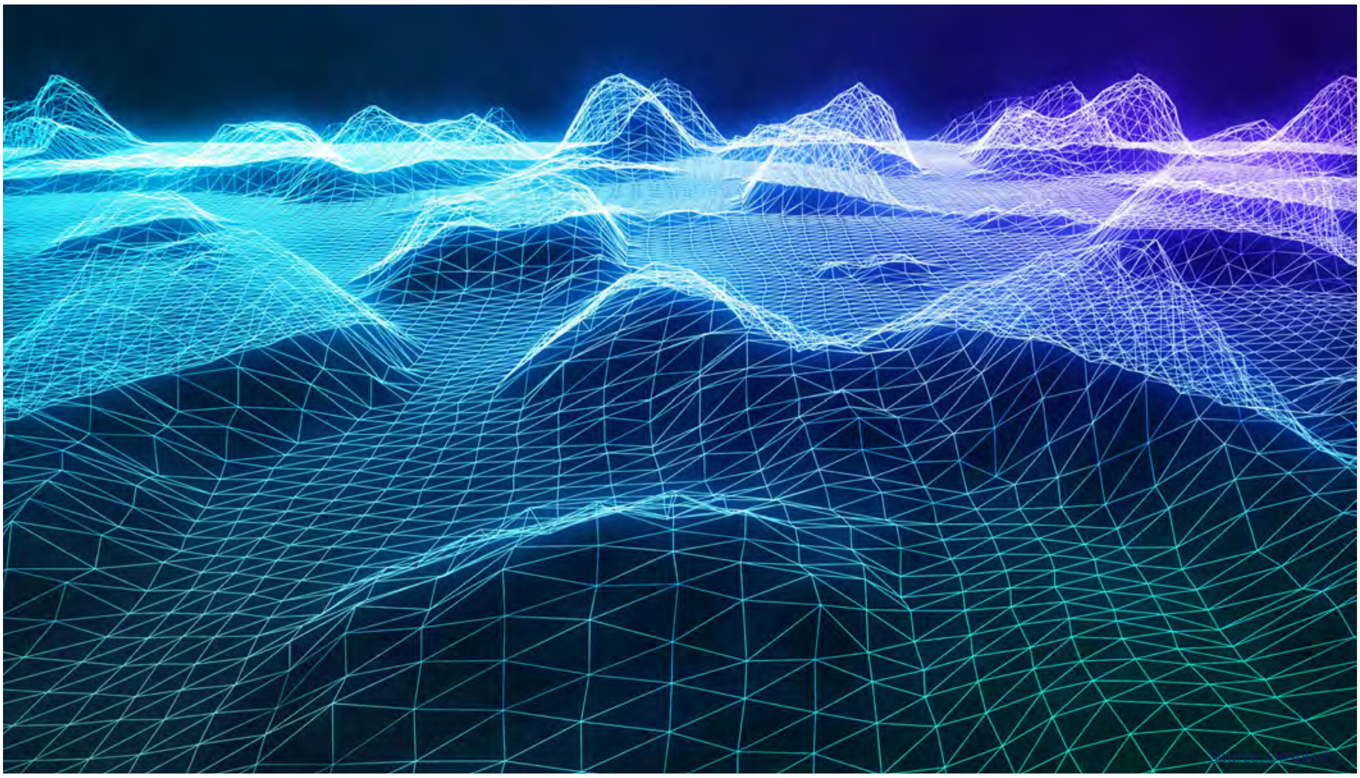
Source: DBS

Europe Valuation Table

	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	OPM (%)
Europe	15.5	2.5	12.5	13.7	1.6	14.2
Financials	12.3	1.8	-	14.4	0.8	22.3
Energy	8.4	1.7	4.9	13.5	5.0	12.2
Technology	31.3	7.0	25.1	17.5	8.9	19.5
Materials	17.3	2.2	10.4	13.8	6.1	8.6
Industrial	22.5	4.4	13.5	16.9	5.1	11.2
Cons. Staples	15.6	3.2	11.5	17.7	5.6	10.9
Cons. Discretionary	16.4	1.4	8.8	4.7	1.7	4.3
Comm. Services	17.3	2.3	6.8	8.1	2.2	15.8
Utilities	15.3	2.1	10.2	12.1	2.9	14.3
Real Estate	13.8	0.8	18.6	9.2	3.6	62.6
Healthcare	15.8	3.7	12.9	15.7	6.6	19.7

Source: Bloomberg, DBS
Data as at 16 Sep 2026

Broadening AI Opportunities



Japan Equities 4Q26

Stronger earnings breadth, corporate reform, and reasonable valuations to support further re-rating. We favour technology and banks offering complementary exposure to global AI-led capex and domestic reflation. Japan's structural advantage lies in its deep industrial ecosystem, positioning it as a high-quality beneficiary of the global AI capex cycle.

Japan Equities

Joanne Goh
Strategist

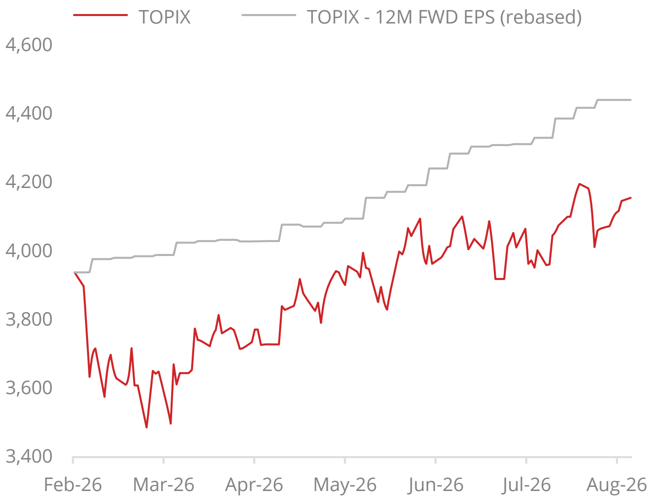
Chloe Park
Analyst

We remain positive on Japanese equities despite a growing list of concerns, including geopolitical risks, global inflation, elevated concentration in AI stocks, uncertainty over the economic cycle and AI capex spending, tightening liquidity amid the global bond-market sell-off, higher policy interest rates, and questions over the funding of AI investment. Importantly, the recent valuation de-rating suggests that a significant portion of these risks is already reflected in market prices. Japanese equities have not fully kept pace with the strength of corporate earnings, leaving valuations more attractive relative to their recent peaks and creating room for further upside if earnings momentum remains resilient. The combination of stronger earnings breadth, continued corporate reform, and reasonable valuations provide a favourable foundation for further upside in Japanese equities.

The 2Q26 reporting season has provided reassurance, with corporate earnings generally holding up well despite a more challenging external environment. This reinforces our view that Japan's earnings cycle remains supported by structural drivers including corporate reform, improving capital efficiency, investments in automation and semiconductor capacity, and the continued global AI investment cycle. While the pace of earnings upgrades may moderate, we do not see sufficient evidence yet of a meaningful deterioration in the underlying earnings trend.

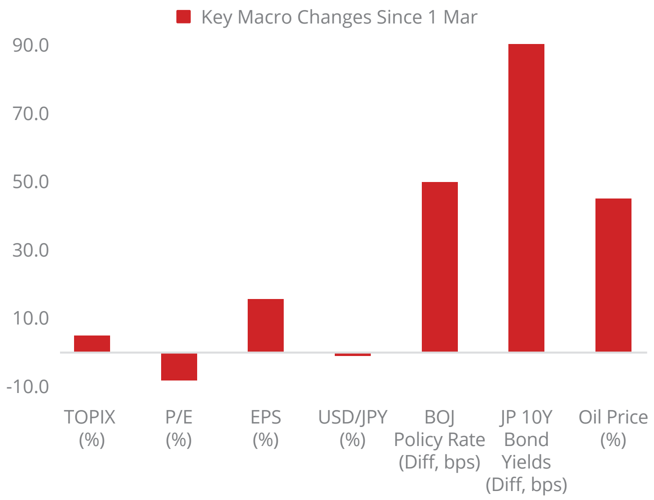
Against this backdrop, we expect the TOPIX to potentially make fresh all-time highs in 4Q26, with further upside thereafter. However, the path is unlikely to be smooth. Increased volatility is likely to remain a feature of the market as investors navigate the interaction between global

TOPIX to catch up with strong earnings



Source: LSEG, DBS

Earnings remained resilient despite macro challenges while PE moderated

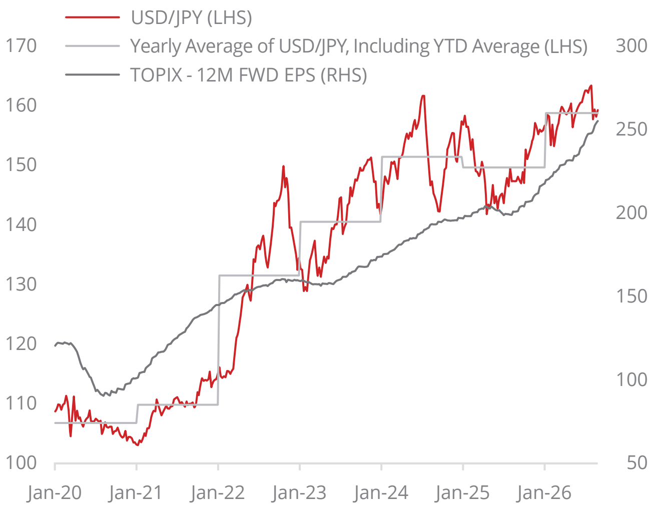


Source: LSEG, DBS

monetary policy, inflation in Japan, BOJ normalisation, yen price action, geopolitical developments and elevated bond yields.

Valuations have adjusted for many of the prevailing concerns, while earnings fundamentals remain constructive. We view the current USD/JPY range of 155-160 as positive for corporate earnings through improved price competitiveness and translation gains, given the FY25 average of USD/JPY 150 and the FY26 corporate guidance assumption of USD/JPY 152 in the Tankan survey. In addition, the authorities have shifted towards policy measures aimed at smoothing yen volatility. We therefore maintain a positive view on Japan equities, with technology and banks offering complementary exposure to the two key earnings drivers: global AI-led capex and domestic reflation/financial-sector normalisation.

Gradual yen depreciation is positive for earnings

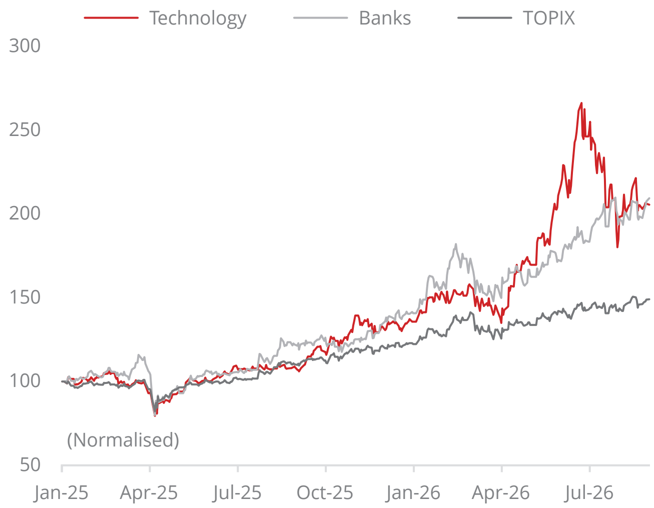


Source: LSEG, DBS

At the sector level, we favour technology and banks. Technology should benefit from Japan's exposure to the global AI capex cycle, particularly through semiconductor equipment, materials, components and factory automation. These companies are positioned to capture the cyclical earnings upside from continued investment in AI infrastructure, while Japan's deep industrial and semiconductor supply chain provides an important structural advantage.

Banks, meanwhile, stand to benefit from the normalisation of Japan's interest-rate and yield environment. Higher domestic bond yields and a gradual exit from the ultra-low-rate regime should support net interest margins and improve profitability, while stronger nominal growth and corporate balance sheets provide additional support for credit demand.

Banks and technology as core holdings



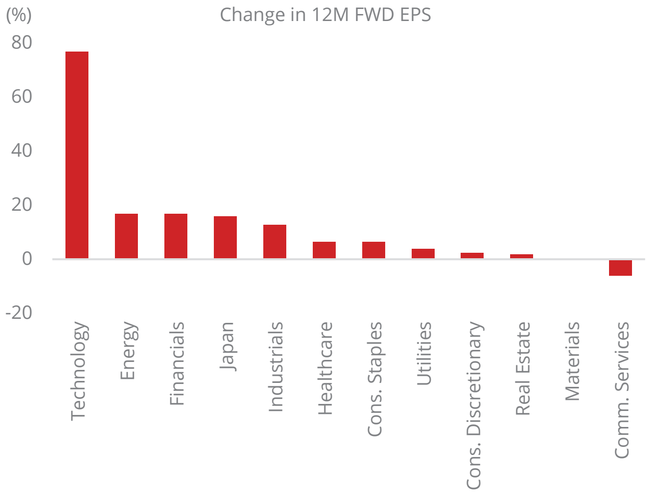
Source: LSEG, DBS

Earnings breadth broadens, supporting further upside

Japan's Apr–Jun earnings season has been stronger than expected, with both earnings growth and market breadth providing increasing confidence in the outlook. TOPIX companies reported a 13% y/y increase in sales and a 60% y/y rise in net profit, with earnings beats extending well beyond the semiconductor sector, according to Bloomberg's aggregate data.

Technology remained the largest contributor to profit growth and surprise. Encouragingly, positive earnings momentum has broadened across sectors, with energy and financials benefiting from oil and interest rate changes, while a higher USD/JPY should benefit the exports sector. These sectors have delivered solid profit growth and a high proportion of earnings beats. At the same time, companies perceived as vulnerable to AI disruption—including IT services, internet, and gaming companies—also delivered strong results and have proven successful in monetising AI. This broadening of earnings growth is particularly constructive, reducing the market's reliance on a narrow group of AI-related stocks.

Earnings upgrade is broad-based across sectors



Source: LSEG, DBS

Japan's structural AI advantage

Applying the DBS CIO I.D.E.A. (Innovators, Disruptors, Enablers, and Adapters) framework, we examine where Japan's AI opportunity is creating winners and where disruption risks may emerge. Japan's AI thesis should not be judged by its lack of mega-cap AI model companies. Its structural advantage lies in its deep industrial ecosystem across semiconductors, precision equipment, robotics, automation, components, and power infrastructure—making Japan a high-quality beneficiary of the global AI capex cycle.

Japan industrials, semiconductor, and materials sector – a strategic enabler of the AI semiconductor boom

Semiconductors. Japan occupies a unique position across the global semiconductor value chain, with leadership in semiconductor manufacturing equipment, precision components, silicon wafers, specialty chemicals, photoresists, advanced materials, industrial sensors, and factory automation. These segments represent critical bottlenecks in semiconductor production and are difficult to substitute, positioning Japanese companies to benefit from sustained investment in AI data centres, high-bandwidth memory, advanced chip packaging, and next-generation semiconductor fabrication.

The long-term investment case continues to be underpinned by the global AI capital expenditure cycle and strong policy support from the Takaichi administration, which has prioritised strategic investments in semiconductors, AI infrastructure, and advanced manufacturing to strengthen Japan's technological competitiveness.

Following the recent correction, valuations have become more attractive while structural growth drivers remain firmly intact. We therefore remain overweight Japan technology, particularly companies leveraged to semiconductor equipment, advanced materials and factory automation, where earnings momentum should continue to be supported by the global AI investment cycle.

Japan's specialty chemicals and semiconductor materials industry is moving from a supporting role to a strategic enabler of the AI semiconductor boom. Advances in leading-edge chip manufacturing and advanced packaging are driving demand for an increasingly diverse range of high-performance materials, creating new growth opportunities for Japan's established "hidden champions." Japanese companies have strong competitive positions across photoresists, electronic chemicals, advanced substrates, glass materials, and other specialised inputs, supported by deep R&D capabilities, stringent quality control and long customer qualification cycles.

At the same time, the localisation and supply-chain resilience push is accelerating investment in regional production and technology centres, thus driving new strategic opportunities for the sector. Japanese materials companies are expanding their presence closer to major semiconductor clusters, particularly Taiwan, enabling closer partnerships with leading foundries while reducing supply-chain risks.

Japan as a generative AI adopter: Turning labour scarcity into a growth opportunity

Japan's AI opportunity extends well beyond its position as a supplier of semiconductor equipment and materials. Japan could be one of the biggest beneficiaries of AI adoption, as generative AI and physical AI offer a powerful response to the country's structural challenge of a shrinking and ageing workforce. Following the strong results from Japan's leading IT and HR services companies, there is growing evidence that the market is beginning to recognise AI adopters—not just AI infrastructure providers—as key AI winners.

Japan's demographics make the economic payoff from AI particularly attractive. A declining working-age population and persistent labour shortages are creating a strong incentive for companies to automate knowledge-intensive and physical tasks. Unlike economies where AI adoption is primarily about replacing existing labour, in Japan, AI can augment scarce labour, improve productivity, and allow companies to maintain output despite a shrinking workforce. This potentially makes the economic benefits of AI adoption greater, while the disruption to employment is comparatively less severe.

Generative AI is already opening up significant productivity opportunities across knowledge-intensive industries. Customer service, sales, software development, corporate administration, and R&D can all benefit from AI-assisted workflows. Japan's large banking, retail, pharmaceutical, telecommunications, and technology sectors provide substantial addressable markets. Companies that successfully integrate AI into their operations can potentially achieve higher productivity, lower costs, and better customer engagement, creating scope for earnings upgrades even without strong top-line growth.

The opportunity is expanding further as AI moves from the digital world into the physical economy. Advances in robotics, computer vision, autonomous systems, and humanoid robots could help address labour shortages in manufacturing, logistics, construction, agriculture, and elderly care. Japan's existing industrial base and expertise in robotics and factory automation give it an important advantage in deploying physical AI at scale.

Japan Sector Allocation – 4Q26

	Overweight	Neutral	Underweight
Japan	Technology	Healthcare	Real Estate
	Industrials	Materials	Cons. Staples
	Financials	Utilities	Cons. Discretionary
	Energy	Comms. Services	

Source: DBS

Japan's position across the five-layer AI stack

AI stack layer	Japan's position	Investment opportunities
Applications	Moderate	AI enabled consumer/ business applications to augment labour scarcity, robotics, gaming, logistics
Models	Emerging	Innovators, Domestic LLMs, sovereign AI, enterprise AI
Infrastructure	Strong	Data centres, networking, AI computing
Chips	Very strong	Enablers, semiconductor value chain
Power	Strong	Sophisticated power management system

Source: DBS

Japan Valuation Table

	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	OPM (%)
Japan	16.9	2.0	9.5	10.8	1.7	11.5
Financials	14.4	1.6	-	10.7	0.6	17.9
Energy	7.3	1.1	5.0	14.7	6.4	9.9
Technology	19.6	4.8	19.3	15.6	9.9	19.2
Materials	15.6	1.4	9.5	8.0	3.7	7.4
Industrial	18.9	2.3	14.8	11.3	5.0	7.7
Cons. Staples	20.5	2.1	10.4	9.4	3.3	7.6
Cons. Discretionary	16.8	1.6	8.1	7.1	2.7	6.5
Comm. Services	16.4	2.3	7.9	19.9	5.5	36.0
Utilities	12.5	1.0	10.5	8.7	3.6	6.4
Real Estate	13.9	1.3	13.9	9.9	3.3	14.0
Healthcare	19.6	2.2	13.2	8.4	4.7	13.7

Source: Bloomberg
Data as at 16 Sep 2026

A Blend of Income & Growth

Asia ex-Japan Equities 4Q26

Asia ex-Japan equities offer a compelling blend of structural growth and dependable income. Sustained AI investment, improving earnings, and corporate-governance reforms underpin our constructive outlook. We favour China, Taiwan, and Singapore, combining technology-led growth with quality dividend assets through a balanced barbell strategy.

Asia ex-Japan Equities

Yeang Cheng Ling
CIO, North Asia

Joanne Goh
Strategist

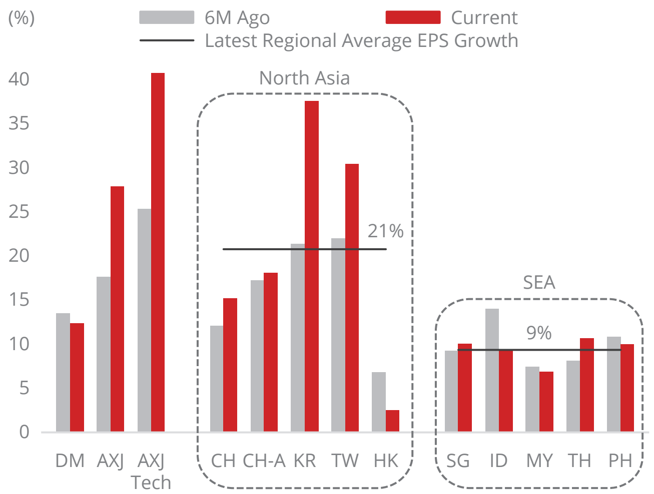
Resilience in the storm. Asia ex-Japan equities navigated a challenging backdrop marked by the ongoing Middle East conflict, broader geopolitical uncertainties, and pronounced market swings in select markets driven by crowded positioning and elevated retail leverage, particularly in technology-related names. Despite these headwinds, the region has demonstrated notable resilience. Energy price shocks were absorbed more effectively than many had anticipated, supported by strategic buffers, policy responses, and resilient external demand in key industries, while the most intense phase of leverage-driven volatility has largely subsided following capital rotations and position clean-ups.

Evidently, the structural tailwinds that have underpinned the region's performance are expected to continue. Attractive yields, bolstered by ongoing corporate governance reforms and a sustained focus on enhancing shareholder returns, combined with the outsized growth potential arising from Asia's central role as a global technology and AI hardware powerhouse reinforce a constructive outlook for the quarters ahead.

Recent market reshuffling has further improved the investment landscape. The unwind of elevated leverage and crowded positioning has helped clean up excesses and create a healthier point of entry for investors. With the most intense phase of forced selling and margin-driven volatility largely behind, valuations and positioning in key technology and AI-linked segments now offer a more balanced risk-reward profile.

Bright spots up north. North Asia, in particular, offers substantial growth potential. Taiwan and Korea continue to serve as indispensable powerhouses in global AI hardware manufacturing, occupying critical nodes in semiconductor, memory, cloud networking, and advanced packaging supply chains. China is simultaneously advancing along a parallel path, developing its own AI ecosystem with meaningful progress in domestic models, power infrastructure, networking capabilities, and self-sufficiency initiatives.

Constructive Earnings Revisions



Source: Bloomberg, DBS

The rest of Asia warrants a more selective approach, with opportunities concentrated in markets and sectors that combine resilient domestic demand, policy support, or meaningful participation in supply-chain diversification.

North Asia: Well-anchored by the AI buildout. Taiwan and Korea remain central beneficiaries of the global AI infrastructure cycle, both at the equity market and broader economic levels. Their dominant positions in advanced logic, high-bandwidth memory, and related components have translated into robust export growth, positive earnings revisions, and sustained corporate profitability. Equity markets in both economies have reflected this strength, even as near-term positioning adjustments have introduced volatility. The recent capital rotation and deleveraging process has, however, reduced the most extreme crowding, leaving a cleaner setup for investors seeking exposure to the multi-year AI hardware upcycle. Underlying demand visibility from global hyperscalers and data centre capital expenditure continues to support earnings trajectories, reinforcing their roles as core growth engines within AxJ.

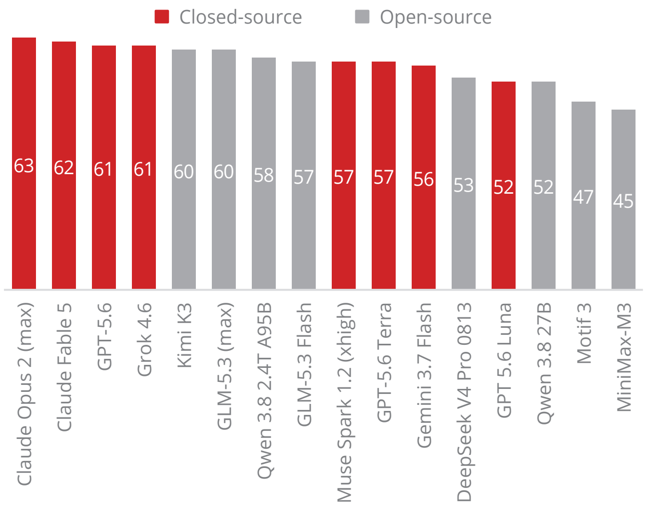
Global hyperscaler capex is supportive of Asia tech performance

Semiconductor	Taiwan	Korea	China
Wafer Foundry	High	High	Medium
IC design/Fabless	Medium	Low	Medium
Chips Packaging	High	Low	Medium
Testing	High	Low	Medium
PCB	High	Low	Medium
Memory	Low	High	Medium
Fabrication Equipment	Low	Low	Medium
Power Supply	Low	Low	High

Source: DBS

Besides tech-heavy South Korea and Taiwan, China has also registered tangible successes in building out its domestic AI and semiconductor ecosystem. Progress in model development, cost-competitive inference capabilities, wafer foundry, power generation capacity, and optical networking has strengthened the country's ability to pursue technological self-sufficiency, supporting selective investment opportunities in strategically prioritised segments. Domestic challenges nonetheless persist; Deflationary pressures and the ongoing property sector drag continue to weigh on broader household confidence and consumption, resulting in a more K-shaped recovery where external and high-tech strength contrasts with softer domestic demand.

Comparing the open- and closed-sources LLMs



Source: Artificial Analysis, DBS

ASEAN, a strategic AI ecosystem. We view ASEAN as a structural beneficiary of the global AI capex cycle, with individual markets occupying complementary positions across the value chain. Transitioning from a digital consumption market into a digital infrastructure and production hub, data centre power demand across the six largest ASEAN economies — Singapore, Malaysia, Indonesia, Thailand, Vietnam, and the Philippines — is projected to rise from 2.6GW in 2025 to 10.7GW by 2035. The region is also attracting substantial hyperscaler investment, with Amazon alone planning more than USD33bn of cloud and AI infrastructure investment across Indonesia, Malaysia, Singapore, and Thailand through 2039.

Hub constraints. Singapore remains ASEAN's technology, capital, and connectivity hub, but constraints on land and power are pushing the physical expansion of AI infrastructure into neighbouring markets. Malaysia, particularly Johor, has emerged as the principal beneficiary, while Batam provides a complementary Indonesian location. Singapore consequently captures higher value activities such as AI services, cloud, financial applications, and R&D, while its neighbours capture much of the incremental infrastructure spending.

Malaysia is the clearest AI infrastructure beneficiary. Its combination of proximity to Singapore, relatively lower land and power costs, semiconductor capabilities, and large data centres pipeline gives it multiple exposures to AI capex. Johor alone has more than 5GW of data centre projects at various stages of development.

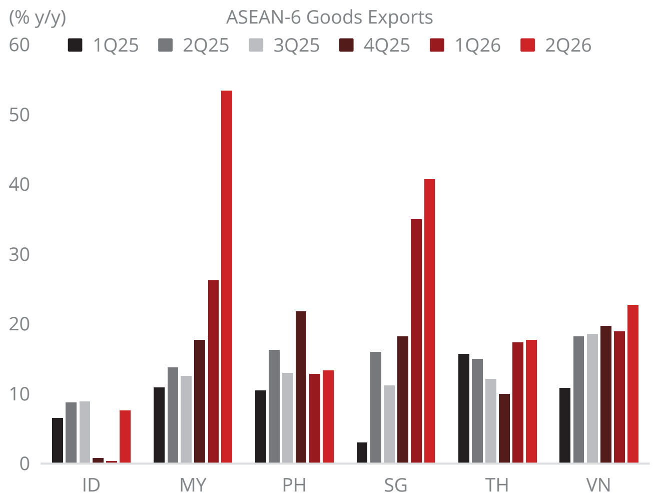
Indonesia offers the strongest AI adoption and scale opportunity. Its large population, rapidly digitising economy and growing cloud and data centre capacity provide a much larger domestic addressable market. AI adoption across banking, e-commerce, telecommunications, logistics, healthcare, and mining could translate infrastructure investment into productivity gains and earnings growth, with Greater Jakarta and Batam emerging as key compute centres.

Industrial dimension in Thailand and Vietnam. Thailand is well positioned for AI-enabled manufacturing, automotive, robotics, and industrial automation, while Vietnam combines AI with the China+1 electronics and semiconductor supply-chain opportunity. Vietnam is also actively seeking greater investment from global technology companies in AI and semiconductors.

The Philippines represents ASEAN's AI productivity play, with opportunities in BPO transformation, enterprise software, fintech, and cybersecurity as AI increasingly augments rather than simply replaces labour.

Opportunities in ASEAN thus lie in capturing the breadth of the regional AI capex and adoption cycle. The region's competitive advantage is in its ability to combine Singapore's capital and technology ecosystem, Malaysia's infrastructure and semiconductor capabilities, Indonesia's scale, Thailand's industrial base, Vietnam's manufacturing supply chain, and the Philippines' services economy. ASEAN itself is increasingly recognising the need to build regional value chains rather than have individual countries compete independently for strategic investment.

ASEAN exports growth riding on AI



Source: CEIC, DBS
Note: % y/y in USD terms

Key AI investment opportunities

Industry	Market	Opportunities
Infrastructure/ Power	Malaysia, Singapore, Indonesia, Thailand	Data centres, power generation, grids, cooling, connectivity, and cloud
Hardware & Supply Chain	Malaysia, Vietnam, Singapore	Semiconductors, electronics, testing, packaging, networking, and industrial equipment
Applications	Indonesia, Thailand, Vietnam, Philippines	Cloud, cybersecurity, digital infrastructure, financial technology, telcos, e-commerce, manufacturing, logistics and business services, regional AI services, and monetising AI

Source: DBS

China

Beijing is leaning on fiscal expansion as a countermeasure to support domestic demand and stimulate consumption. Under the 15th Five-Year Plan, Beijing has outlined major infrastructure initiatives spanning public welfare, technological innovation, and energy security where they will deploy sustained, large-scale public investments. These government-led investment programmes should more than absorb excess capacity, eventually creating fertile ground for structural growth across infrastructure, technology, equipment manufacturing, energy systems, and urban-renewal value chains.

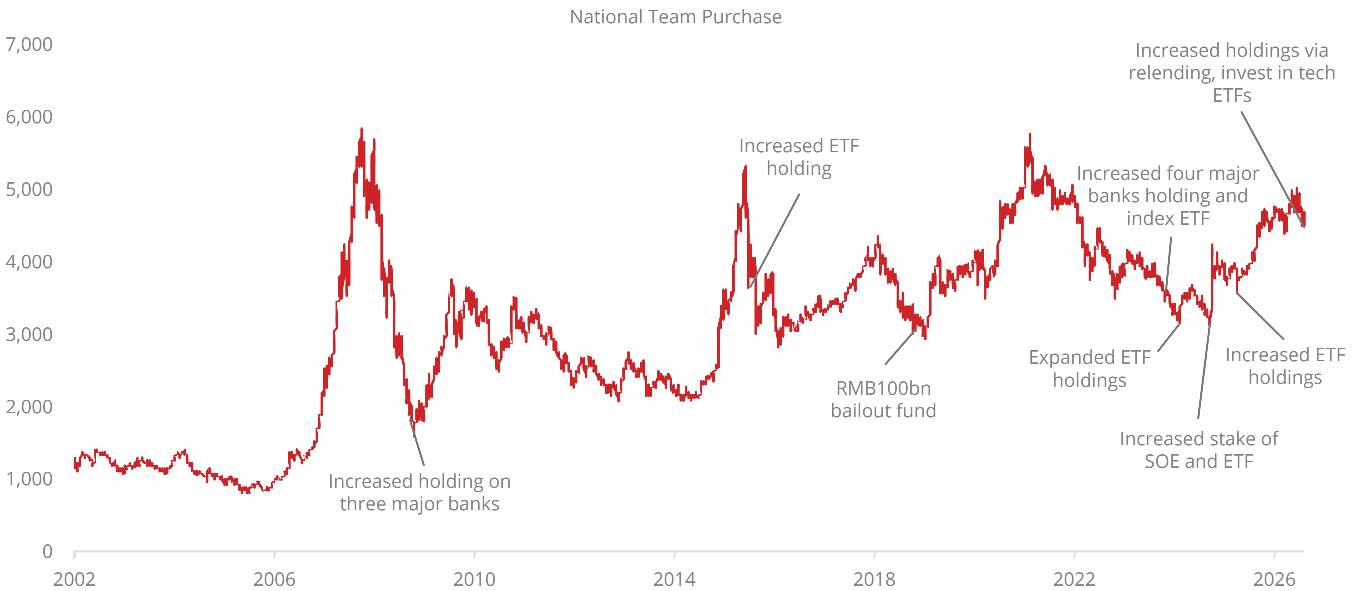
IPO markets are expected to remain vibrant both onshore and offshore as regulators continue to facilitate fundraising by new technology supply chains as part of a broader support for the development of these strategic industries. For investors, the message is straightforward: policy is again becoming a powerful compass with state-run capital, industrial upgrading, and market opportunities blending in.

Onshore A-share: Selectivity and structural evolution. The broader onshore A-share market has underperformed on a global basis over the recent months. Underneath the surface, however, strategic sectors like the AI hardware and applications, and related technology infrastructures have delivered spectacular gains. This divergence is expected to persist, as sustained policy focus and momentum continue to concentrate on prioritised strategic industries. A-share equities also offer meaningful diversification benefits, given their relatively low allocation within global equities and with other risk assets.

Selectivity remains essential. The most compelling opportunities lie in strategically supported high-tech sectors and export-oriented industries that continue to benefit from global supply-chain reshuffling and China's competitive manufacturing scale. Importantly, the onshore index composition is relatively better represented by these growth-oriented segments vs Hong Kong-listed equities.

Continued regulatory efforts encompassing state support for priority industries, adjustments aimed at improving market functioning, and initiatives to foster a healthier investment environment should gradually strengthen onshore investor sentiment and support a more constructive medium-term trajectory. While existing headwinds have not fully abated, the combination of policy focus, valuation support, structural progress in key technology and export domains, and portfolio diversification attributes continue to offer differentiated opportunities for discerning investors.

National team to the support



Source: Announcements, DBS

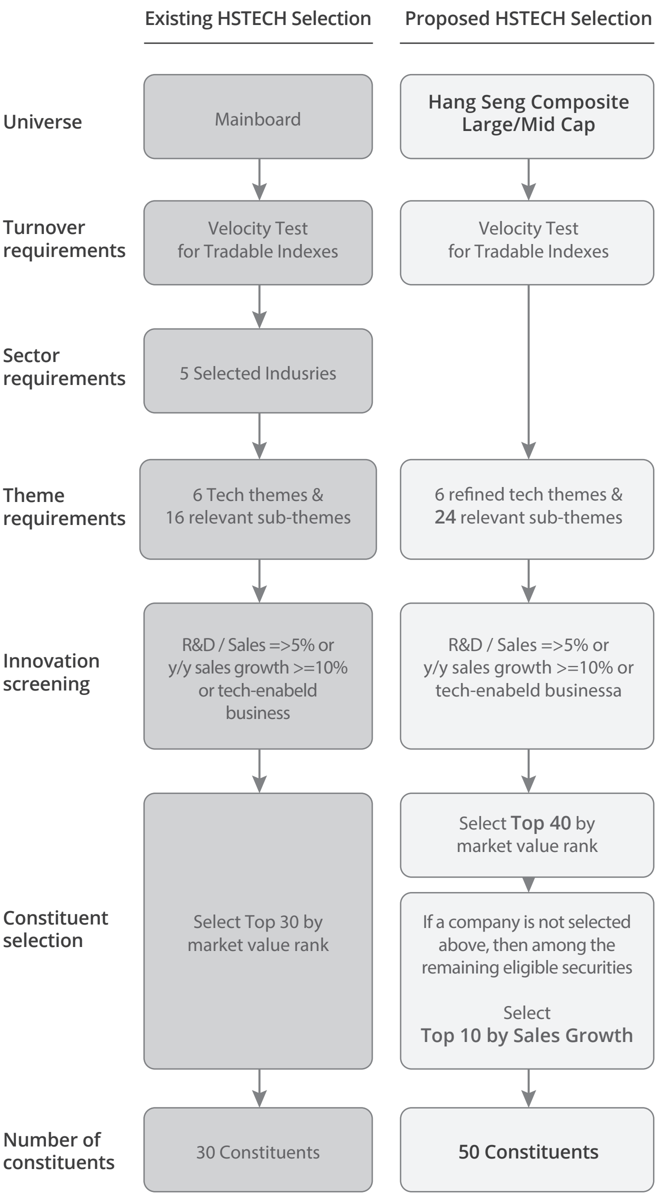
Select government measures to boost network effects

Network Type	Policy Focus	Core focus
Water Supply Network	Scale up investment in national water-network infrastructure	Planned 15th FYP investment expected to exceed RMB6tn
New Power Grid	Develop an integrated backbone, distribution, and smart-microgrid system	15th FYP investment in new power grids expected to exceed RMB5tn, with West-to-East transmission capacity surpassing 420mn kW and charging infrastructure exceeding 40mn units
Computing-Power Network	Integrate national computing resources into a unified network	Computing capacity projected to reach 1.88mn PFLOPS by 2026; over 70 corridors completed; eight hubs targeting 20ms latency. Incremental 15th FYP investment could exceed RMB4tn
Next-Generation Communications Network	Upgrade intelligent information infrastructure across 5G, IoT, cloud, AI, and blockchain	China has over 5mn 5G base stations, 1.288bn 5G users, and 74.99mn km of fibre. Plans include 500,000 5.5G stations, 6G commercialisation by 2030, and an estimated RMB7tn output impact
Logistics Network	Strengthen the national logistics network	Daily volumes stand at 84.37mn parcels and 160mn tonnes of freight. China ranks first in port throughput, shipping capacity, and express delivery, with policy focus on hubs, express logistics, and reducing the logistics-cost-to-GDP ratio

Source: DBS

Optimistic outlook. We remain neutral on Hong Kong, where near-term performance is constrained by the composition of its benchmark indices, which remain heavily weighted towards internet platforms and consumption-related names that have lagged the more topical high-tech, hardware, and industrial themes. This structural bias has limited the market's participation in the strongest areas of the AI and advanced manufacturing upcycle. Looking ahead, the outlook should gradually improve. A robust IPO pipeline, together with the Hong Kong Exchange's ongoing consultation on optimising the Hang Seng Tech Index's inclusion criteria, should broaden representation of higher-growth, and more innovative companies over time. This could enhance the market's appeal and improve its alignment with the region's structural growth themes.

Proposed consultation changes on Hang Seng Tech Index



Source: Announcements, DBS

Country Overweights: China, Taiwan, Singapore

China: We maintain an overweight view given its increasingly well-established domestic AI and semiconductor ecosystems, which are poised to emerge as a meaningful economic powerhouse through advances in domestic models, power infrastructure, networking, and self-sufficiency. This is reinforced by the country's irreplaceable role in the global supply chain, particularly in manufacturing, assembly, and mid-to-downstream electronics/energy equipment, supporting opportunities in strategically prioritised high-tech and export-oriented sectors.

Taiwan: Taiwan merits an overweight for its dominant position across the semiconductor value chain, spanning advanced foundry, testing and advanced packaging, and capacity breadth in components. As a critical enabler of the global AI hardware buildout, the market continues to benefit from sustained demand for high-performance computing capacity, underpinning robust export growth, positive earnings momentum, and durable corporate profitability.

Singapore: This stands out for an overweight allocation on the back of strong corporate governance, a fertile environment for shareholder return, and a solid macroeconomic backdrop supported by continually strong capital inflow and a stable-to-strong currency outlook. Within the market, our preference remains towards high-yielding S-REITs and Singapore banks, which offer solid income characteristics underpinned by resilient fundamentals and institutional quality. Singapore stands out for its superior corporate governance standards, government-driven capital market initiatives, attractive and relatively defensive yields, and the support of a strong, stable currency, reinforcing its appeal as a quality and income destination amid regional volatility.

Remain neutral on Korea, India, Indonesia, and Malaysia for their respective unique catalysts

Korea: The BOK has raised South Korea's 2026 and 2027 GDP growth forecasts sharply to 3.3% and 2.9%, from 2.6% and 2.1%, respectively, following stronger-than-expected growth of 3.8% y/y in 1H26. After consecutive rate hikes in June and August, we expect another increase in 4Q26 as the central bank acts decisively to contain inflation. In contrast with most Asian currencies, the KRW has strengthened markedly, with USD/KRW falling from around 1,550 to 1,380. Stable Korea-US interest rate differentials and a sustained trade surplus should continue to support the currency, although further appreciation could erode the price competitiveness of export-oriented sectors. We therefore maintain a neutral stance on Korean equities, favouring structural growth sectors — particularly memory and AI infrastructure — and financials, which should benefit from higher-for-longer interest rates and a stronger KRW. Meanwhile, robust 2Q26 results and sustained AI capex commitments from chipmakers and hyperscalers have challenged the bearish narrative behind July's memory-sector sell-off, reinforcing our constructive outlook on Korean memory players.

India: The country's long-term equity case remains supported by resilient domestic demand, deepening local capital pools, and a gradual revival in private investment. Domestic institutional and retail buying has increasingly absorbed foreign outflows, reducing reliance on external liquidity, and providing a structural stabiliser during periods of global volatility.

Financials are the preferred long-term exposure. Improving credit growth, renewed private capital expenditure, and project financing demand should support earnings, while bank valuations remain attractive relative to historical levels. Healthcare — particularly hospitals and diagnostics — also offers durable growth, supported by rising domestic demand and limited sensitivity to oil and trade risks. IT faces a structural challenge as AI reshapes traditional services models; exposure should favour companies with credible AI capabilities and resilient deal pipelines. Metals may benefit from cyclical pricing, but recent gains could prove less durable than those underpinned by domestic consumption and investment.

Indonesia: Ratings downgrade overhang removed, but rupiah outlook remains in a trading range. S&P Global Ratings' reaffirmation of Indonesia's investment grade sovereign rating and stable outlook removes a key tail risk for the market, reflecting confidence in the country's fiscal discipline and commitment to keeping the deficit below the 3% of GDP ceiling. With US inflation proving stickier than expected, the Fed is likely to keep rates firm or higher this year, keeping the US dollar firm and limiting room for meaningful rupiah appreciation. The rupiah is likely to hold around IDR18,000/USD for the remainder of the year. We focus on three key themes following the good progress of 2Q26 earnings season: 1) resilience to higher interest rates, favouring banks with strong CASA franchises; 2) export beneficiaries poised to gain from a weaker rupiah, particularly if domestic demand stays soft; and 3) exposure to improving mining and energy activity as Indonesia raises coal and metal production quotas to bolster energy security and state revenues.

Malaysia: The economy expanded 6% y/y in the second quarter, driven by 7.5% growth in manufacturing — much of it linked to semiconductors — and a 6.6% increase in construction, supported by data centre development. Johor has emerged as a major regional data centre hub, attracting tens of billions of dollars from companies including TikTok, Nvidia, and Microsoft to develop facilities on former palm oil plantations. According to Baxtel, Johor accounts for 76 of Malaysia's 187 operational and planned data centres, making it the sixth-largest market in Asia Pacific. The Johor-Singapore Special Economic Zone, launched in early 2025, has also attracted RM77bn in investment. Construction and power companies are direct beneficiaries of this data-centre expansion.

AxJ Geographical Allocation - 4Q26

Overweight	Neutral	Underweight
China#	Hong Kong	Thailand
Taiwan	India	Philippines
Singapore	South Korea	
	Malaysia	
	Indonesia	

Source: DBS
- Including China stocks listed in Hong Kong

AxJ Sector Allocation - 4Q26

Overweight	Neutral	Underweight
Technology	Healthcare	Materials
Cons. Discretionary	Real Estate*	Industrials
Financials	Utilities	Cons. Staples
Comm. Services	Energy	

Source: DBS
*Our neutral position reflects a balanced view, underpinned by a positive outlook on Singapore REITs as reliable income generators, while maintaining a cautious stance towards China real-estate developers due to prevailing market uncertainties

Asia ex-Japan Valuation Table

	Forward P/E (x)	P/Book (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	OPM (%)
Asia ex-Japan	11.6	2.4	12.9	14.7	2.6	15.8
Financials	10.3	1.3	-	11.9	1.0	25.7
Energy	10.9	1.3	5.2	11.0	4.1	8.7
Technology	10.6	5.4	13.4	28.6	16.5	21.0
Materials	14.1	1.7	9.1	8.6	3.6	10.1
Industrial	11.5	2.0	10.1	13.0	3.9	13.0
Cons. Staples	18.5	2.9	11.3	14.1	5.8	9.3
Cons. Discretionary	15.9	1.8	10.6	9.7	4.3	4.5
Comm. Services	14.8	2.5	9.3	15.0	7.6	23.1
Utilities	13.0	1.4	9.1	11.5	3.5	14.4
Real Estate	14.6	0.7	15.9	3.4	1.7	16.5
Healthcare	31.3	4.2	21.3	11.8	6.6	13.3

Source: Bloomberg, DBS
Data as at 16 Sep 2026

Asia ex-Japan investment view: A blend of growth and income

Overall, Asia ex-Japan presents growth anchored in the AI investment cycles across North Asia alongside a balanced proposition of income assets supported by governance progress. The relative resilience to energy shock among tech-heavy markets is encouraging, though more oil-dependent emerging ASEAN markets remain exposed to potential volatility.

In this environment, we recommend anchoring a barbell approach. On one end, allocate to quality and high-conviction growth stocks tied to the ongoing AI ecosystem buildout and evolution encompassing semiconductors, advanced chip packaging, cloud infrastructure, power distribution, and energy equipment that stands to benefit from sustained structural demand. Exchanges are also an interesting option to consider given the continually vibrant capital market landscape. On the income side, emphasise rich dividend opportunities such as S-REITs, Singapore banks, select telecommunications, and large-cap financials that offer defensive income characteristics. This barbell strategy allows investors to capture the region's growth potential while preserving a balanced risk-reward profile amid ongoing geopolitical and market volatility. Careful distinction across markets and sectors remains essential.

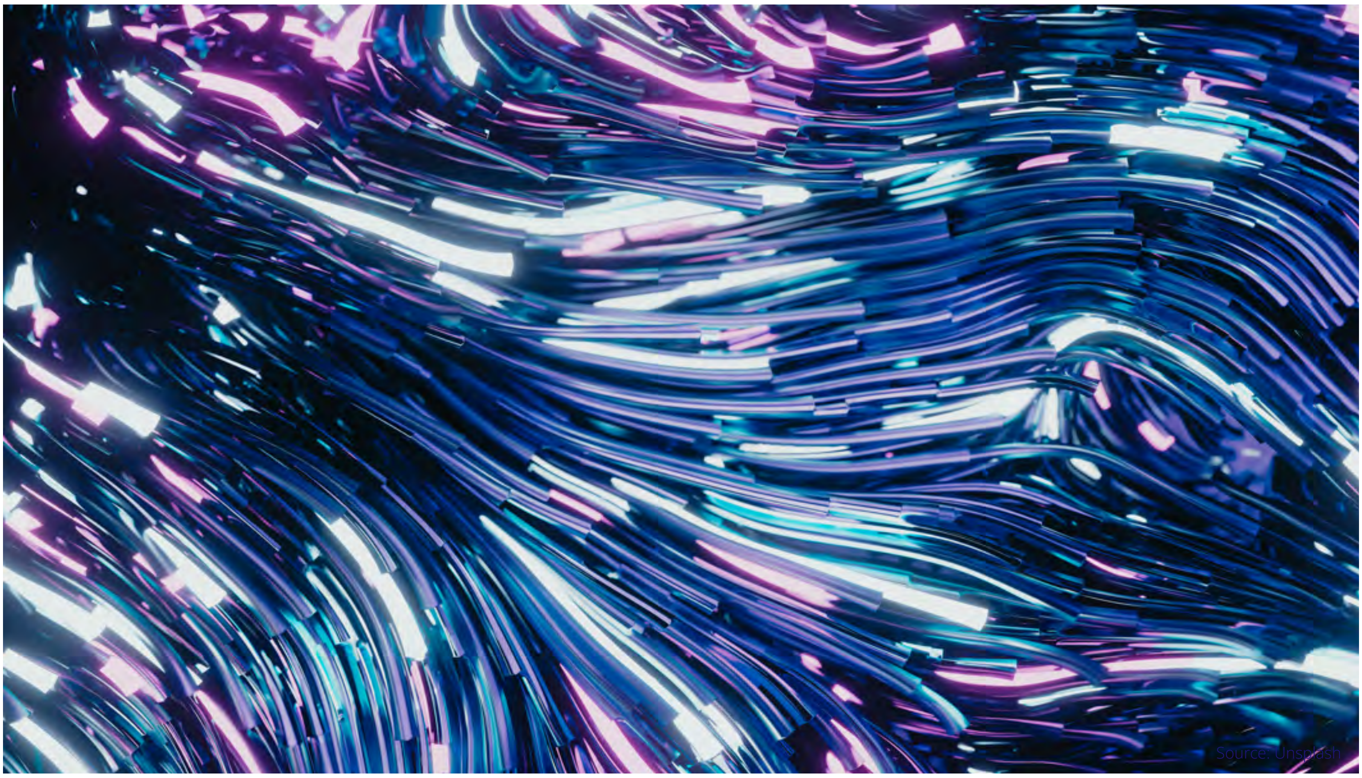
Finetuning index target on earnings outlook and sustained visibility on AI-related demand

AxJ offers a compelling combination of structural growth and valuation support, underpinned by the region's central role in the global AI infrastructure buildout. Consensus forecasts point to robust earnings expansion, with AxJ EPS growth once again revised up to the range of >30% this year, to then be maintained at mid-20% range in 2027. This uplift is heavily concentrated in North Asia, particularly driven by Taiwan and Korea, with China offering selectivity. At the same time, ongoing corporate governance improvements and a focus on shareholder returns across several core markets reinforce the region's income appeal.

In light of the stable earnings trajectory and sustained visibility on AI-related demand, we finetune our AxJ index target. Higher EPS forecasts, particularly from the

AI hardware complex, together with reasonable forward valuations and improved positioning dynamics support a more constructive medium-term return path. While near-term volatility from geopolitical developments and residual energy price fluctuations cannot be ruled out, the fundamental backdrop of durable earnings growth underpins our upgraded target of 1,325 by end-2026, based on adjusted EPS growth outlooks and a target P/E of 14x (25% discount to DM multiples, in-line with 10Y average given abovementioned tailwinds), implying 18% upside.

AI Dominates



Global Rates 4Q26

DM yields are likely to be buoyant over the coming quarters amid continued heavy AI-related investments, persistent fiscal and inflation concerns, and an un-anchoring of JGB and Bund yields. Asia bond yields have adjusted higher earlier this year and should be better placed to weather the storm.

Global Rates

Eugene Leow
Strategist

Samuel Tse
Strategist

Yields across the developed market space are likely to remain buoyant over the coming quarters. Global and idiosyncratic factors have combined to drive rates higher. These have come on top of the usual worries about fiscal largesse and spillover inflation from elevated energy prices. At this point, we do not see any imminent signs that these factors are set to reverse.

The AI build-out has far reaching ramifications on global yields. Hyperscaler spending is widely estimated to reach USD700bn in 2026 before climbing further into 2027/28. The most obvious marker is the 45% YTD increase in US IG credit issuance through August. Much of this issuance is also in the long-duration tenors, with spillovers into other currencies as corporates diversify their investor base. An increase of this size crowds out government bonds, driving core yields higher in the process.

We are also cognisant that higher yields in Japan and the Eurozone are spilling over into the rest of the world. Between a weak yen, sticky inflation, and wobbly long-end JGBs, there is an urgent need for the BOJ to tighten at a more aggressive pace, especially as the previous round of interventions seem to have had little lasting impact on the currency. Meanwhile, economic growth in the Eurozone has surprised on the upside, keeping ECB tightening bets alive. Political concerns are also weighing on OATs. Taken together, the global backdrop is once again shifting to a higher rates regime.

US Treasuries have to contend with these cross-currents and we note that the Fed has turned decidedly more hawkish, with a 25 bps hike in September to kickstart tightening. Amid a synchronised hikng cycle, there is scope for G3 government bond curves to flatten.

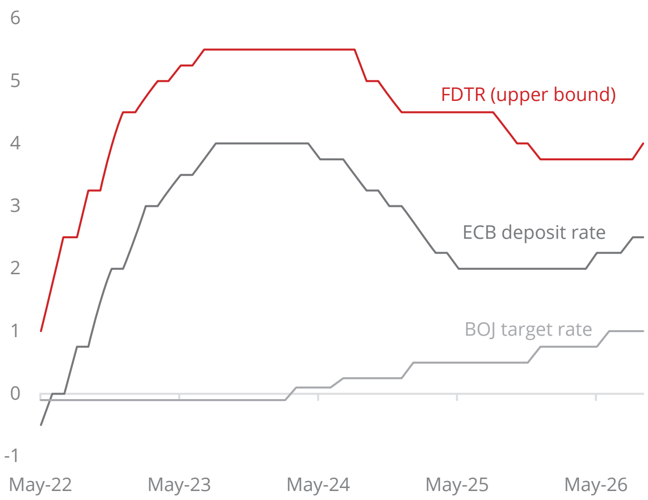
Asia Rates

CNY rates: Are CGBs rich enough?

CGBs have extended their rally across the curve over the past quarter, with yields reaching their lowest levels this year. The macro backdrop remains supportive, particularly at the front-end and belly. Recent data points to continued weakness in domestic demand. CPI and PPI have moderated despite higher oil prices, reinforcing concerns over persistent disinflation. Other activity indicators, including retail sales and fixed-asset investment, have also softened, while total social financing remains subdued. Weak financing demand continues to weigh on yields. The pickup in bond and equity issuance related to AI projects is unlikely to fully offset the shortfall in loan repayment from the property sector and mortgages. Fiscal momentum is also fading. Government expenditure has contracted despite the unchanged fiscal deficit target of 4% of GDP, while Beijing is now emphasising faster fiscal deployment rather than additional bond issuance.

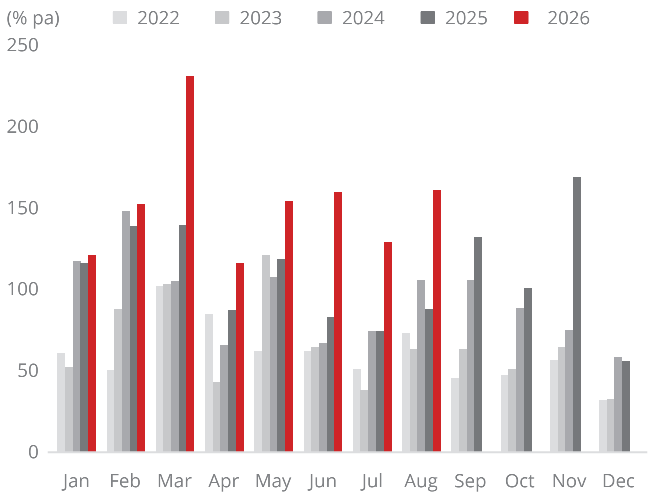
Against this backdrop, the PBOC is likely to remain on track with its moderately accommodative monetary policy stance. The authorities have reiterated this in various policy documents and announcements. Further liquidity injections should continue to support the CGB rally, particularly at the short-end and belly of the curve. On the external front, CNY strength and ongoing RMB internationalisation since the US-Iran conflict provide an additional structural anchor for CGBs. The CNY has remained one of the better-performing Asian currencies this year, while greater RMB use in trade and investment should gradually broaden foreign demand for RMB assets and reinforce the currency's appreciation bias.

Converging higher?



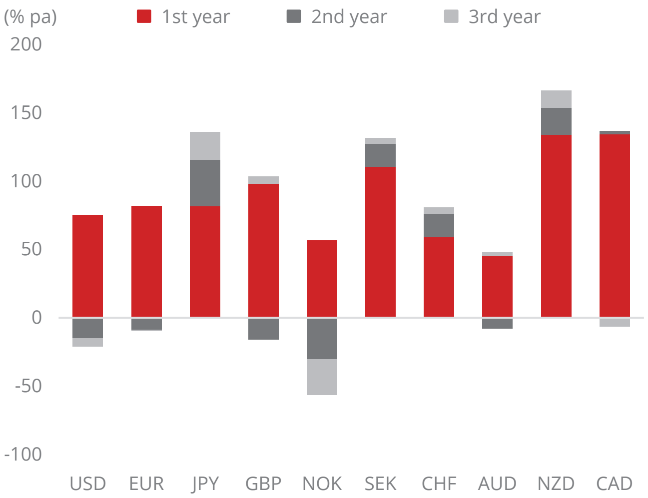
Source: Bloomberg, DBS

IG issuances crowding out government bonds



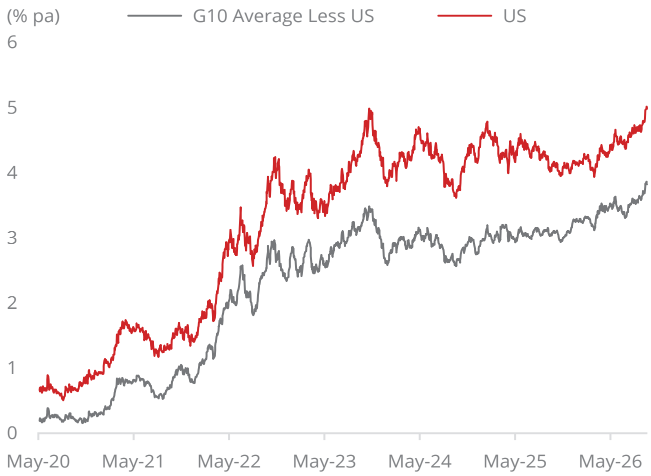
Source: Bloomberg, DBS

Rate hike bets persisting



Source: Bloomberg, DBS

10Y yields buoyant across DM



Source: Bloomberg, DBS

However, increasingly rich valuations at the ultra-long end are becoming a concern, and we suspect the recent flattening has gone too far. The sharp decline in ultra-long yields suggests that much of the term premium has already been compressed. We therefore retain a medium-term steepening bias. A more durable investment cycle, driven by AI and advanced manufacturing, could lift long-term growth expectations and term premium. Rising global term premium could also spill over into the long end of the CGB curve, limiting further gains in ultra-long bonds.

IDR rates: Signs of footing despite lingering uncertainties

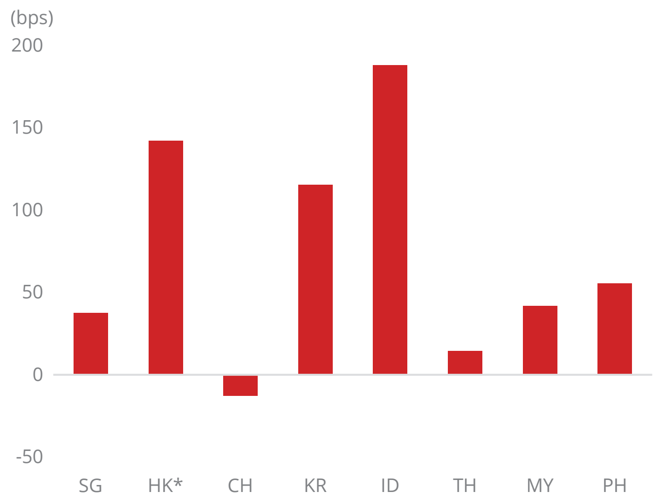
IDR rates have started to stabilise after several challenging months marked by both external and domestic headwinds. Elevated US Treasury yields, renewed geopolitical tensions, and policy uncertainty weighed on Indonesian assets, with IndoGBs among the region's underperformers.

Several developments suggest the worst of the sell-off may be behind us. BI paused after delivering a cumulative 100 bps of tightening, reinforcing the view that policy rates may be approaching their terminal levels. Markets absorbed leadership changes at both the MoF and BI with limited dislocations, suggesting investors are being cautiously optimistic. The rupiah has also remained relatively resilient despite periods of elevated oil prices and geopolitical uncertainty. Against this backdrop, IndoGBs have rallied as sentiment has improved more recently, helped by stabilising FX conditions, stronger bond auction demand, and a recovery in foreign participation. However, external conditions remain a headwind. With the Fed having begun its hiking cycle and further tightening expected in the months ahead, higher UST yields and global term premia are likely to spill over into IDR rates and temper some of the improving domestic backdrop. Overall, we continue to favour a steepening bias, as we continue to see value at the front-end, where yields remain elevated relative to policy rates. Declining SRBI auction clearing rates alongside currency stability should allow front-end risk premia to compress further. We also see scope for the belly of the curve to outperform should the recent improvement in sentiment and policy conditions persist.

INR rates: Twin headwinds

India G-Sec yields moved sharply higher this quarter as markets repriced both domestic liquidity-driven tightening risks and an increasingly challenging global backdrop. Domestically, banking system liquidity surged to exceptionally high surplus levels following substantial inflows through the RBI's FCNR(B) swap window. In response, the RBI has stepped up liquidity absorption measures through VRRR operations and OMO sales, while investors have increasingly priced the prospect of additional policy tightening amid rising inflation pressures. Together, these developments have driven a significant upward adjustment in G-Sec yields across the curve.

Change in 2Y government bond yields (YTD)



Source: Bloomberg, DBS
*HKD swaps

Change in 10Y government bond yields (YTD)

Source: Bloomberg, DBS
*HKD swaps

External headwinds have compounded the sell-off. Renewed geopolitical tensions, elevated oil prices, and a synchronised tightening cycle across the major developed-market central banks have pushed global bond yields and term premia higher, reducing the scope for Indian rates to decouple from global market moves. Foreign investor participation has also turned more cautious in recent weeks.

Looking ahead, INR rates are biased higher in the coming months. We expect 50 bps of RBI tightening over Q4, reflecting the liquidity surplus, a sustained rise in crude prices, tightening global financial conditions, firm domestic growth, and signs of broadening in core pressures. While a meaningful portion of this hawkish repricing already appears reflected in market rates, further liquidity draining measures, together with a higher-for-longer global rates environment, suggest that yields are likely to remain elevated. At the longer end of the curve, spillovers from higher US Treasury yields and shifts in global term premium are likely to remain an important source of volatility.

KRW rates: Relative value in KTB

We see relative value in KTBs, with a bull-steepening bias. First, we expect the BOK to deliver just one more 25 bps hike in 4Q, bringing the policy rate to a terminal level of 3.25% by year-end. The BOK has indicated that recent hikes have been largely pre-emptive. Inflation remains a key concern, alongside lingering energy-price uncertainty, recovering domestic demand, upstream cost pass-through, and improving downstream pricing power.

That said, the FX market is providing some room for a slower tightening pace, as KRW appreciation can partly offset higher import costs. KRW has been one of the better-performing Asian currencies in 3Q and has staged a strong recovery YTD after hitting USD1,560 on 5 Jun. The BOK's front-loaded tightening should help contain near-term depreciation pressure even if the Fed resumes hiking. Strong AI-driven exports should remain supportive of the currency, while renewed foreign inflows into Korean equities provide another source of support.

Against this backdrop, we favour the short end to the belly of the curve. At the front end, 3Y KTB yields should decline as the market prices out some of the expected hikes. In the belly, 5Y yields should also benefit from a repricing of rate-hike expectations, while being relatively less exposed to rising global term premium. At the long end, however, 10Y KTB yields face more conflicting forces. Rising term premium, driven by higher global and domestic fiscal spending as well as accelerating AI-related bond issuance, should partly offset the impact of lower BOK rate-hike expectations and potential demand from debasement-related inflows. This argues for a bull-steepening bias, with the 3-5Y sector offering the cleanest expression of our view.

MYR rates: Somewhat anchored but not insulated

MGS came under pressure during the quarter as rising US term premiums and re-escalating tensions in the Middle East drove a broad repricing of duration risk across regional markets. Nevertheless, Malaysia's macroeconomic backdrop remained comparatively resilient. Despite elevated global commodity prices, Malaysia's inflationary pressures remained contained due to ongoing fiscal subsidies, a firm ringgit, and stable domestic demand conditions. These factors allowed BNM to maintain its policy stance on 3 Sep, while signalling greater policy flexibility by dropping its assessment that the current policy rate was appropriate.

While we expect BNM to remain on hold for the rest of the year, the balance of risks has shifted modestly towards a potential one-off policy normalisation should elevated commodity prices stemming from the Middle East conflict feed through to inflation, or strong economic growth translate into broader demand-pull pressures. Despite a modest shift in the balance of risk towards policy normalisation, front-end yields already appear to reflect much of this risk. However, external conditions remain a headwind. With the Fed having begun its hiking cycle and further tightening expected in the months ahead, UST yields are likely to spill over into MGS. Longer-dated MGS remain more exposed to developments in global bond markets, particularly rising term premiums and adverse carry dynamics relative to US Treasuries. With limited carry cushion available to absorb additional volatility, we could see further steepening of the MGS curve should global rates continue to drift higher or if incoming data further support an extended hold.

PHP rates: Policy remains restrictive

The Philippines rates market remained under pressure during the quarter as still-high inflation and negative real policy rate kept the BSP firmly focused on preserving price stability. Underlying price pressures have not abated and renewed strength in oil prices and the peso's depreciation raised concerns over imported inflation. BSP has hiked by a cumulative 75 bps and domestic policy dynamics are reinforcing tighter global financial conditions.

That said, the market may be approaching an inflection point. Growth momentum has softened, while policy rates have moved deeper into restrictive territory and bond yields have already similarly repriced significantly higher. Philippine government bond yields now screen elevated relative to policy rates, US Treasuries, and regional peers. As such, investors' focus could increasingly shift from the extent of further tightening towards the conditions required for a pause. While near-term risks from energy prices, the peso, and global term premium remain, the combination of restrictive monetary settings and elevated yield levels suggests that much of the tightening cycle is already reflected in market pricing.

SGD Rates: Front-end adjusts higher

Front-end SGD rates are finally adjusting higher. SGD rates have been in the lower-for-longer regime since Liberation Day as investors sought to diversify from the USD. However, this theme has likely run its course. There is a limit to how low SGD rates can trade relative to USD rates. Moreover, we note that the centre of gravity for yields is drifting higher amid a deluge of corporate issuances and speculation of tighter monetary policy from the G3 central banks. Domestically, we note liquidity is tightening. Between higher bill cutoffs, slower deposit growth and robust loan growth, upward pressure on rates is materialising. We still see further upside to short-term SGD rates especially against a backdrop where the Fed is set to hike towards 4.5%.

THB rates: Holding steady but vulnerable to carry constraints

ThaiGB yields have drifted higher over the past quarter, with the curve steepening driven by the long end. BOT's steady and accommodative stance reflects its effort to balance support for low and uneven economic growth against inflation that has moderated and remains within target. Despite recent volatility in the baht, currency developments are unlikely to become a key monetary policy driver given Thailand's strong external buffer. We expect the BOT to keep its policy rate unchanged at 1.00% through the remainder of 2026.

Stable policy expectations should continue to anchor front-end yields. However, the long-end remains vulnerable to external shocks. With ThaiGBs offering one of the most negative carry profiles in the region, the market appears relatively more sensitive to spillovers from higher global yields and rising term premia, as there is less carry buffer to offset external headwinds. This sensitivity could be compounded by rising fiscal borrowing needs and ongoing geopolitical uncertainties.

Rates forecast

		2026				2027			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
US	3M SOFR OIS	3.68	3.75	3.90	4.15	4.40	4.40	4.40	4.40
	2Y	3.79	4.16	4.60	4.65	4.70	4.70	4.70	4.70
	10Y	4.32	4.45	5.00	5.10	5.20	5.20	5.20	5.20
	10Y-2Y	52	29	40	45	50	50	50	50
Japan	3M TIBOR	1.27	1.41	1.50	1.60	1.75	1.85	1.85	1.85
	2Y	1.35	1.39	1.60	1.70	1.85	1.95	1.95	1.95
	10Y	2.35	2.72	2.80	2.85	2.95	3.00	3.00	3.00
	10Y-2Y	100	133	120	115	110	105	105	105
Eurozone	3M EURIBOR	2.08	2.32	2.70	2.95	2.95	2.95	2.95	2.95
	2Y	2.62	2.53	2.90	3.00	3.00	3.00	3.00	3.00
	10Y	3.00	2.86	3.30	3.40	3.50	3.60	3.70	3.80
	10Y-2Y	39	33	40	40	50	60	70	80
Indonesia	IDR 3M OIS	4.12	6.45	5.90	5.90	5.90	5.90	5.90	5.90
	2Y	6.31	7.21	6.90	6.80	6.70	6.65	6.60	6.50
	10Y	6.86	7.16	7.00	6.95	6.90	6.90	6.90	6.90
	10Y-2Y	55	-5	10	15	20	25	30	40
Malaysia	3M KLIBOR	3.37	3.45	3.35	3.35	3.35	3.35	3.35	3.35
	3Y	3.26	3.26	3.35	3.30	3.30	3.25	3.25	3.25
	10Y	3.63	3.60	3.80	3.85	3.85	3.85	3.80	3.80
	10Y-3Y	37	35	45	55	55	60	55	55
Philippines	3M NDF implied yield	6.09	4.94	5.55	6.05	6.05	6.05	6.05	6.05
	2Y	5.42	6.08	6.20	6.25	6.25	6.30	6.35	6.35
	10Y	6.98	6.90	7.35	7.45	7.50	7.55	7.60	7.65
	10Y-2Y	156	82	115	120	125	125	125	130
Singapore	3M SORA OIS	1.16	1.16	1.60	1.80	2.00	2.00	2.00	2.00
	2Y	1.61	1.58	1.95	2.10	2.20	2.20	2.20	2.20
	10Y	2.29	2.04	2.50	2.60	2.70	2.70	2.70	2.70
	10Y-2Y	68	45	55	50	50	50	50	50

%, eop, govt bond yield for 2Y and 10Y, spread bps
*swap rates

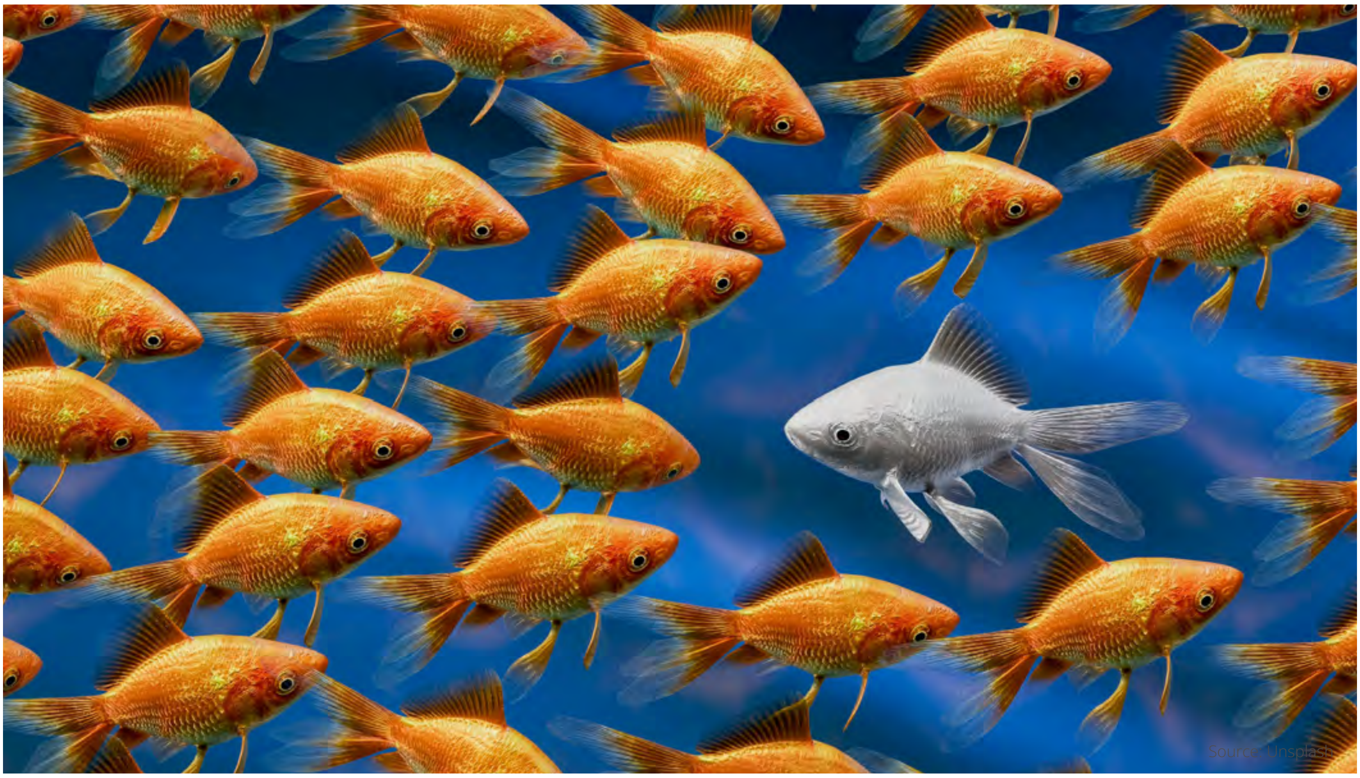
Source: Bloomberg, DBS
Data as at 18 Sep 2026

		2026				2027			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Thailand	3M BIBOR	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15
	2Y	1.41	1.14	1.15	1.20	1.25	1.30	1.35	1.35
	10Y	2.23	2.04	2.10	2.20	2.30	2.40	2.50	2.60
	10Y-2Y	82	90	95	100	105	110	115	125
Mainland China	1Y LPR	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	2Y	1.37	1.25	1.25	1.25	1.25	1.25	1.25	1.25
	10Y	1.86	1.73	1.75	1.80	1.80	1.85	1.85	1.85
	10Y-2Y	48	48	50	55	55	60	60	60
Hong Kong, SAR	3M HIBOR	2.36	2.97	3.10	3.35	3.60	3.60	3.60	3.60
	2Y*	2.82	3.43	3.90	3.95	4.00	4.00	4.00	4.00
	10Y*	3.08	3.45	4.20	4.30	4.40	4.40	4.40	4.40
	10Y-2Y	26	2	30	35	40	40	40	40
Korea	3M CD	2.82	2.92	3.25	3.50	3.50	3.50	3.50	3.50
	3Y	3.56	3.70	3.75	3.90	3.90	3.90	3.90	3.90
	10Y	3.88	4.07	4.20	4.35	4.35	4.35	4.35	4.35
	10Y-3Y	32	37	45	45	45	45	45	45
India	3M MIBOR	7.25	6.61	6.30	6.80	6.80	6.80	6.80	6.80
	2Y	6.37	5.99	6.50	6.70	6.75	6.75	6.75	6.75
	10Y	7.04	6.75	7.00	7.10	7.15	7.15	7.15	7.15
	10Y-2Y	67	76	50	40	40	40	40	40

%, eop, govt bond yield for 2Y and 10Y, spread bps
*swap rates

Source: Bloomberg, DBS
Data as at 18 Sep 2026

High Quality Isn’t Always Good Quality


Source: Unsplash

Global Credit 4Q26

AI-driven borrowing and persistent US fiscal issuance are lifting capital costs, steepening yield curves, and exposing risks within AA bonds. With reduced Fed forward guidance and widening sector dispersion, investors should favour a 5–7Y duration, selectively target BBB/BB issuers, and consider TIPS, agency MBS, financials, and collateralised structures.

Global Credit

Daryl Ho, CFA
Strategist

Elijah Tan, PhD
Analyst

One big, beautiful shift. If there was one catalyst that effectively sums up the lacklustre performance of global fixed income in 2026, it would clearly be the dramatic shift in policy expectations at the US Fed – from more than two rate cuts at the start of the US-Iran conflict in February, to close to two rate hikes in July after the inflationary impact of war and the appointment of the new Fed chair Kevin Warsh. While dramatic, this was not something that was completely unexpected for us. In our 2Q26 Global Credit outlook – *Weighing AI's Impact on Bonds* (back when markets were still pricing in rate cuts), we opined that there were "several reasons why rates could be higher on the contrary", including:

1. **Productivity and growth** [being] enhanced by AI development, leading to higher equilibrium real rates.
2. **Significant capital expenditures** required for AI infrastructure (data centres, chips, energy) [driving] up borrowing demand and cost of capital.
3. **Demand for investment** [rising] as capital share of profit increases, shifting the investment function to the right and keeping interest rates up to attract more savings.

Much of the above has played out over the course of the 2026 AI buildout, resulting in the related higher policy rate expectations and rising costs of capital for hyperscalers looking to fund their gargantuan capital expenditures. Our move to shift our fixed income allocations from overweight to neutral earlier this year served to buttress against such perceived headwinds.

The AA war: Government vs Hyperscalers. As we come to the end of the year, however, things do not appear to be less complicated. Guidance for hyperscaler capex continues to expand, which almost resembles a "reverse crowding out effect" – where private sector investment

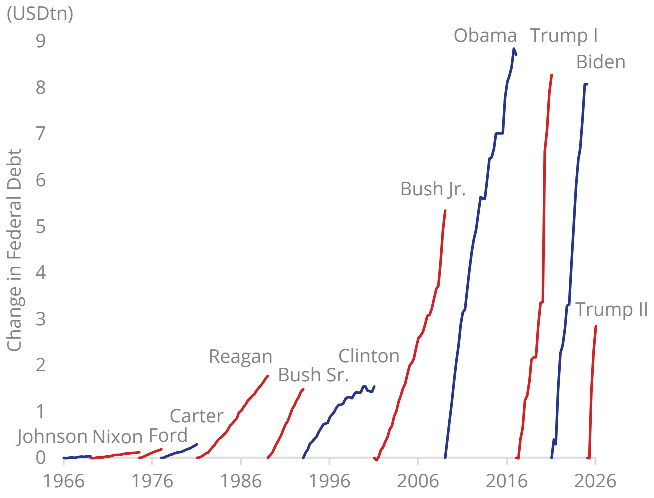
The dramatic swing of Fed policy expectations in 2026

Source: Bloomberg, DBS

increasingly displaces government spending. But who are we kidding? Government spending remains undeterred by high interest costs and unsustainable fiscal trajectories in "normal" years; what more in a year with an (a) ongoing Middle East conflict and (b) contentious mid-term elections, where promises of spending and rebates far outnumber the plans on how they would be funded? Nothing inspires a "pay-to-win" mindset more than stiff competition, whether it's between hyperscalers for AI dominance, or between Democrats and Republicans for control of congress. When such titans battle, bond investors are the most at-risk of collateral damage from increased supply of issuances to digest. The irony is not lost on us that both sovereign and hyperscaler issuers are of the "high-quality" AA variety, which means that investors would require a much more nuanced interpretation of credit quality – beyond what's written on the packaging.

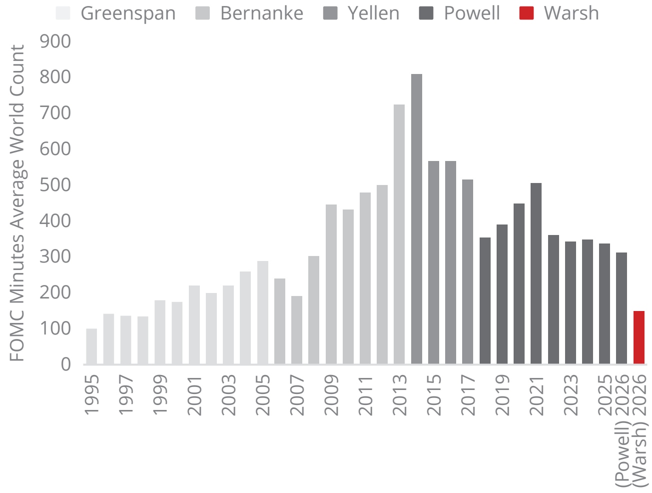
"AA" might be riskier than you think.

Elections will not change the course of the US debt predicament



Source: St. Louis Federal Reserve Board, DBS

A man of few words



Source: Federal Reserve Board, DBS

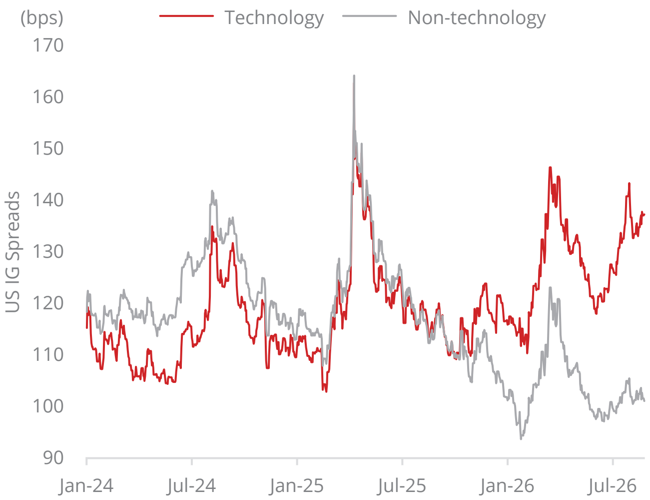
Yield curve control. Such competition for capital between the US government and hyperscalers have already manifested in the long end of the curve, where curve steepening pressure has resurfaced; possibly the work of bond vigilantes coming back to question the sustainability of it all. But for every vigilante, there is an official government agent to remind everyone that he is here to enforce the law. In this case, he takes the form of US Treasury Secretary Scott Bessent – who has over the period of Jul - Aug 2026 intervened to keep a lid on yields, firstly through the buying of JPY to deter the BOJ from selling their holdings of US Treasuries to defend their currency themselves, and subsequently through the upsizing of government debt repurchases. Observers would note that these interventions appear to occur as the 10Y and 30Y US Treasury yields cross 4.7% and 5.3% respectively, which can be taken as battle lines that will be hard fought between Scott Bessent and the bond vigilantes in the months to come.

We feel the need to reiterate at this point that government intervention is no reason to start taking aggressive bets on duration. Adding duration because of the "Bessent put" is like buying a cheap second-hand car just because the mechanic promises to fix it every time it malfunctions; it gets you on the road, but your ride is likely to be far from smooth. We think that a portfolio duration of 5-7Y gets you to the same destination with far less uncertainty.

The Treasury-Fed "discord". Where does the Fed fit in all this? Another momentous event for 2026 was the changing of the guard at the US Federal Reserve, where Kevin Warsh had succeeded Jerome Powell at one of the most consequential institutions in the world, but who brings with him ambitions of reform that could upend how investors have been conditioned for years to understand said institution. For one, he has decided to do away with forward guidance – to prevent overcommitment to a policy path that hinders flexibility and raises risks – likely resulting in greater uncertainty in the bond markets and rising term premiums. However, he believes that this would also result in cleaner market signals. As he himself described in the July FOMC press conference, the increase in long-term bond yields "has provided us some comfort", that "the markets have done quite a bit" to tighten financial conditions.

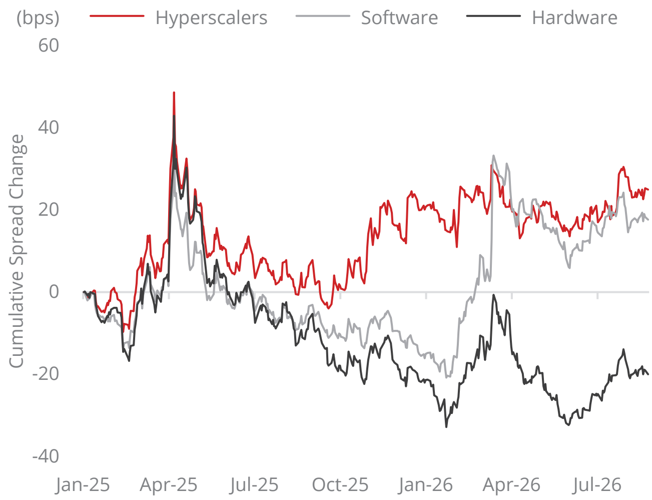
Seeing as the Treasury has on the contrary, found discomfort in the same long-term bond yields and is now actively distorting the market through intervention, this sets us on a collision course between the Treasury and the Fed, being on opposing sides of the activist/laissez-faire response. By our assessment, we believe the Fed will proceed with cautious hikes as a follow-through for hawkish communication while Warsh awaits (a) oncoming data to confirm the strength of underlying inflation and the labour market, and (b) the conclusions of the five task forces overseeing (1) Fed communications, (2) the balance sheet, (3) the use of and reliance on data sources, (4) productivity and jobs in the age of AI, and (5) the Fed's inflation frameworks.

Credit differentiation appears at last between technology and non-technology



Source: Bloomberg, DBS

Not all technology is created equal



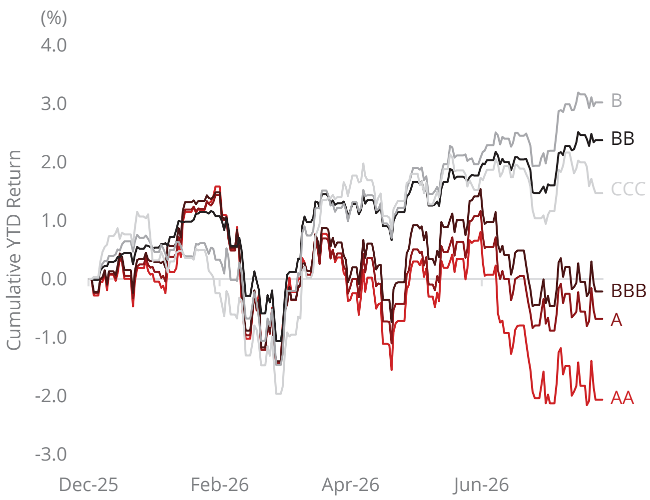
Source: Bloomberg, DBS
Note: Segment compositions are an equal-weighted spread composite of select issuers. Hyperscalers = AMZN, GOOGL, META, ORCL | Software = CRM, ADBE, NOW, INTU, SAP, MSFT | Hardware = AAPL, CSCO, DELL, HPQ, IBM, INTC, QCOM, TXN

Hello credit discernment, long time no see. The markets appeared to have anticipated the pivot to hawkish policy. Even before the Fed hike, spreads have begun to show some form of credit dispersion, seeing the widening levels between technology issuers – arguably the epicentre of private sector debt issuance – and the rest of the non-technology industrials sector. This appears to validate another call we had made earlier that despite the strong performance in technology stocks; fixed income investors should not immediately assume equivalent success in technology bonds as "*Most technological advancements end up as competitions where winners take most, if not all the share of the market... [bond] investors would have returns capped by the coupons of the few winners, which is most likely insufficient to compensate for the impairments on the debt of the losers*."

Ultimately, bonds are antithetical to "winner-takes-all" outcomes. As differentiation continues under a committed Warsh Fed, the continued emergence of winners versus losers under technological disruption warrants greater discernment in credit selection.

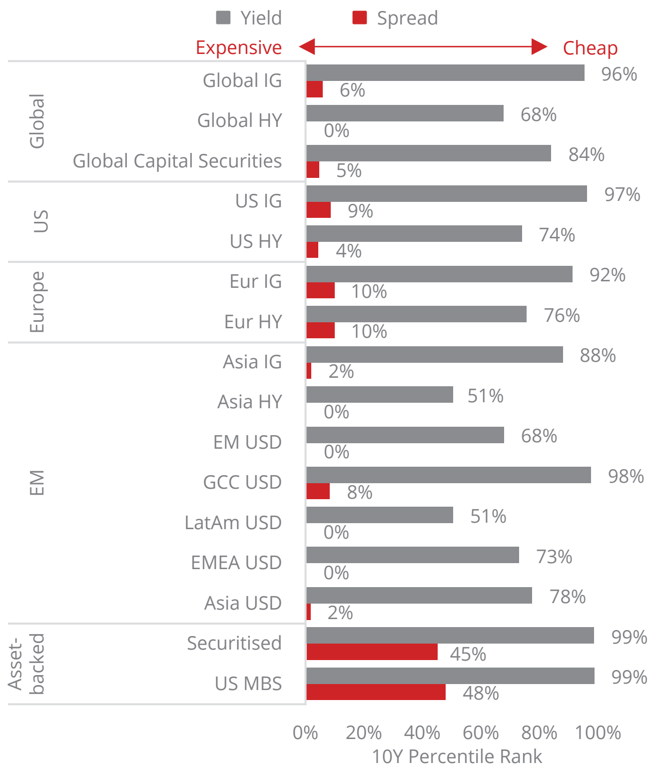
Fundamentals will matter more than ever. Within credit, this also isn't simply a case of technology versus non-technology. Even within technology, credit dispersion has widened drastically since 2025. Hyperscalers had largely underperformed the post-Liberation day spread rally, likely for the supply risks previously discussed. Software spreads spiked sharply during the peak of AI-disruption fears – briefly even overtaking hyperscalers – in mid-March this year. The hardware sector has seen the most resilience, proving that asset-light isn't always better; especially when it comes down to asset coverage and collateralisation as a fixed income investor. With the Fed no longer on some pre-set path of easing towards neutral, spreads on aggregate indices may not always reveal the full picture of credit risk; underlying differentiation will continue to reprice spreads according to market related risks such as bond supply, technological disruption, collateralisation etc. In other words, active management of a bond portfolio would become much more important in the era to come.

Prudence didn't pay



Source: Bloomberg, DBS

Where are the opportunities?



Source: Bloomberg, DBS

Redefining quality. To illustrate how truly topsy-turvy the credit environment is, we need to look no further than the YTD dispersion of performance between IG and HY credit. Despite the risks of ongoing kinetic conflict, supply chain disruption, technological obsolescence etc, every category of HY has outperformed every category of IG since the start of the Iran conflict, with AA being the worst performer of the year. Once again, this calls for credit discernment that goes beyond just the quality label – a "AA" hyperscaler that is running into negative free cash flows from capex expansion isn't always "safer" than a "BB" upstream energy player which is opportunistically taking advantage of higher oil prices to pay down debt. Under an environment such as this, where hard assets begin to matter because of scarcity, HY players should not be overlooked in their creditworthiness simply because of a negative label. Seeing as supply risks continue to loom over the AA issuers, which could trickle down to the A-rated issuers from potential downgrades, we believe the optimal ratings bucket for a portfolio is now within the BBB/BB space.

Taking stock of the macro environment so far, there are a few themes in credit that would be relevant for the times, including:

1. **High quality doesn't always mean good quality.** As we have observed, the underperformance in AA shows that risk-aversion isn't always safe. Under a force of large secular disruption such as AI, traditionally higher-risk sectors such as cyclicals and commodities may be safer-haven plays (including even the better-quality HY names). In this topsy-turvy world, cyclicals might be considered defensives.

2. **Risk-free is not enough.** In a world of insatiable government spending, nominal treasuries may not be your best expression of risk-free exposure. We continue to think "government+" allocations make sense – including TIPS for inflation resistance and Agency MBS for higher spread pickup with government backing.

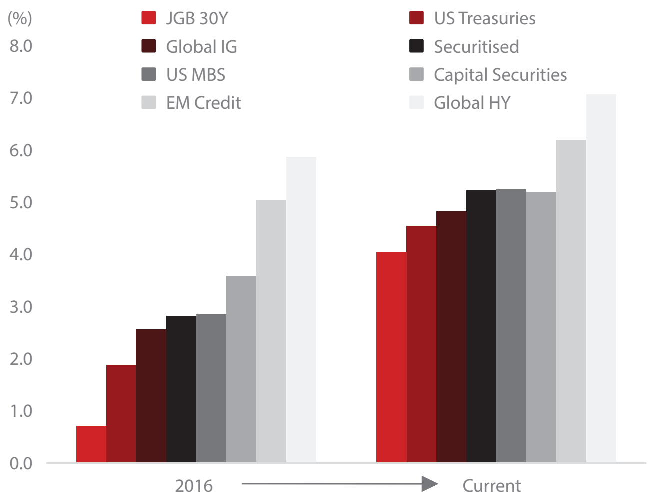
3. **Financials continue to benefit.** With curves remaining steep from the current policy framework, financials are likely to benefit from widening asset-liability margins. Capital securities continue to generate decent yields, although investors need to be selective as spreads remain historically tight.

4. **Return of collateralisation.** With hard assets becoming scarce, higher asset valuations may improve collateralisation, especially for subordinated or securitised structures. Ratings agencies Moody's and Fitch have updated their evaluation framework for CLOs namely in factoring in better recovery prospects and updated default assumptions – potentially resulting in upgrades across the CLO sector.

Dawn of a new era. Investors have been deeply conditioned to read the tea leaves of Fed communication in the past when it came to bond investing. Making heroic calls on Fed policy could result on extraordinary returns in a bond portfolio in the regime of the past. All that has changed with the appointment of Kevin Warsh. With policy tailwinds no longer in play, and credit differentiation starting to emerge, fixed income investors would require greater active attention around their bond portfolios.

Don't take safety for granted. Firstly, credit quality cannot be seen solely through the lens of a rating. With debt expansion among the highest quality AA issuers, we think that the optimal credit rating sweet spot has shifted to BBB/BB – quality HY names with strong fundamentals could outperform longer-duration IG credit with equivalent yield. Despite the intervention from Treasury Secretary Scott Bessent, duration still does not bode well in terms of risk-reward; portfolios should remain within the 5–7Y bucket to insulate against interest rate volatility and higher policy uncertainty. We like "government+" allocations like TIPS and MBS for their risk-free returns with added benefits. We also think financials are likely to benefit under a regime of steeper yield curves. Finally, collateralised structures and subordinated debt are likely to benefit as physical assets improve their valuations and collateralisation, paving the way for upside on credit upgrades. Don't be fooled by the benign nature of aggregate bond indices, much dispersion is happening beneath the surface that requires proactive management to navigate safely. The good news is, when one looks under the hood, the opportunities are more than plenty in this higher-yielding world.

We now live in a high yield world



Source: Bloomberg, DBS

USD Down But Not Out

Global Currencies 4Q26

USD-negatives are accumulating and tend to hog the market's attention. However, do not overlook the underlying positives. The USD is more likely to have a range-bound posture, rather than an outright downtrend.

Global Currencies

Terence Wu
Strategist

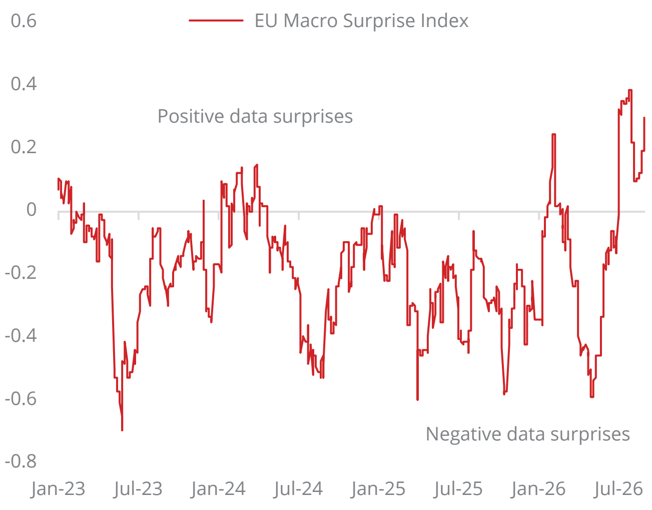
Carie Li
Strategist

Review of USD call in 3Q26. In our 3Q26 report, we called for tactical USD upside, predicated on US macro exceptionalism and a hawkish Fed pivot. This played out as expected in July, as the DXY Index mostly held near the highs achieved in June. However, the disappointment in the July FOMC, where the Federal Reserve failed to hike, and the swathe of softer-than-expected US data releases through August, triggered a USD pull-back. Fundamentally, the main reason USD upside traction has been so limited is that non-US growth came in surprisingly resilient amid the higher energy price environment. This has also allowed other major central banks to step up on the hawkishness in line with the Federal Reserve, heavily diluting the USD-positive narrative.

The USD likely range-bound in 4Q26, with a slight positive bias. This year, the primary determinant for overall USD prospects has been the Federal Reserve's rate hike expectations, which have waxed and waned over the past months. The broad USD's ascent between May and July was built on the flip in Federal Reserve expectations from rate cuts to hikes, and the subsequent extension of these rate hike expectations. Since August, this USD-positive, Fed-driven dynamic has been heavily diluted. In contrast, the USD-negative arguments have intensified. Together, this caused the DXY Index to slump towards 98.00. After the September FOMC, however, the market reignited hopes of rate hikes in quick succession through early 2027. This put the USD-positives, which had been largely overlooked, back on the investors' focus. We will outline these divergent drivers below. Overall, we see a range-bound USD in 4Q26, with some upside risk. The DXY Index may strengthen towards the top end of the 98.00 – 102.00 range.

The US not exceptional, nor was the Fed unique. Despite the higher energy complex, most energy-importer economies have performed better than expected. The cyclical vulnerabilities in other major economic blocs, particularly in the Eurozone, did not pan out. While the US economy is strong, the ongoing resilience of the non-US economies dilutes the sense of US exceptionalism. Without being overly concerned about growth, other major central banks have also been able to confidently maintain a hawkish stance in combating persistent inflation. Rate hike expectations for the ECB, RBA and BOJ have stepped up considerably between July and August, as the Federal Reserve dithered. Several other central banks are expected to be more hawkish than the Fed through mid-2027. Taken together, the flow-through from a strong US economy and a hawkish Fed to a stronger USD from current levels may be limited.

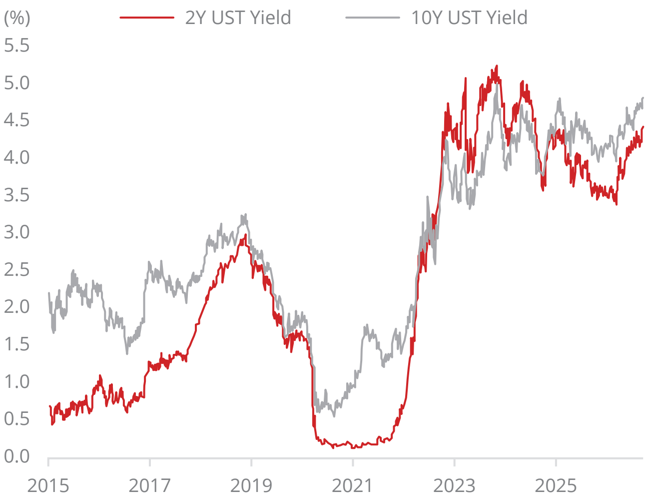
The Eurozone macro surprise index showing consistent improvement since 2Q26



Source: Bloomberg, DBS

USD-positives have been largely overlooked; yield differentials still largely favour the USD. To be outright USD-negative would be to discount yield differential arguments, which remains in favour of the USD. Even without additional rate hikes, US real and nominal yields are near multi-year highs and are among the highest within the G-10 economies. There is a case to be made that the USD is undervalued on yield differential arguments. This must count for something, especially in an environment where FX carry dynamics dominate. Furthermore, if we expect global growth to persist, and for policy rates to stay high amid stubborn inflationary pressures – these are favourable conditions for the pro-carry environment to persist. This should provide structural support for high-yielders like the USD.

UST yields still at multi-year highs, which should prevent outright USD weakness on yield differential arguments



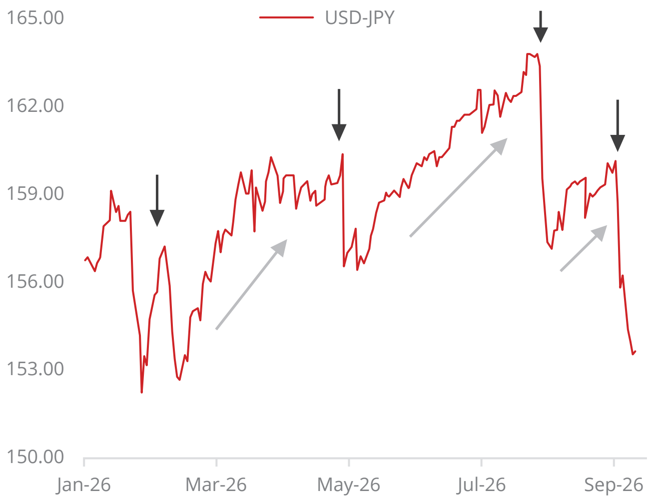
Source: Bloomberg, DBS

Higher energy complex looks increasingly entrenched. The FX market seemed to have shifted its focus away from the US-Iran conflict. However, this does not mean that higher energy prices will not influence the FX space. Brent crude has now partially reversed its May-June decline to hover around the USD90/bbl locus. With no clear end in sight for the US-Iran conflict, these elevated Brent crude prices may become the norm. Similarly, liquified natural gas prices in Asia and Europe remains persistently elevated. Into the Northern winter, increased heating demand is expected to add another positive catalyst to energy prices. This will continue to support the US terms-of-trade as an energy exporter and provide background support for the USD.

More comfortable with a range-bound USD. Taking a holistic view of all the USD drivers implies that there is no basis to be outright USD-negative. We are more comfortable to adopt a range-bound view into year-end. After the hawkish September FOMC, the USD may be on a footing, especially early in 4Q26. Expect the DXY Index to be sideways between 98.00 to 102.00, with a slight upward bias.

JPY finds better footing, but too early to be outright JPY-positive. The JPY has had an eventful 3Q26, with periods of gradual weakening interspersed with sharp appreciation, whether intervention-driven or not. The view is that JPY appreciation spike from 2 Sep will be different from the episodes seen in May and July and is more likely to be sustained rather than faded. It started when the USD-JPY was well below the previous cycle highs. Evidence also points to it being driven by real money and hedge funds — not a BOJ-led intervention. While not significantly so, the BOJ policy stance has edged towards the hawkish side since the September policy decision. The market may now realistically factor in a faster rate hike pace compared to previous years. Taken together, the JPY strength theme now has a better foundation. Thus, the USD-JPY is unlikely to revisit the highs near 164.00. At this juncture, the 150.00 – 152.00 range remains a strong support. 152.00 to 160.00 should be the range extremes for the USD-JPY in 4Q26.

USD-JPY sees periods of gradual upside after short, sharp declines. This time may be different

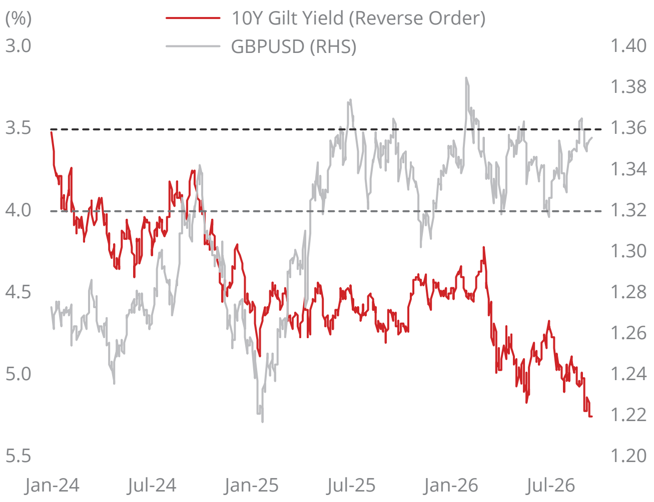


Source: Bloomberg, DBS

ECB rate hikes unlikely to drive the EUR-USD higher. The ECB hiked in September as expected, but we do not expect it to drive the EUR-USD another leg higher. The hike has been fully priced in since mid-July, and the subsequent messaging from Lagarde remains non-committal. The reality is that the EUR-USD recovery in August is primarily driven by US-centric factors. These factors will remain the main determinants for the EUR-USD in 4Q26, rather than the Eurozone domestic factors. Expect 1.1800 to limit upside in the EUR-USD into year-end, with support entering at 1.1400.

GBP-USD limited to the 1.3200-1.3600 range. The UK economy has shown resilience despite the higher energy prices, but inflation risks have remained elevated. This implies that the market will continue to expect rate hikes at the BOE, to the tune of at least one hike by end-2026. The smoother-than-expected leadership transition from Keir Starmer to Andy Burnham eased political concerns and reduced the risk premium on the GBP. Together with a favourable yield advantage, this has provided support for the GBP-USD, allowing it to mark consistent gains above 1.3200 throughout 3Q26. However, these domestic factors are not enough to have GBP-USD see traction above 1.3600. This leaves us expecting the GBP-USD to fluctuate within the 1.3200 – 1.3600 zone for 4Q. The major risk event will be the Autumn Budget announcement set for 28 Oct. This will put fiscal policy back in the market's focus, with a corresponding downside pressure on the GBP.

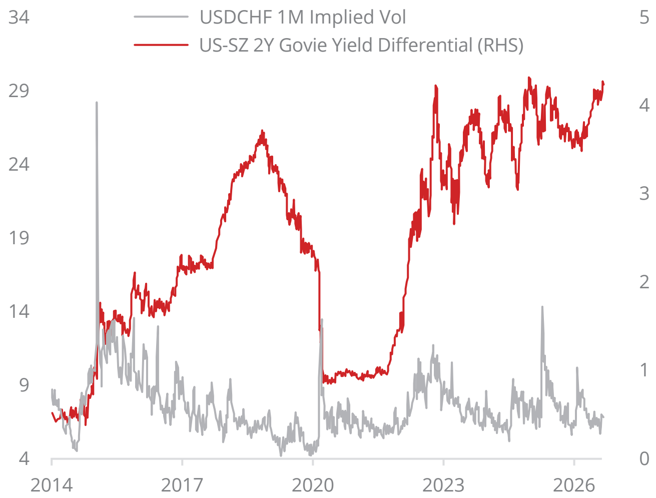
Fiscal concerns hit Gilt and cap the GBP upside



Source: Bloomberg, DBS

CHF to underperform. USD-CHF has been trading mostly in a tight range between 0.8000 and 0.8200. The baseline expectation is for the CHF to underperform. The major contributor to this view is the ongoing relevance of the carry trade, in which the CHF remains the preferred funding currency. This is further reinforced by the SNB's reluctance to hike in line with other major central banks. Overall, we expect good support for USD-CHF within the 0.7950–0.8000 range, even if some downward pressure stems from a broad USD retracement or the secondary impact from JPY strength. On the upside, USD-CHF could well test 0.8300 should the broad USD sustain its gains. The risk to this comfortable range is any major volatility shock that could trigger an unwind of crowded CHF shorts from the carry trade. This could accelerate USD-CHF's decline below the support zone.

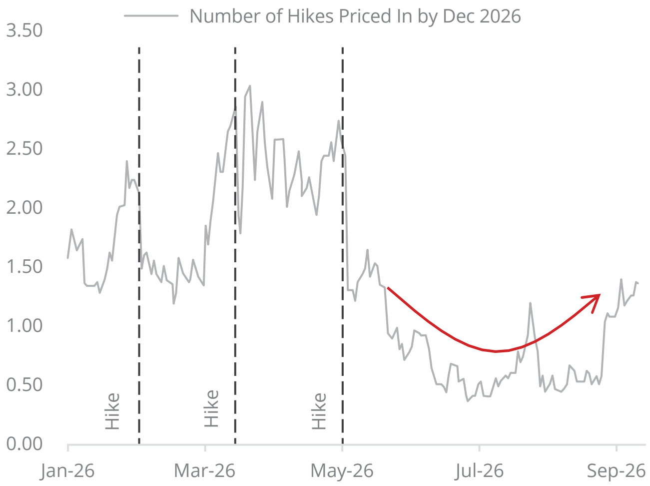
Wide yield differential and low vol - Positive for CHF carry trade



Source: Bloomberg, DBS

AUD-positive drivers re-engaged. The AUD has outperformed our expectations. We had expected the commodity- and RBA-driven AUD-positive catalysts to ease in 3Q26 – they did so through July but quickly reversed in August. First was gold's renewed uptrend, which reinforced the commodity tailwind. This is in addition to the elevated LNG prices in Asia, which have held gains from the US-Iran conflict. By late August, latest inflation prints in Australia also showed a significant uptick, implying that momentum must significantly soften throughout the rest of 3Q for core inflation to be in line with the RBA's projection. This makes an extended RBA pause untenable. Renewed rate hike expectations allowed the RBA to reprise its role as an AUD-positive driver. Overall, we see the AUD-USD finding new cyclical highs around 0.7300 in 4Q26.

RBA rate hike expectations increasing again after stay low in through the Jun - Aug period



Source: Bloomberg, DBS

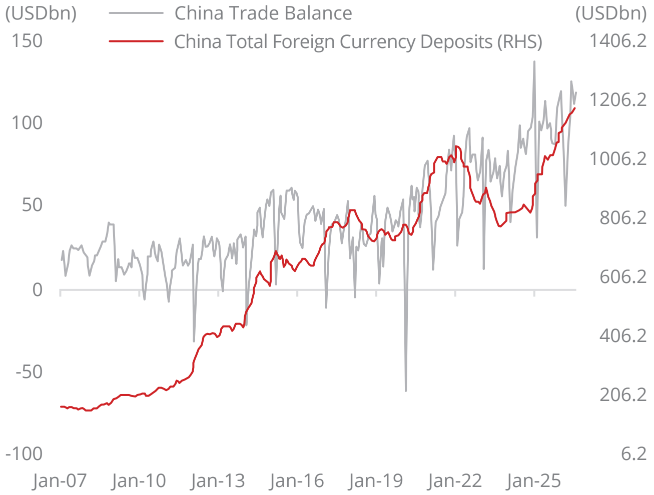
USD-SGD to see a heavy tone around 1.2600. Domestic factors modestly favour a stronger SGD. Real GDP growth is supported by robust AI-related exports, strong financial services activity, and an ongoing construction upcycle. Our in-house growth forecasts have been upgraded twice since May, with the latest revision looking for 5.0% growth in 2026, the third year of above-trend growth. Recent CPI prints, both headline and core, reveal progressively faster inflationary pressures since 4Q25. This trend is likely to continue through 4Q26, especially as energy prices remain elevated. This economic backdrop keeps expectations for another tightening move in the upcoming MAS decisions alive, and leaves the SGDNEER Index elevated within its tolerance band. This highlights the underlying SGD strength, and limits USD-SGD upside. Any outsized JPY strength will also see some flow through to the SGD, but the primary external factors will be the broad USD prospects. Given their high correlation, the USD-SGD will trade in line with the DXY Index in the near-term. This implies a slight positive bias early in 4Q. Overall, expect the USD-SGD to fluctuate within the 1.2600 – 1.2900 range in 4Q26.

SGDNEER Index tracking higher again since July

Source: Bloomberg, DBS

Remain bullish on the RMB. Despite a slowdown in its pace of appreciation in 3Q26, the RMB remains one of the top-performing currencies against the USD across G-10 and EM Asia YTD. Notice that RMB strength has not had a major negative impact on Chinese exports. The PBOC can thus be more comfortable with further RMB strength. This can be seen from its progressively firmer CNY fixing. In turn, this consistent RMB appreciation has encouraged active USD conversion from the exporters, creating a self-sustaining appreciation cycle. Driven by its consistent trade surpluses, China's foreign currency deposits are at fresh record highs. This means that the self-sustaining appreciation cycle has legs to run. This could eventually drive a test of 6.6000. Whether such a move will take place at a fast or gradual pace depends on several factors. First, if the CNY fixing rate is set at a stronger level but remains weaker than expected, it suggests that the PBOC still prefers slow and gradual appreciation. Second, spillovers from JPY strength could also support the RMB, especially if it creates downside pressure on the DXY Index. Overall, with a firm break of the 6.7000 support level, we expect the pair to edge toward 6.6500 in 4Q26 and 6.6000 moving into 2027.

Wide trade surplus and huge foreign currency deposits are structurally positive for RMB



Source: Bloomberg, DBS

Forecast: Currencies

	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27
USD/CNY	6.69	6.60	6.63	6.65	6.68	6.70
USD/HKD	7.83	7.83	7.83	7.83	7.83	7.83
USD/INR	95.8	95.6	95.7	95.6	95.5	95.4
USD/IDR	17,720	17,400	17,470	17,530	17,600	17,660
USD/MYR	4.07	4.00	4.04	4.08	4.11	4.15
USD/PHP	62.6	61.5	62.1	62.8	63.4	64.0
USD/SGD	1.28	1.26	1.27	1.27	1.28	1.29
USD/KRW	1,395	1,400	1,410	1,420	1,425	1,435
USD/THB	33.3	32.6	32.8	32.9	33.0	33.2
USD/VND	26,000	25,840	25,980	26,120	26,260	26,400
AUD/USD	0.71	0.71	0.71	0.70	0.70	0.70
USD/CAD	1.40	1.37	1.38	1.39	1.40	1.40
EUR/USD	1.15	1.18	1.17	1.17	1.16	1.15
USD/JPY	156	151	153	154	155	157
NZD/USD	0.57	0.59	0.59	0.58	0.58	0.57
USD/CHF	0.82	0.81	0.82	0.83	0.83	0.84
GBP/USD	1.34	1.36	1.35	1.34	1.33	1.32
DXY Index	100.1	97.6	98.3	99.0	99.7	100.4

Australia, Eurozone, New Zealand and United Kingdom are direct quotes.

Source: Bloomberg, DBS
Data as at 21 Sep 2026

Stay Selectively Constructive

Commodities 4Q26

Commodities remain attractive for inflation protection and diversification, but strong gains warrant selectivity. Energy benefits from constrained supply and structural demand, while copper and aluminium offer long-term upside. Fertiliser disruptions and El Niño conditions also support targeted opportunities across agricultural markets.

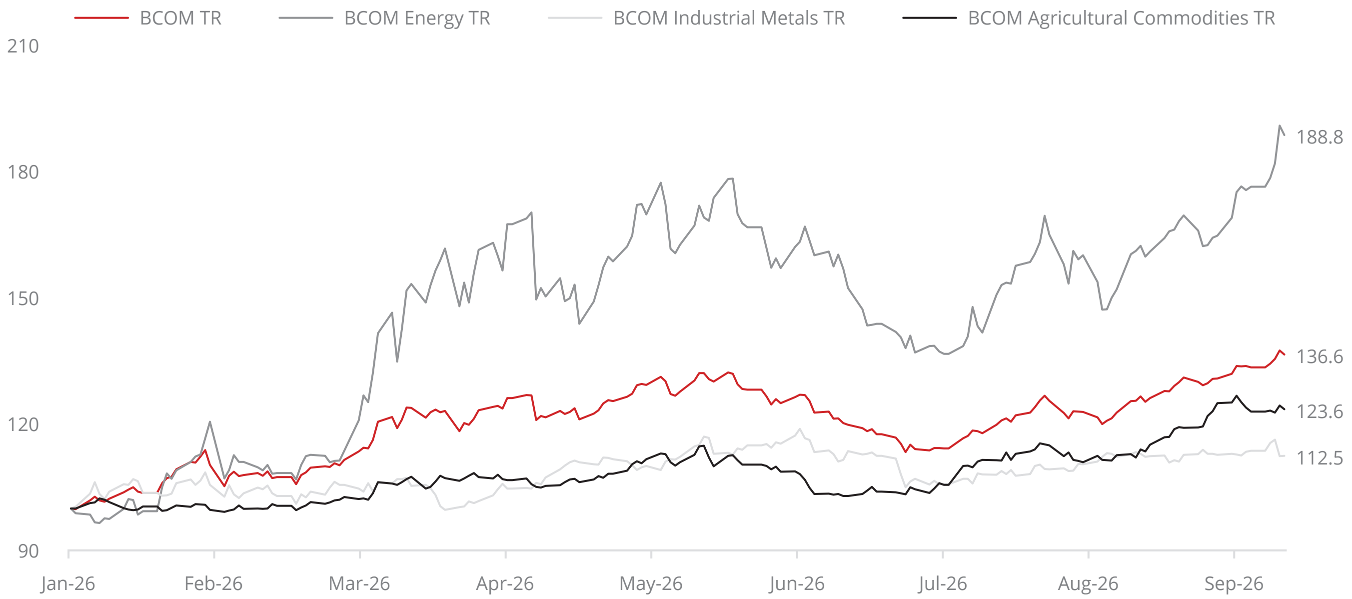
Commodities

Goh Jun Yong
Strategist

Our selectively bullish call was right. In our previous commodities quarterly publication, we made a call to be selectively bullish on commodities on the basis of a supply-side inflation shock. Specifically, we argued that the US-Iran conflict was unequivocally bullish for the energy complex, but industrial metals and agricultural commodities faced a more nuanced setup, requiring more thought in terms of commodity selection and sequencing. These calls largely played out in the third quarter, with the Bloomberg Energy Subindex gaining 36.2% (as at 11 Sep) while industrial metals and agricultural commodities advanced by 5.6% and 18.0%, respectively, over the same period.

Is there still a need for an inflation hedge? The short answer is yes. The US-Iran conflict remains unresolved and indeed has entered a new phase of escalation. As a result, vessel traffic through the Strait of Hormuz (SOH) has once again slowed to a crawl, far from pre-war levels. Therefore, supply disruptions (to energy, petrochemicals, fertiliser, industrial metals, etc.) remain in play. There was some relief from oil rerouting efforts between May and August, but that turned out to be short-lived as attacks on Saudi pipeline infrastructure saw the closure of its East-West pipeline, a key alternative energy export route that bypasses the SOH. Overall, however, the protraction of the US-Iran conflict does continue to pose a significant inflation

Strong YTD commodity performance in 2026 driven largely by energy



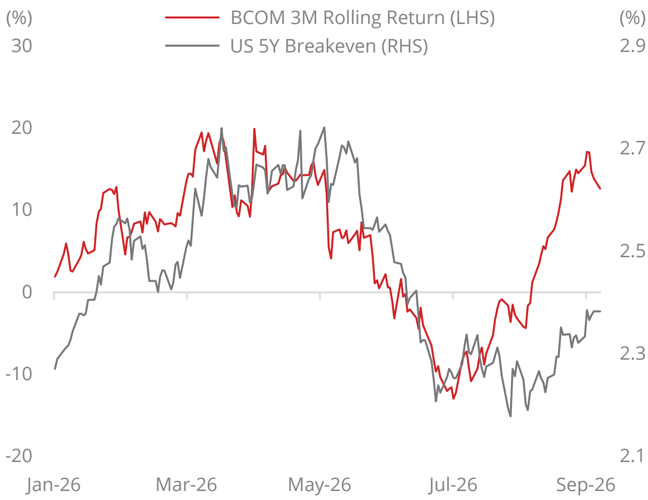
	BCOM TR	BCOM Energy TR	BCOM Industrial Metals TR	BCOM Agricultural Commodities TR
YTD	36.6%	88.8%	12.5%	23.6%
3Q26	19.5%	36.2%	5.6%	18.0%

Source: Bloomberg, DBS (as at 11 Sep)

risk, and investors need to be cognisant of that. Heading into 4Q26, commodities continue to provide protection against inflation, especially in the event of re-escalations or tail-end risk scenarios.

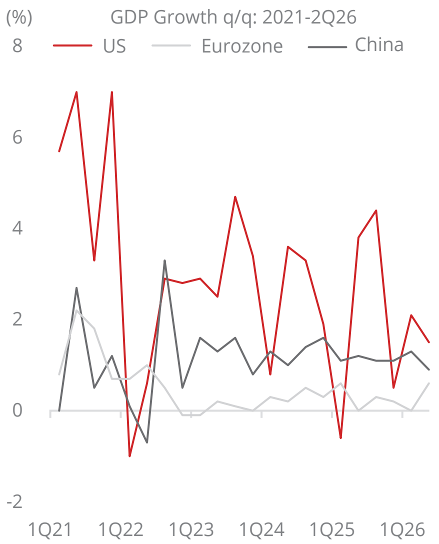
Goldilocks-lite on the macro front. While inflation remains a risk in the US, labour market conditions are relatively benign, with nonfarm payrolls surprising on the upside and unemployment hovering around the low-4% mark. In China, q/q GDP growth remains resilient, although marginally below official targets, while the manufacturing PMI remains above the expansionary 50-mark. The Eurozone is in a similar Goldilocks-lite state. Economic expansion and manufacturing activity growth are still occurring, albeit at a slower pace. Against this backdrop, we believe a selectively bullish view remains the most sensible one, and we continue to focus on commodities with strong structural demand drivers.

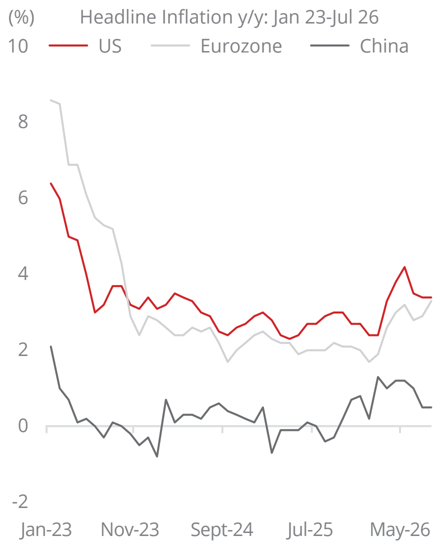
Commodity returns and inflation expectations started to diverge in August

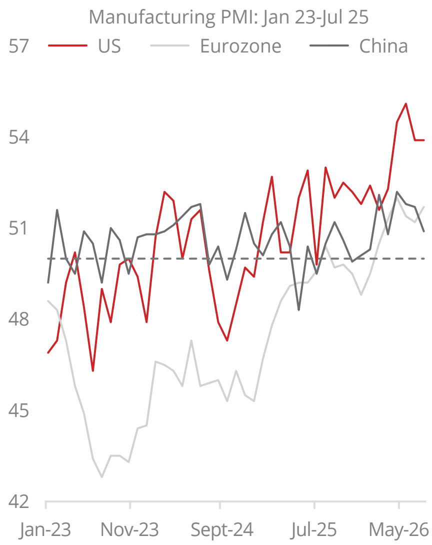


Source: Bloomberg, DBS

Stable economic conditions; benign backdrop for commodities







Source: Bloomberg, DBS

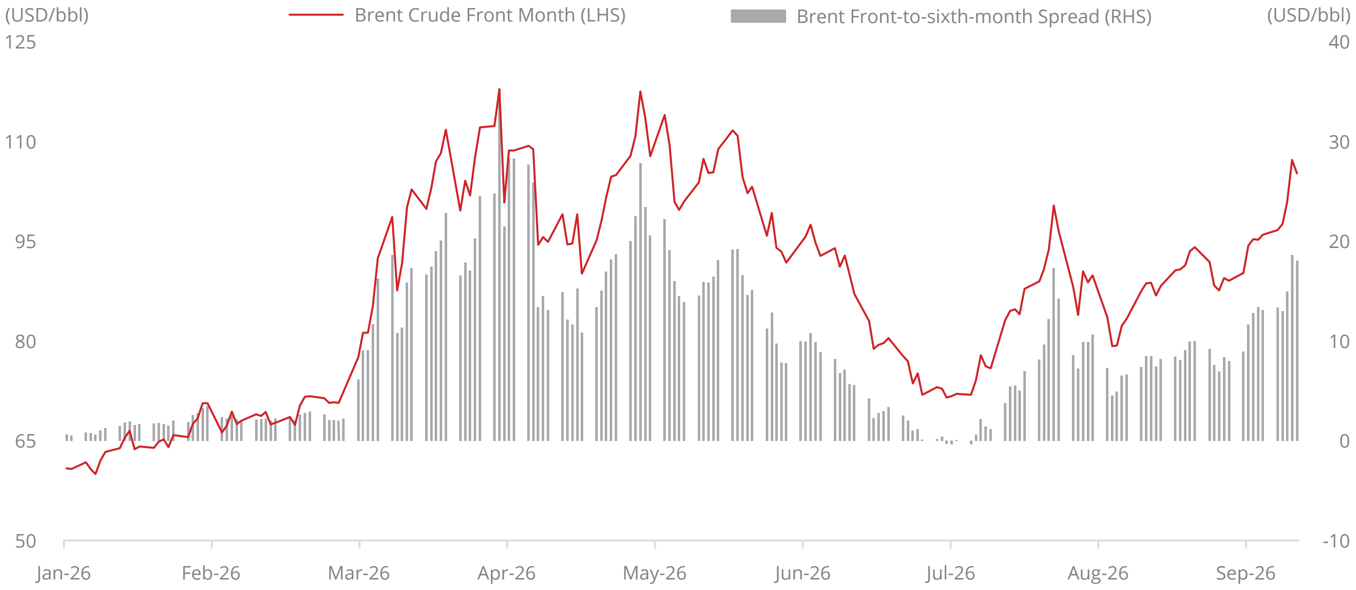
Stay selectively constructive. Against a bifurcated macro backdrop—one where inflation risk is high but growth and labour market conditions remain resilient—we continue to advocate for selective commodity exposure to: i) protect portfolios against inflation; and ii) ride on demand from secular growth trends. Within the commodities complex, we continue to view energy favourably, both as a hedge against potential geopolitical re-escalations, and as a beneficiary of AI-driven energy demand. Select industrial metals offer exposure to structural growth trends such as the AI infrastructure buildout, resource nationalism, and a global rearmament drive. Lastly, persistent fertiliser disruptions and the increasing likelihood of a 'super' El Niño spell potential upside for parts of the agricultural complex.

Energy

Rerouting to take some pressure off oil prices… We saw some normalisation in oil prices from May to August, with Brent reaching a low of USD72/bbl at the start of July. Part of that normalisation came from the rerouting of energy supplies around the SOH. Middle Eastern countries, including Saudi Arabia and the UAE, actively rerouted 7mn barrels per day (mmbpd) around the strait through pipelines. Shipping-tracking services such as Kpler and Windward Intelligence also estimated that another 4 mmbpd transited through the strait via shadow fleets. However, recent drone strikes on the Saudi East-West pipeline and other crucial refining infrastructure, along with the Houthi's blockade of Bab el-Mandeb have effectively curtailed much of these re-routing efforts. Oil prices have consequently shot above the USD100/bbl mark again, re-igniting worries about an energy crunch. Price pressures for natural gas are also expected to remain high as LNG exports cannot be rerouted via pipelines due to their strict cooling requirements (they must be supercooled to -162°C).

But 'higher-for-longer' still at play. We believe a higher-for-longer environment is still at play for the energy complex as both oil exports and LNG supplies out of the Middle East continue to be heavily disrupted. Global energy inventories, which have helped to buffer the supply disruptions thus far, are finite and will eventually run low if traffic through the SOH and Bab el-Mandeb does not normalise. Additionally, the bulk of damaged energy infrastructure in the Middle East has yet to be rebuilt, structurally limiting production and refining capacity from the region. On the demand side, the world continues to be energy-dependent, especially on the AI and technology front. In summary, we continue to view the energy complex favourably on higher-for-longer energy prices, potential re-escalations/breakdowns in diplomacy, and robust structural energy demand globally.

Brent rose after the MOU between US and Iran broke down in July



Source: Bloomberg, DBS

Industrial metals

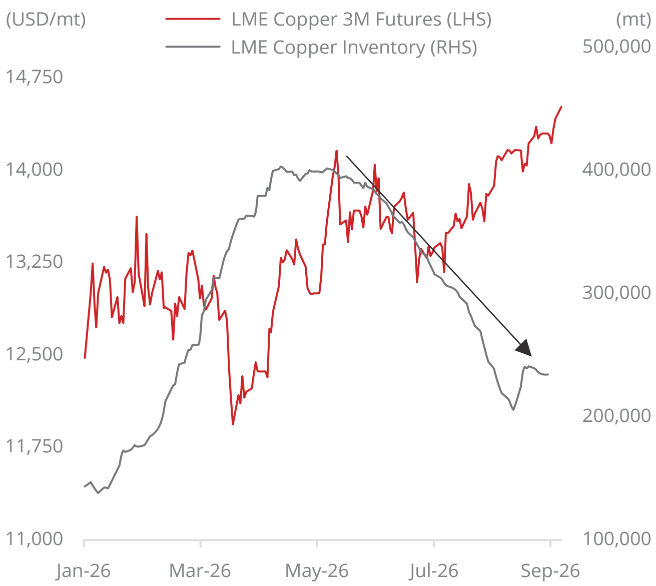
Copper

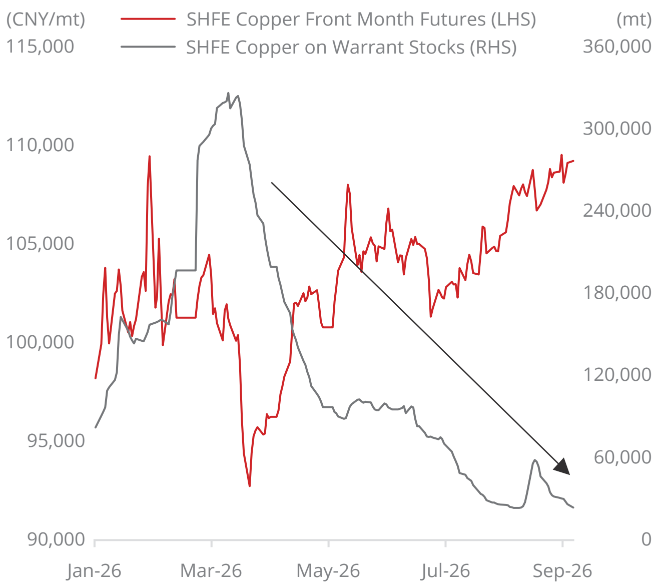
View remains unchanged; tactically neutral, structurally constructive. There are cases for both a bullish and bearish outlook for copper in the short term; as such, we stay tactically neutral. In the long term, copper remains one of the clearest commodity expressions of key structural growth trends (e.g. AI, electrification, and grid renewal, etc.).

On the bullish side… Inventory levels in the LME and SHFE are both falling, thus increasing convenience yields for copper and copper prices. This price increase coincides with actual physical tightness and is not simply due to speculation. However, this is not the case for Comex copper, as tariff uncertainty has pulled inventory into the US while simultaneously tightening availability in London and Asia. So, while the above is bullish, investors should be aware that there are large regional pricing differences and unusual stock distributions globally for copper right now. Negative treatment charges and refining charges (TC/RC) are another bullish factor for the short-term copper outlook as this signals shortages in copper concentrate and accordingly reduces the supply of refined copper, thereby putting upward pressure on prices.

On the bearish side… US inventories are elevated due to tariff uncertainty and stockpiling. Any clear tariff decision, the closure of Comex-LME arbitrage, or the release of accumulated inventory could produce substantial price corrections without a deterioration in copper fundamentals. Higher copper prices themselves also create demand destruction – utilities could defer projects, and manufacturers could cut purchases of the metal while waiting for prices to come down. Lastly, supply-demand forecasts are being revised to reflect greater supply slack in the near term. The Lisbon-based International Copper Study Group forecasts a surplus of about 96,000 metric tonnes (mt) in 2026, which contrasts with a supply deficit forecast of 150,000mt last October. These factors collectively suggest that the balance of risks at prices above USD14,000/mt is not unambiguously bullish.

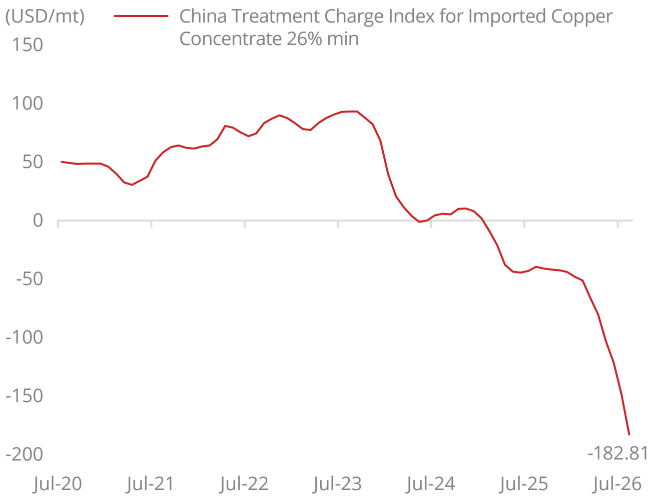
LME and SHFE copper inventories have fallen substantially





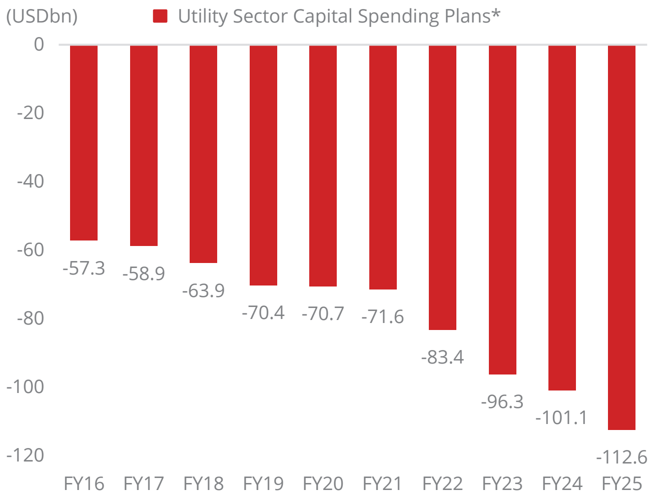
Source: Bloomberg, DBS

Negative TC/RC eats into smelter margins and reduces supply of refined copper



Source: Bloomberg, DBS

Utility capex, which is a key use of copper, is expected to accelerate



Source: Bloomberg, DBS
*Includes capital expenditure totals from NextEra, Duke Energy, Dominion, Southern Company, Exelon, National Grid, American Electric Power, PG&E, and Xcel

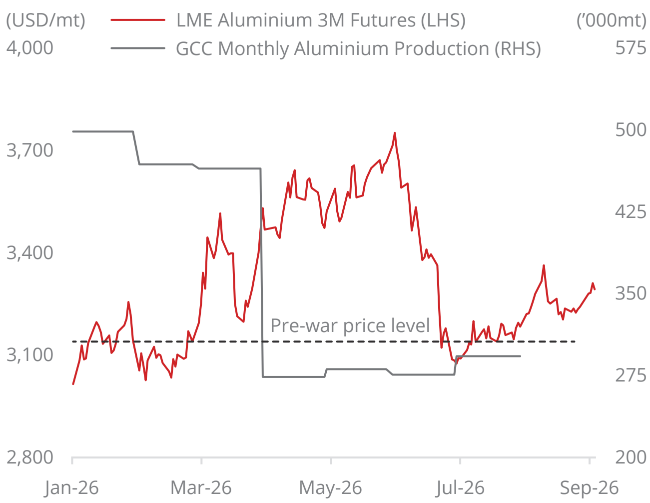
Structural demand drivers underpin bullish long-term view on copper. We mentioned in our previous quarterly publication that more than half of additional copper demand from now until 2040 will come from AI- and clean energy transition-related uses. That remains our base case and the key reason behind our bullish long-term outlook on copper. The utility sector has been increasing its capex in response to rising energy demand from AI adoption. We aggregated the capex plans of nine major power utility companies and found a clear uptrend in spending. Many of these companies have also raised their multi-year capex outlooks while highlighting data centre-driven load growth. This will, in turn, support copper usage in the long run. On the supply side, the IEA predicts that copper mine supply will be 25% below primary demand by 2035. This is due to falling ore grades and significantly fewer major mine discoveries in the past decade. Mines also take a very long time to come online (c.17 years) after initial discovery. This will constrain the supply response for copper in the long run.

Aluminium

LME price correction understates persistent gulf disruption. Gulf disruption remains the principal near-term constraint. The Gulf is responsible for c.9% of global primary aluminium smelting capacity, and production remains heavily constrained due to the US-Iran conflict. Macquarie estimated in July that Middle Eastern production could fall to 4.4mn mt in 2026 (35% lower y/y), resulting in a global deficit of 930,000mt. Aluminium smelting is not easily switched off and restarted. Hence, even if shipping routes were to re-open, production would not immediately recover. We therefore believe that the sharp correction in LME price understates the continuing Gulf disruption.

Japanese aluminium premiums reflect a tight market in Asia. Japanese buyers have agreed to pay a 3Q premium of USD395/mt over LME cash prices, up from USD86/mt in 4Q25. This marks the highest level in more than a decade, signalling low availability and high landed costs for primary

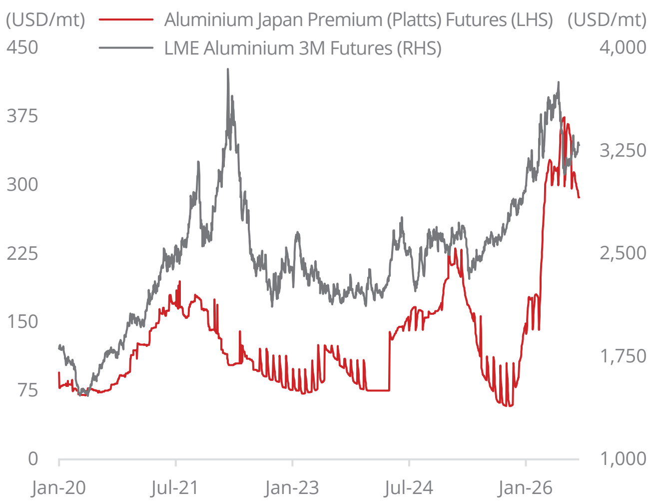
Aluminium's price correction may be running ahead of Gulf supply recovery...



Source: Bloomberg, International Aluminium Institute, DBS

aluminium in Asia. Given the persistent Gulf disruption and tightness in the Asian market, we believe regional physical premiums and Asian costs are likely to remain sticky.

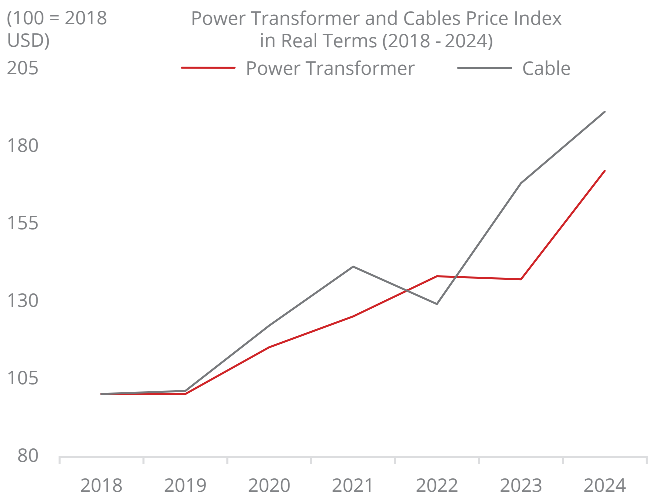
Japan aluminium premium at its highest levels in a decade



Source: Bloomberg, DBS

Favourable long-term outlook, but less acute scarcity than copper. Long-term demand for aluminium remains positive, with the International Aluminium Institute forecasting a 38.6% increase in total aluminium demand between 2020 and 2030, buoyed by transport, electrical infrastructure, packaging, and construction demand. Investments in power grids (e.g. cables and power transformers) provide a strong source of demand. The IEA estimates that cables now take two to three years to procure, with lead times approximately twice those of 2021. This suggests genuine scarcity in cable supplies and rising demand for aluminium and copper. In real terms, cable and power transformer costs have almost doubled since 2019. Aluminium has some advantages over copper in this market: i) it is cheaper per tonne; ii) its density is only 30% that of copper, which makes it suitable for overhead conductors where weight and span matter; iii) it has a large recycling pool; and iv) primary production can expand more rapidly than copper due to the natural abundance of bauxite.

Grid investments provide a strong demand channel for aluminium



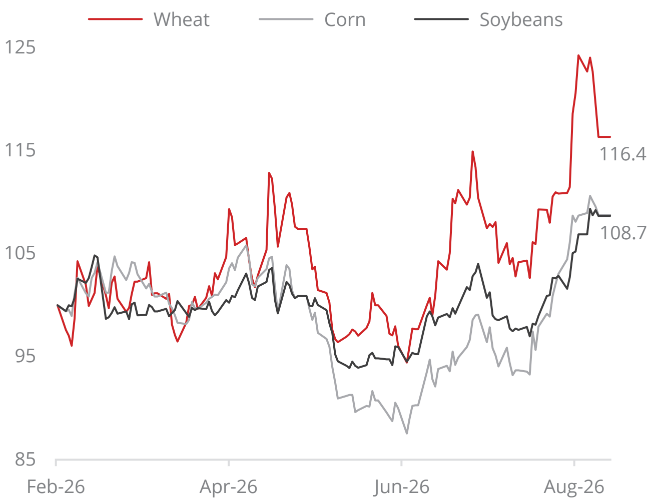
Source: IEA, DBS

Agricultural commodities

No change to selectively bullish outlook. Primary drivers remain: i) a potentially prolonged closure of the Strait of Hormuz, leading to fertiliser shortages and price increases; and ii) poor weather conditions due to the 'super' El Niño. The key difference heading into 4Q is that agricultural commodity prices have risen substantially, with the BCOM Agricultural Commodities Sub-index gaining 18.0% in 3Q thus far (as at 11 Sep). As such, positioning is quite stretched in the short- to medium-term.

Wheat and corn are standouts among grains. Demand for corn remains robust, with the USDA lowering its projections for 2026/27 global ending stocks and raising projected US exports. This has been driven by stronger-than-expected ethanol grind rates, domestic biofuel-processing capacity, and export demand. Additionally, higher farming costs (from elevated fertiliser and diesel prices) could potentially reduce yields from the upcoming US harvest, given corn's high yield sensitivity to fertiliser. Wheat is similarly yield-sensitive and will likely experience lower yields in the upcoming US harvest due to rising costs and reduced fertiliser application rates. Additionally, attacks on Russian and Ukrainian grain infrastructure have reduced export availability during the peak shipping season (August to December).

Select grain prices since the start of the US-Iran conflict



Source: Bloomberg, DBS
Note: Commodity performance based on their respective Bloomberg commodity sub-indices

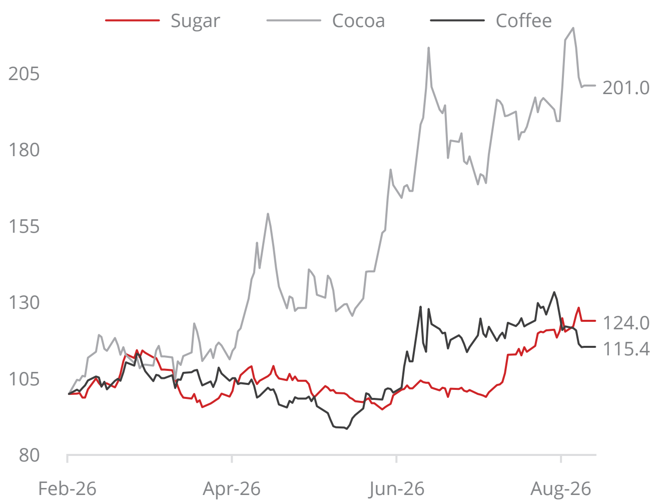
Select softs at mercy of a 'super' El Niño. The National Oceanic and Atmospheric Administration updated its prediction of a very strong El Niño during the Northern Hemisphere fall and winter 2026-27 from 60% to 90% on 13 Aug. This is bullish for certain softs that are vulnerable to heat and dryness.

- **Sugar:** Potential droughts in key sugar producing regions like India, Thailand, and Australia could tighten inventories. India is already facing shortages as the government relaxed its sugar import quotas for the first time in nearly a decade, indicating a supply squeeze.

- **Coffee:** Arabica coffee thrives in cool, stable conditions and a stronger El Niño will negatively impact harvests in countries like Colombia, Honduras, Guatemala, etc., whose harvest seasons coincide with the peaking of El Niño.

- **Cocoa:** Cocoa yields are negatively impacted by dryness, hence a 'super' El Niño could reduce the 2026-27 harvest, though falling demand in Europe could limit price action.

Select softs prices since the start of the US-Iran conflict



Source: Bloomberg, DBS

Conclusion

In 4Q26, commodities remain relevant from an inflation-hedging and diversification perspective, although moderating inflation risks and strong YTD gains argue for greater selectivity. Energy remains favoured, as constrained Middle Eastern supply, limited inventories, and resilient structural demand support higher-for-longer prices, while retaining upside from geopolitical re-escalation. Within industrial metals, copper is tactically balanced but structurally attractive, whereas aluminium benefits from persistent Gulf disruption and grid investment. Agricultural opportunities are increasingly crop-specific: wheat and corn face fertiliser and supply pressures, while sugar, coffee, and cocoa remain exposed to El Niño. Investors should prioritise scarce commodities with durable demand catalysts.

Not in Need of a New Story

Source: Unsplash

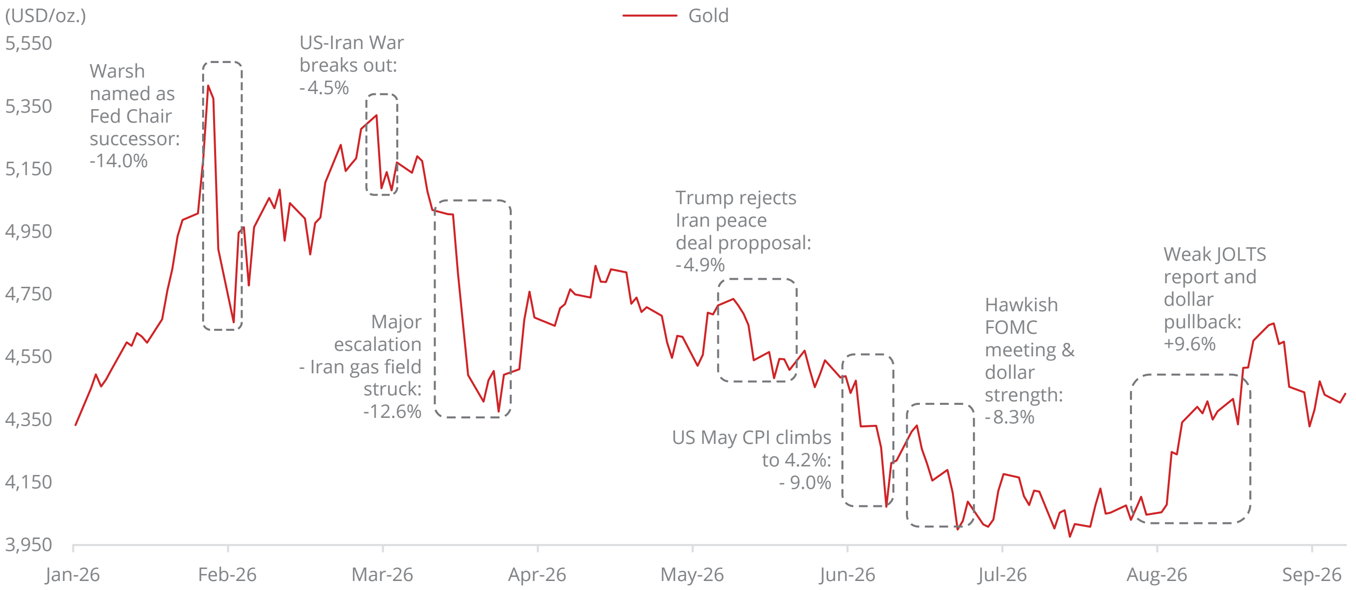
Alternatives: Gold, Private Assets & Hedge Funds 4Q26

Over the long-term, gold's diversification qualities remain compelling, with 5–10% allocations improving portfolio risk-reward. Higher-for-longer rates favour strategies such as middle-market buyouts, private-equity secondaries, senior secured and asset-backed lending, and infrastructure. In hedge funds, relative value, low-net equity, and macro can exploit policy divergence and widening security-level dispersion.

Gold

Goh Jun Yong
Strategist

A summary of gold's YTD price action



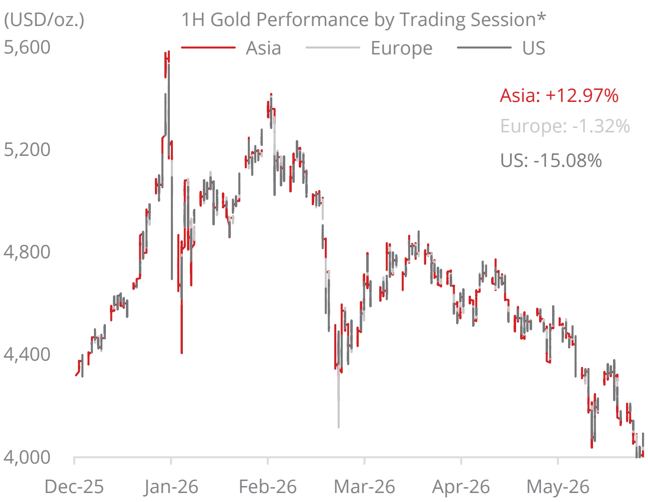
Source: Bloomberg, DBS

Gold has had a challenging year, but we believe the worst is over. Gold has faced persistent tactical pressure this year as inflation and interest-rate risks intensified. The first major sell-off came in January when Warsh was cited to succeed Powell as Federal Reserve Chair, prompting markets to price in a potentially more hawkish policy stance. The Iran war then pushed energy prices higher, deepening inflation concerns and reinforcing the hawkish Fed narrative. Against this backdrop, gold trended lower over the subsequent six months. However, the correction now appears to be maturing as the forces behind the sell-off have become less acute. There are four key reasons that suggest the worst of gold's de-risking may be behind us. Firstly, adaptation in energy markets is helping to moderate macroeconomic risks arising from inflation. Secondly, robust demand is emerging for gold at around the USD4,000/oz. level, especially from Asian investors. Thirdly, restrictions on leveraged retail gold trading in China have helped to stem some of the speculative flows within the asset class. Lastly, spiking long-end government bond yields suggest a potential revival of gold as a monetary debasement hedge.

USD4,000/oz. is emerging as an important demand zone for Asia. Intraday analysis indicates that many YTD pullbacks occurred during US trading hours, while rebounds tended to coincide with Asian trading. This suggests Asian buyers are generally more price-sensitive and become active after substantial corrections, providing an important price floor. It also highlights Asia's increasingly prominent role in gold price discovery and direction.

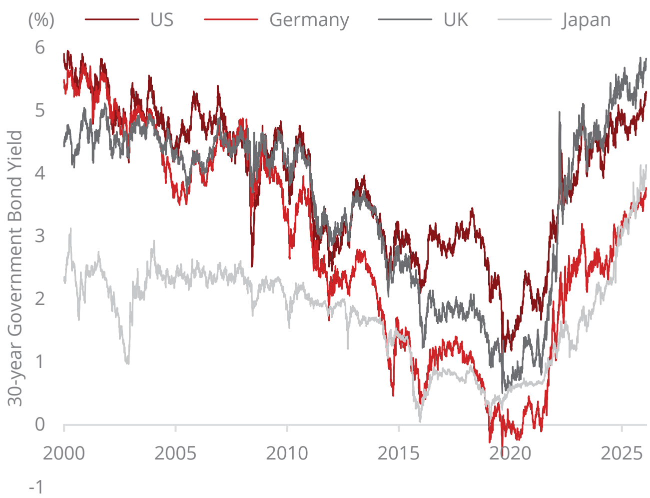
China's restrictions on leveraged retail gold trading may improve the quality of demand. China banks have suspended or significantly raised margin requirements for individual precious-metals trading linked to the Shanghai Gold Exchange. Lower retail leverage reduces

Asia has been a major source of gold price support



Source: Bloomberg, ICE Benchmark Administration, World Gold Council, DBS
*Data (as of 26 Jun) is based on spot gold (XAU) price of USD/oz. and using 20-min tick data. Sessions are shown in New York time; UTC equivalents are Asia 22:00 – 07:00, Europe 07:00 – 12:00, and US 12:00 – 21:00

30-year government bond yields have risen globally



Source: Bloomberg, DBS

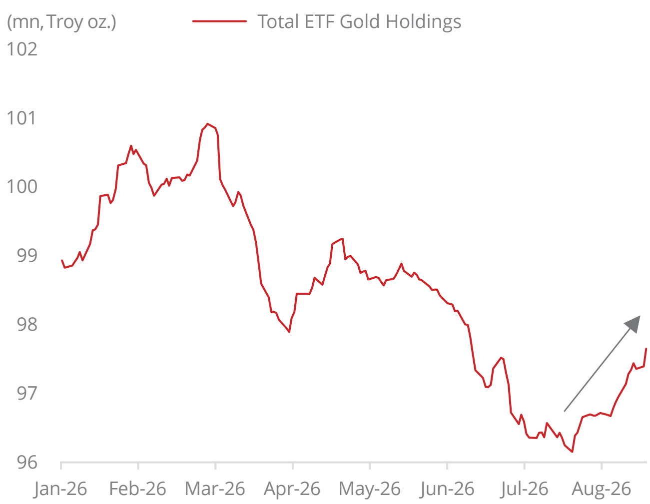
the risk of repeated margin-driven liquidation. Although the withdrawal of leveraged capital does not automatically create new demand, it removes a key source of market fragility and should leave gold trading on a cleaner mix of physical buying, central-bank demand, and long-term portfolio allocation.

Rising long-end government bond yields point to renewed fiscal sustainability concerns. The 30-year US Treasury yield crossed 5.34%, its highest since 2007, while 30-year German, UK, and Japanese yields also reached multi-year highs. Concerns over deficit spending and rising public debt could revive gold's role as a monetary debasement hedge, and this will help to act as a partial counterbalance to inflation and interest rate risk should the former surprise on the upside.

Technical evidence also suggests de-risking is trailing off. Gold has sustained closes above USD4,000/oz.; ETF outflows are stabilising, and COMEX open interest has fallen without further sharp price declines, while CFTC speculative positioning is less extreme. Collectively, these signals imply that forced sellers have largely exited, and the marginal buyer is regaining influence.

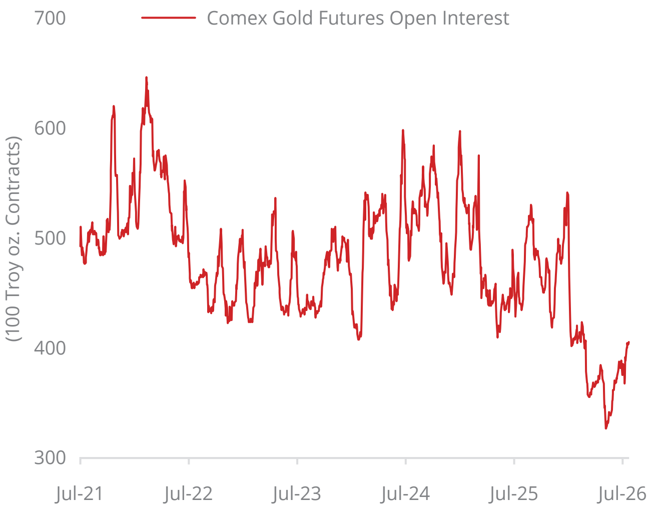
Gold does not need a new investment story. Investors frequently seek a single catalyst for gold: de-dollarisation, central-bank buying, fiscal deficits, monetary debasement, geopolitical fragmentation, tariffs, inflation, falling rates or weaker confidence in government debt. Many of these themes are valid, but no single factor consistently explains gold's performance, and its relationships with inflation, rates, and the dollar shift over time. Instead, gold's enduring appeal rests on characteristics that have changed little: scarcity, liquidity, global recognition, freedom from default risk, and the ability to preserve purchasing power across time and political regimes.

Gold ETF holdings are rebounding



Source: Bloomberg, DBS

COMEX open interest remains well below its 5-year average



Source: Bloomberg, DBS

What role does gold play in a balanced portfolio? How do those characteristics augment a portfolio? We believe they add value via four main ways: (i) low long-term correlation with stocks and bonds; (ii) correlations that tend to become more defensive during severe equity drawdowns; (iii) liquidity in periods of stress; and (iv) resilience when confidence in money or sovereign credit weakens. Long-run data illustrates this diversification benefit: gold's correlation was 0.11 with global equities, 0.07 with US HY bonds, 0.25 with broad commodities, and 0.41 with global IG bonds.

Gold generally has a low correlation with major asset classes over the long run

Asset Class Correlation	Gold
Global Equities	0.11
Global Inv Grade Bonds	0.41
US High Yield Bonds	0.07
Emerging Markets Bonds	0.29
Sovereign Inv Grade Bonds	0.43
Broad Commodities	0.25
Crude Oil	0.13
Industrial Metals	0.33
Soft Commodities	0.19
Food Commodities	0.17

Source: Bloomberg, JPM, Refinitiv, LME, Euronext Amsterdam, Food and Agricultural Organisation of the United Nations
Note: Calculated using monthly data from Jul-1976 to Jul-2026

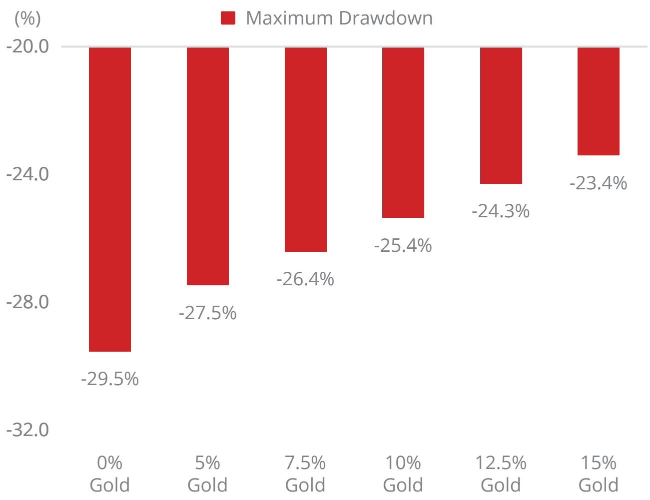
Putting it into numbers. To quantify the benefits of holding gold, we backtested a range of hypothetical balanced portfolios using monthly total returns for global equities, global IG bonds, and gold. Each portfolio was rebalanced annually to its strategic target weight, with gold allocations ranging from 0-15% and funded proportionately from equities and bonds. The key assumptions and portfolio set used in the backtest are summarised below:

Start date	31 Dec 1998
End date	30 Jun 2026
Data frequency	Monthly
Rebalancing	Annual
Base currency	USD
Risk-free rate	3.00%
Initial portfolio value	100
Rebalancing month	January

Portfolio	Equity weight	Bond weight	Gold weight
P0	50%	50%	0%
P5	47.5%	47.5%	5%
P7.5	46.3%	46.3%	7.50%
P10	45.0%	45.0%	10%
P12.5	43.8%	43.8%	12.50%
P15	42.5%	42.5%	15%

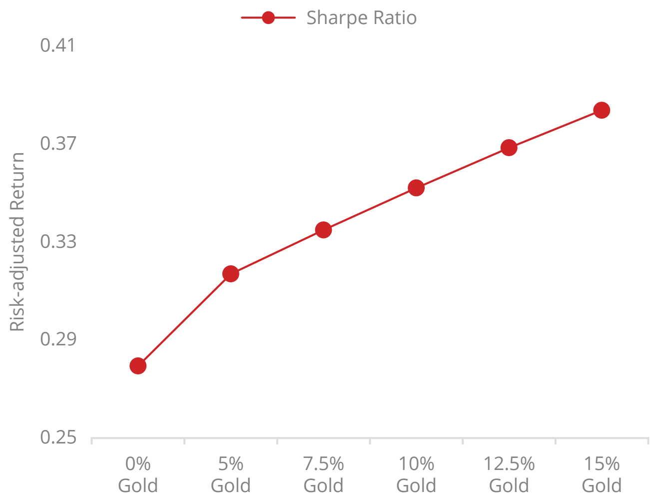
Higher returns with lower volatility. Our backtesting found that a hypothetical balanced USD portfolio would have generated higher risk-adjusted returns and experienced a lower maximum drawdown if gold was added in 5–15% allocations. This supports our thesis that modest allocations to gold can improve the quality and consistency of portfolio outcomes over time. For balanced portfolios, a strategic allocation in the 5-10% range is a good starting point; this will provide palpable diversification benefits without overtly changing portfolio composition.

Gold contributes positively to portfolio resilience



Source: Bloomberg, DBS
Note: Data from Dec 1998 to Jun 2026. Hypothetical portfolio: 50% allocation to global equities (All Country World Index Total Return), 50% allocation to fixed income (Bloomberg Global Aggregate Index). Gold replaces equities and bonds at equal weight for each sample portfolio

Gold improves portfolio efficiency across various risk levels



Source: Bloomberg, DBS
Note: Data from Dec 1998 to Jun 2026. Hypothetical portfolio: 50% allocation to global equities (All Country World Index Total Return), 50% allocation to fixed income (Bloomberg Global Aggregate Index). Gold replaces equities and bonds at equal weight for each sample portfolio. Risk-adjusted returns are calculated assuming a risk-free rate of 3.0%

Stay constructive on gold. Gold may remain volatile as markets continue to assess the Iran conflict, inflation, and monetary policy. Nevertheless, it looks like we are in the final stages of a positioning and valuation reset rather than the end of gold's structural bull case. Support from Asian physical demand and a less leveraged market provide reasons to believe that the balance of risks is improving. Accordingly, we stay constructive on gold and our target prices for the next four quarters are as follows: 4Q26: USD5,300/oz. | 1Q27: USD5,500/oz. | 2Q27: USD5,800/oz. | 3Q27: USD6,100/oz. These projections rest on DXY forecasts of 98.6 for 4Q26, 99.4 for 1Q27, 100.2 for 2Q27, and 101 for 3Q27, as well as 10-year US Treasury yield estimates ranging from 4.5 to 4.65. Furthermore, they assume central bank and investment demand of 175 and 600 tonnes per quarter respectively.

Private Assets & Hedge Funds

Daryl Ho, CFA
Strategist

Elijah Tan, PhD
Analyst

The cost of capital is back in focus. Investors entered 2026 expecting monetary easing to revive activity across private markets. Instead, resilient growth, persistent inflation, and higher energy costs have kept financing conditions tighter than expected. More expensive capital is making leveraged transactions harder to finance and refinancing more costly, while longer holding periods increase demand for liquidity. Yet these pressures also create opportunities. As cheap capital becomes scarcer, investors that are able to provide financing, liquidity, or operational expertise are in a stronger position to generate returns. The investment case for alternatives therefore increasingly depends on where capital is deployed and how value is created. The illiquidity premium has to be earned through careful capital allocation and manager selection.

Private Equity

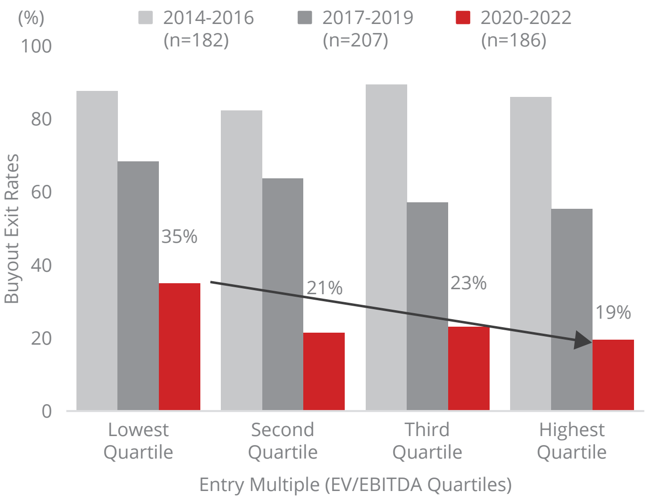
Buyouts are increasingly rewarding disciplined entry and operational value creation. Higher borrowing costs make debt more expensive and reduce the scope for managers to enhance equity returns through leverage, placing greater emphasis on the price paid for a business and the earnings growth achieved after acquisition. This favours the middle market, where entry valuations are often more reasonable and managers have greater scope to improve operations and pursue add-on acquisitions. Entry discipline also appears to support exit flexibility. Among buyouts acquired between 2020 and 2022, 34.9% of those bought in the lowest valuation quartile have exited, compared with 19.4% in the highest quartile. Recovering M&A activity should provide further support for exits. Long-term performance also remains strong, with annualised returns of 14.5% over 10 years and 14.9% over five years, alongside volatility of 11.4% and 15.2%, respectively.

Growth private equity also remains constructive as companies stay private for longer, allowing investors to participate in more of their expansion. These businesses generally use less debt than buyouts, but higher rates still weigh on valuations and make repeated fundraising more expensive. This favours companies that are already profitable, can fund more growth internally, or have a credible path to profitability.

Venture capital warrants caution. AI now accounts for more than half of North American venture deal count and an even larger share of deal value, increasing concentration and valuation risk. Selective opportunities remain in differentiated early-stage businesses and venture secondaries, but the overall allocation should stay restrained.

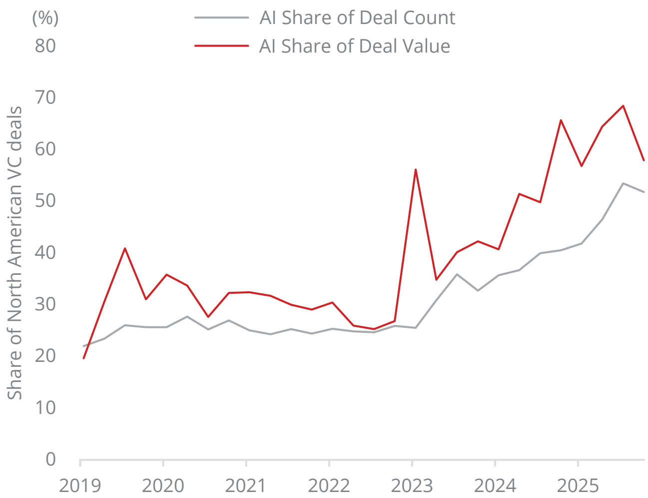
Secondaries and co-investments are well placed to benefit from tighter capital conditions. Longer holding periods have delayed distributions to private equity investors, with 39.5% of US private equity NAV in 2025 held in funds seven years or older. This has supported secondary market volumes of USD240bn as investors seek liquidity without waiting for underlying assets to exit via conventional channels. For buyers, these transactions provide access to more mature portfolios with greater visibility on asset quality and potentially earlier distributions, while average pricing of 83.7% of NAV in 2025 suggests opportunities to enter below reported valuations. Simultaneously, greater pricing stability of larger transactions points to deeper buyer participation and improving price discovery. Higher borrowing costs are creating a separate opportunity for co-investments. As sponsors use more equity to finance acquisitions, they increasingly require additional capital from investors, expanding the opportunity set. Co-investments can therefore provide selective exposure to individual high-conviction buyout deals while typically carrying lower fees and carried interest than traditional fund commitments.

Entry valuation impacts exit activity more under a higher-rate regime



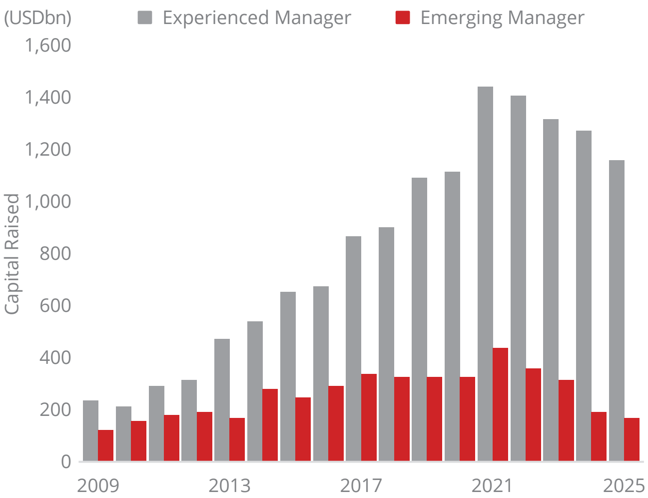
Source: Pitchbook, DBS

Venture capital is witnessing AI concentration at elevated valuations



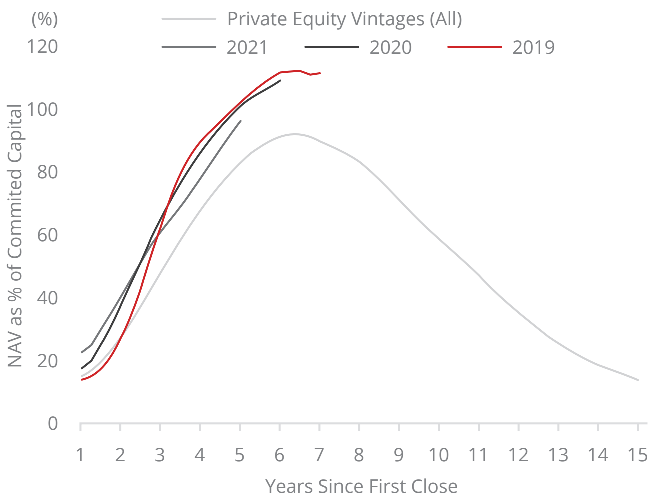
Source: Preqin, DBS

Manager selection matters more as capital concentrates



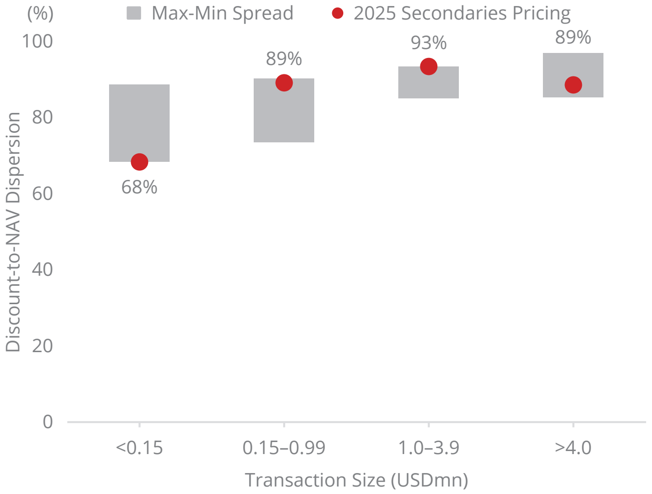
Source: Pitchbook, DBS

Commitments stay elevated against long-run peak



Source: Pitchbook, DBS

Pricing has stabilised below 5-year average for larger secondary transactions



Source: Preqin, DBS
Note: Max-min spread refers to the difference between highest and lowest discount-to-NAV from 2020 to 2024

Private Credit

Direct lending still warrants a measured approach. Yields remain attractive, at 9.1% in Jun 2026 vs 8.6% for syndicated loans and 7.2% for high yield bonds, but the same floating rate coupons that support lender income are pressuring borrowers. Net interest spreads have fallen from around 480 bp in 2023 to 310 bp in early 2026, while defaults including liability management exercises reached 2.95%. The preference for lower-leverage, lower-middle-market senior secured loans with strong covenants and cash coverage overcrowded large-cap sponsor lending.

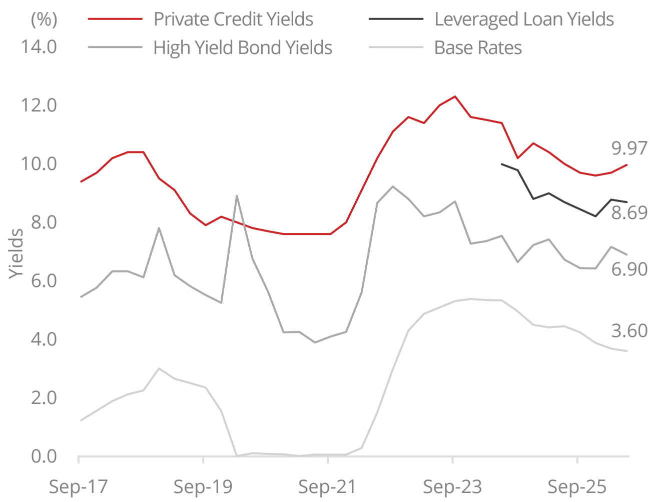
Asset-backed finance offers a stronger opportunity. These loans are secured by identifiable assets and payment streams, making repayment less dependent on a company refinancing at maturity. Regulatory and capital constraints are encouraging banks to reduce balance-sheet-intensive lending, opening room for private capital. The global private asset-backed finance market is estimated to grow from more than USD6.1tn to USD9.2tn by 2029. Shorter maturities and amortising structures can reduce duration risk, although strong collateral controls remain essential.

Mezzanine faces a higher hurdle for risk compensation. 10-year returns of 11.0% and weaker fundraising are supportive, but senior first-lien lending now offers attractive income with better security. Junior capital therefore requires a larger premium, especially as elevated rates pressure cash coverage.

Distressed and special opportunities are improving, but not enough for an upgrade. Defaults including distressed exchanges reached 2.95% by Jun 2026, while rising PIK, non-accruals, and longer holding periods are creating more restructuring opportunities. Yet extensions, amendments, and sponsor support continue to defer much of the stress. We remain neutral, favouring specialist managers positioned for a rise in restructurings.

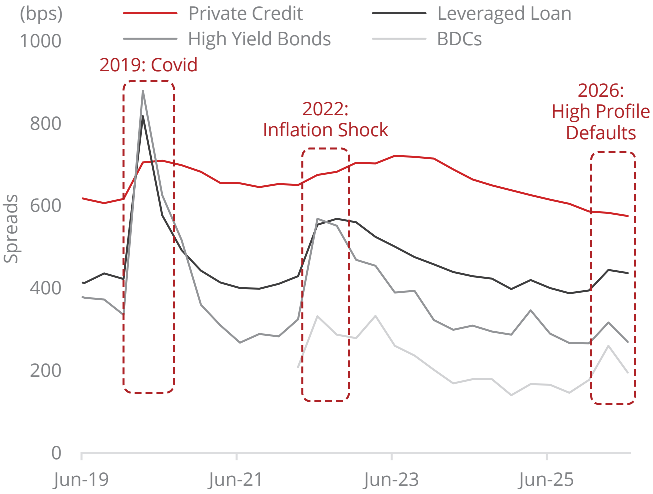
We remain cautious on BDCs. Redemptions reached 84% of inflows in early 2026 as PIK, non-accruals, and leverage rose. While discounts to NAV may offer selective value, redemption pressure reinforces our preference for closed-end private credit vehicles, which are better suited to holding illiquid loans through maturity or workouts.

Floating rate structure secures a yield premium over syndicated loans and high yield bonds



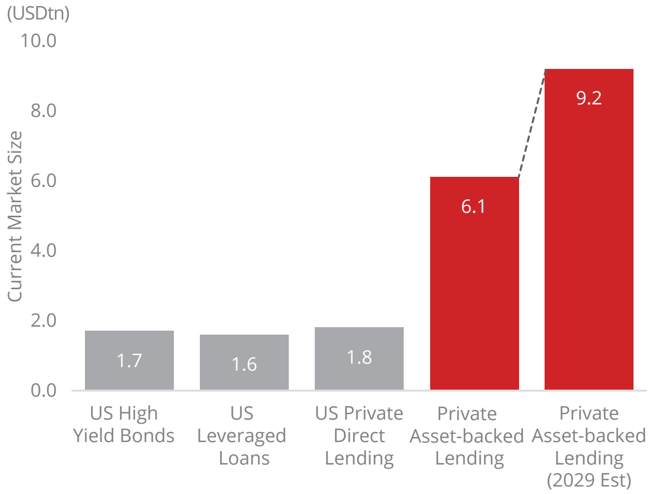
Source: Houlihan Lokey, Pitchbook, Bloomberg, DBS

Spread premium has proven resilient across market shocks



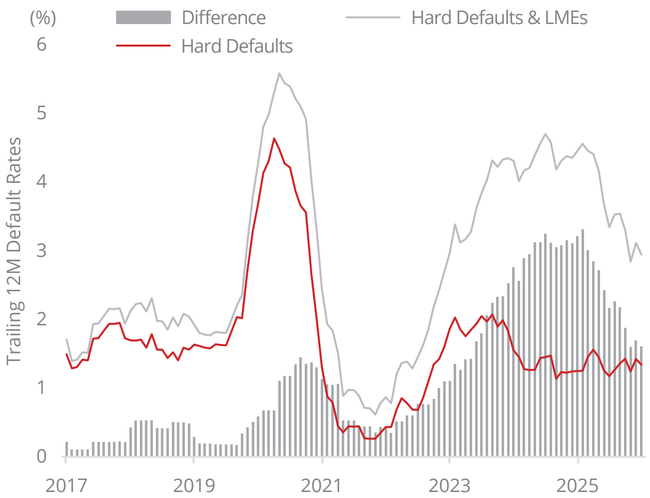
Source: Pitchbook, Bloomberg, DBS

Asset-backed lending expands the private lending opportunity set



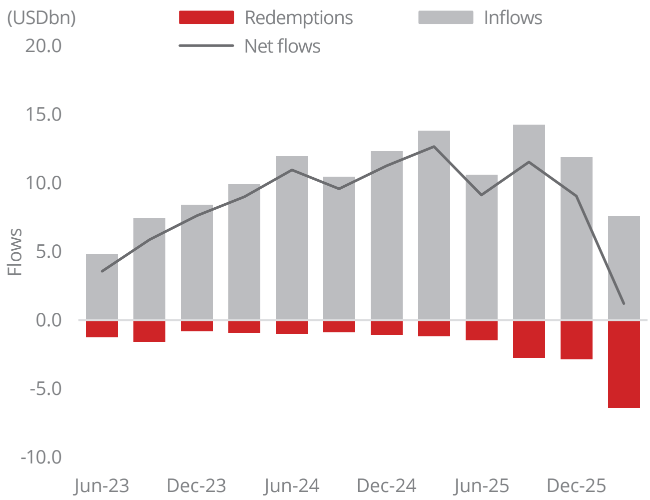
Source: KKR, iCapital, DBS

Hard defaults have stabilised with liability management exercises on the decline



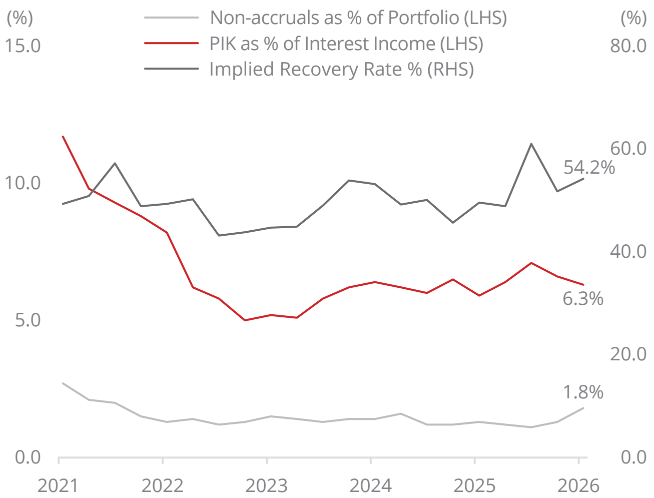
Source: Pitchbook, DBS

Sharp sentiment-induced turns in BDC flows underscores wrapper-debt duration matching



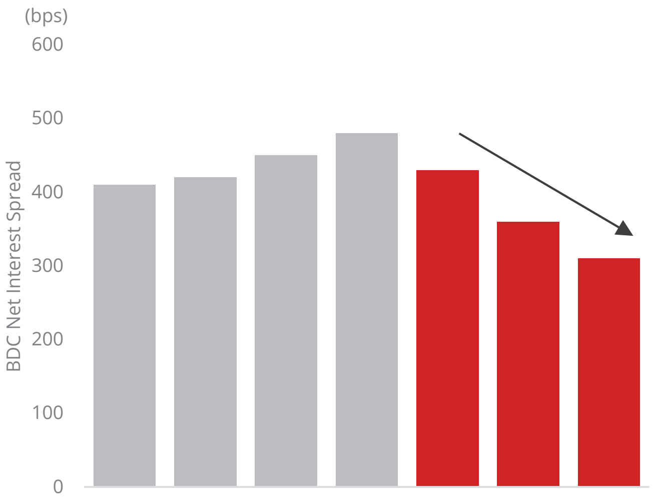
Source: SEC filings, Pitchbook, DBS

Uptick in BDC non-accruals even as recovery rate increases and PIKs decline



Source: Houlihan Lokey, DBS

Elevated rates set to aggravate net interest spreads in BDCs



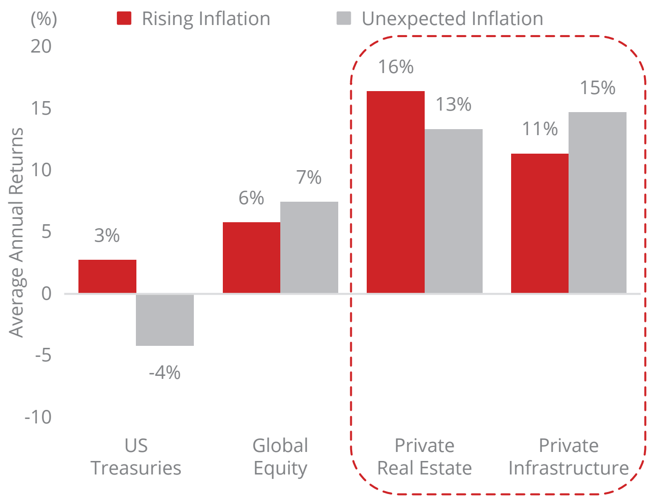
Source: Houlihan Lokey, DBS
Note: Net interest spread refers to the difference between net interest income and expense

Private Real Assets

Real estate is showing early signs of stabilisation after its adjustment to higher rates. Core open-ended funds returned around 3.7% in 2025, their first positive year since 2022, while redemption queues have eased and weaker construction should gradually limit new supply. However, valuations remain demanding relative to government bonds, transaction activity is subdued, and three-year annualised returns are still negative. Higher long-term yields will continue to pressure property values and refinancing. The preference is therefore for targeted transactions, secondaries, and managers with strong local operating expertise.

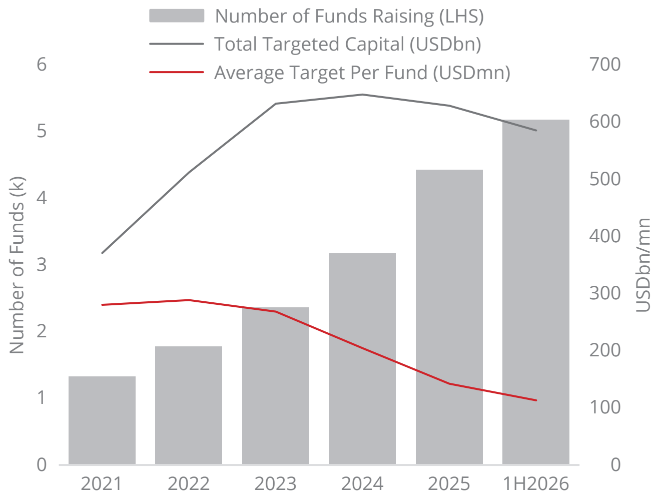
Private infrastructure offers a strong case. Global electricity demand is forecasted to rise 3.6% in 2026 and 3.8% in 2027, while data centre capacity could increase from 82GW in 2025 to 219GW by 2030. The Americas also face an infrastructure funding gap of around USD0.3tn a year. Many operating assets benefit from contracted or inflation-linked revenues, while essential services face steady demand. These characteristics have supported annualised returns of 9.8% over 10 years and 11.1% over five years. Dry powder has fallen to 23% of AUM, reducing competition. The preference is for operating and contracted infrastructure linked to rising power demand, where cash flows are already visible, rather than speculative development dependent on permits, construction, and future utilisation.

Real assets provide strong inflation protection



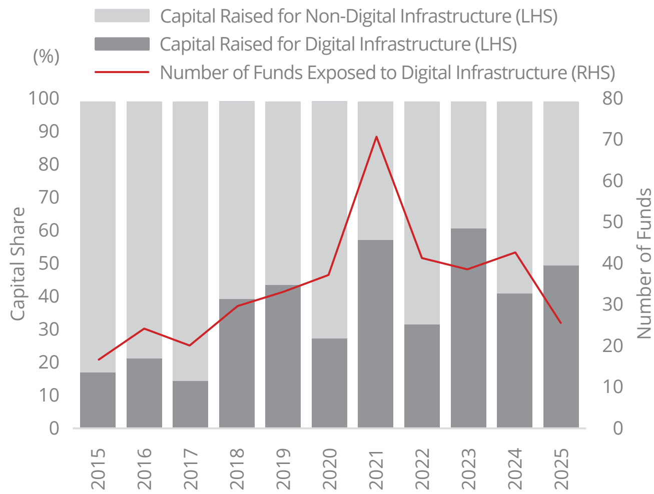
Source: Bloomberg, Preqin, DBS

3x more managers chasing half the private real estate ticket compels manager selection



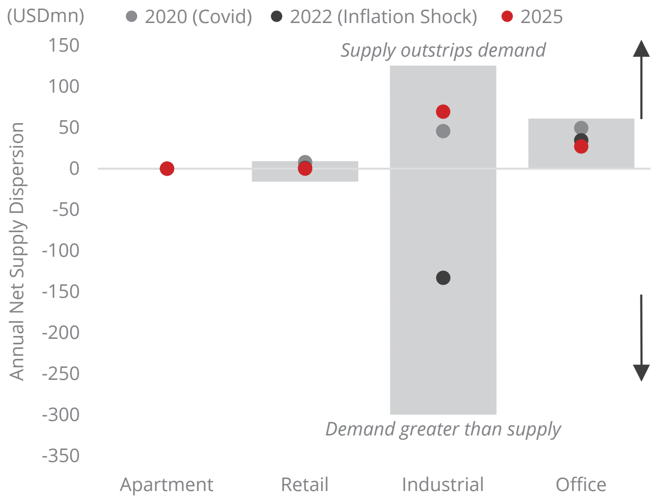
Source: Preqin, DBS

AI infrastructure both a secular opportunity and crowded trade



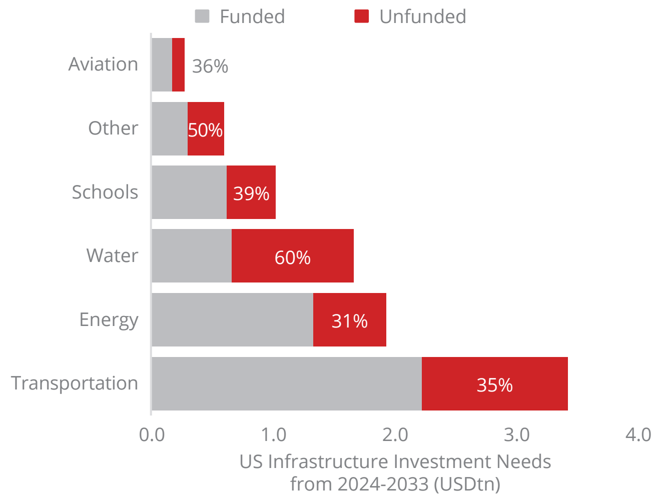
Source: Preqin, DBS

Industrial and office sectors face absorption test



Source: Moody's Analytics, iCapital, DBS

Beyond AI, infrastructure demand for essential services remains high



Source: Global infrastructure hub (World Bank), DBS

Hedge Funds

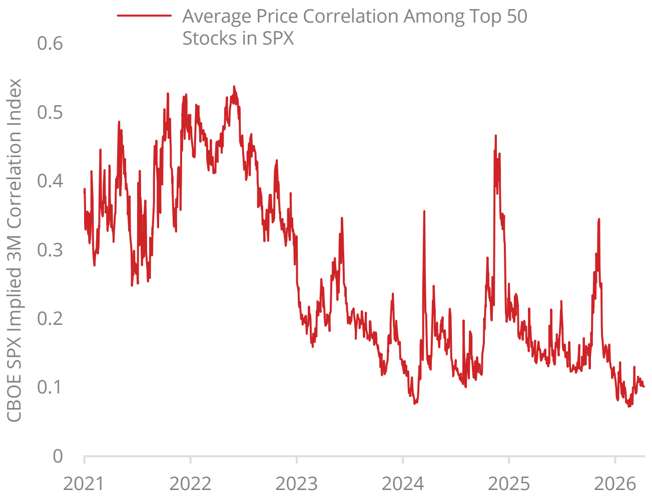
Hedge funds remain attractive where returns can be generated from dispersion and policy divergence rather than market direction. Relative value is preferred as divergent central bank policies, heavy sovereign issuance, and differences across rates and securities create more pricing dislocations. Equity hedge also looks attractive, especially low-net, market-neutral, and specialist strategies. Average stock correlation has fallen from around 0.50 to 0.10, giving skilled managers more room to distinguish winners from losers as AI widens performance gaps within sectors.

Macro is similarly supported by different policy paths across the US, Europe, Japan, and China, together with uncertainty around inflation and fiscal policy. Discretionary managers able to express several independent themes are preferred to systematic trend strategies. Event-driven and credit hedge remain more selective because merger-arbitrage spreads are compressed and credit spreads remain tight. Multi-strategy platforms can add value by reallocating capital across opportunities, although returns remain dependent on fees, leverage, and manager quality.

Single stock volatility has risen across geographies since ZIRP era

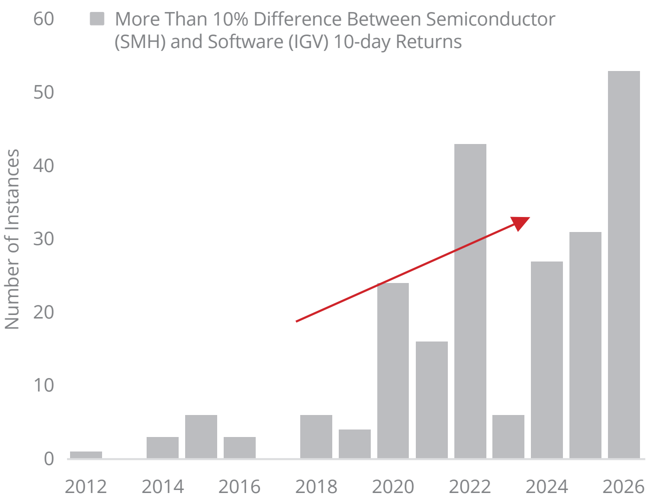
Source: Bloomberg, DBS

Lower stock correlation provides fertile grounds for stock-selection



Source: Bloomberg, DBS

AI is intensifying the intra-sector divide between winners and losers



Source: Bloomberg, DBS

Across alternatives, the dividing line is increasingly between strategies that need capital and those that can provide it. This supports secondaries and middle-market buyout in private equity, asset-backed, and senior first-lien lending in private credit, contracted infrastructure, and relative value, low-net equity, and macro in hedge funds. Caution is warranted where returns still depend heavily on cheap refinancing or valuation expansion. For investors, the regime favours strategies that can earn a premium from capital scarcity rather than those that depend on capital abundance.

Private Assets and Hedge Funds Views

Asset Class	Sub-Asset Class		Tactical Heatmap *Increasingly Constructive →*								
Private Equity	Buyout	Higher financing costs favour disciplined middle-market managers that acquire businesses at sensible valuations and create value through operational improvements. Recovering M&A activity should gradually provide more exit opportunities.							●		
	Growth	Longer private-company runways allow investors to participate in more of a company's expansion. Preference should be given to businesses that are already profitable, can finance more of their growth internally, or have a credible path to profitability.							●		
	Venture Capital	The concentration of investment activity in AI and elevated valuations increase downside risk. Exposure should focus selectively on differentiated early-stage companies and attractively priced secondary opportunities.			●						
	PE Secondaries	Mature portfolios provide greater visibility into asset quality, while purchases below reported NAV can improve entry valuations and potentially result in earlier distributions.								●	
	Co-investments	Higher borrowing costs are requiring sponsors to contribute more equity, which is expanding access to individual transactions. These opportunities can provide targeted exposure to high-conviction deals, often with lower fees and carried interest.							●		
Private Credit	Direct Lending	Floating-rate yields remain attractive, but higher interest costs are weakening some borrowers' ability to service debt. Preference should be given to lower-leverage, lower-middle-market senior secured loans with strong covenants and cash coverage.				●					
	Asset Backed Lending	Identifiable collateral and amortising structures reduce reliance on corporate refinancing, while bank retrenchment is expanding the opportunity set. Strong collateral controls and transparent loan-level data remain essential.								●	
	Mezzanine	Senior first-lien loans now offer attractive income with better security. Junior capital therefore needs to provide a meaningfully larger return premium to compensate for its weaker protection.			●						
	Distressed or Special Situations	Restructuring opportunities are increasing, but extensions, amendments, and additional sponsor support continue to delay a broader default cycle. Specialist managers with proven restructuring capabilities are preferred.				●					
	BDCs	Rising leverage, non-accruals, and redemption pressure weaken the risk-reward balance. Discounts to NAV may create selective opportunities but closed-end private credit vehicles are generally better suited to holding illiquid loans through maturity or restructuring.		●							
Private Real Estate	Core	Early signs of stabilisation are being offset by demanding valuations, subdued transaction activity, negative three-year returns, and continued refinancing pressure. Targeted transactions, secondaries, and managers with strong local operating expertise are preferred.			●						
Private Infrastructure	Core	Contracted or inflation-linked revenues, rising power demand, and lower dry powder support resilient return potential. Operating assets with visible cash flows are preferred to speculative development projects that depend on permits, construction, and future utilisation.								●	
Hedge Funds	Relative Value	Divergent monetary policies, heavy sovereign issuance, and differences across securities are creating pricing dislocations that do not depend on the direction of the broader market.							●		
	Equity L/S	Lower stock correlations and wider differences between winners and losers are improving the opportunity set for fundamental stock selection. Low-net, market-neutral, and specialist managers with limited reliance on market direction are preferred.								●	
	Event Driven	Corporate activity is creating deal-specific opportunities, but compressed merger-arbitrage spreads leave less room for error. Exposure should remain selective and focused on situations with attractive downside protection.						●			
	Credit	Differences across issuers and securities can reward fundamental research, but tight credit spreads provide limited compensation for broad market exposure. Security selection and relative-value opportunities are preferred to directional credit risk.							●		
	Macro	Diverging monetary, inflation, and fiscal paths across major economies are creating several independent investment opportunities. Discretionary managers that can express multiple themes are preferred to strategies that rely predominantly on systematic trends.								●	
	Multi-strategy	The ability to reallocate capital across changing opportunities can add value. Outcomes nevertheless remain highly dependent on manager quality, leverage discipline, and fees.							●		

Source: DBS

Performance

		Average Annualised Returns			
		10Y	5Y	3Y	1Y
Private Equity	Buyout	14.5%	14.9%	6.5%	7.1%
	Growth	13.9%	13.9%	6.4%	11.3%
	Venture Capital	12.1%	12.7%	1.2%	16.0%
	Secondaries	12.1%	14.2%	4.0%	7.0%
Private Credit	Direct Lending	7.7%	8.8%	7.7%	5.9%
	Mezzanine	11.0%	11.5%	10.3%	9.8%
	Distressed Debt	7.8%	11.3%	8.2%	7.3%
Private Real Assets	Real Estate	7.3%	6.3%	-0.3%	2.5%
	Infrastructure	9.8%	11.1%	8.9%	8.8%
Hedge Funds	Relative Value	5.7%	7.3%	9.5%	10.4%
	Equity L/S	8.1%	8.7%	13.5%	18.3%
	Event-driven	6.8%	7.1%	10.4%	12.8%
	Credit Hedge	5.1%	5.3%	7.9%	7.3%
	Macro Hedge	6.2%	8.6%	9.3%	12.8%
	Multi-strategy	4.4%	5.7%	7.3%	11.6%

Top Decile

Bottom Decile

Source: Bloomberg, DBS

Building Beyond 60/40

Source: Unsplash

Alternatives Strategy 4Q26

The CIO Diversified Alternatives Strategy complements stocks and bonds with alternative investments that offer diversified sources of growth, income, and protection. This broader approach can help cushion market downturns, strengthen long-term resilience, and provide professionally managed access to high-conviction private-market opportunities.

Building beyond 60/40

Daryl Ho, CFA
Strategist

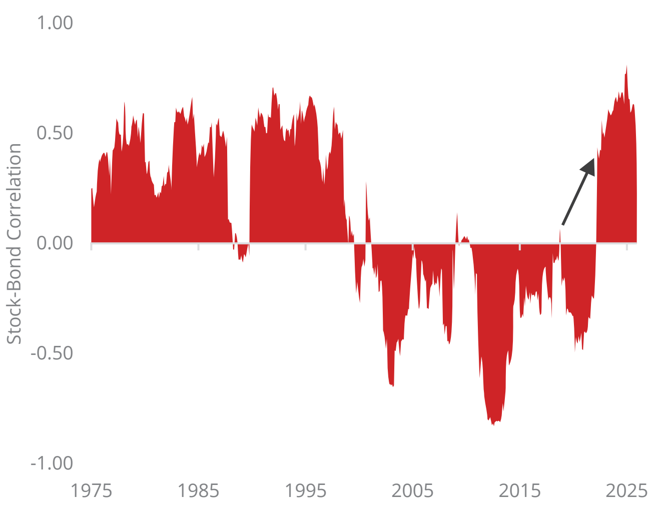
Elijah Tan, PhD
Analyst

Alternatives for a changing world. For years, equities delivered growth while bonds provided income and protection during market declines. That relationship broke down in 2022, when inflation and tighter monetary policy pushed both asset classes lower. Many of the same vulnerabilities remain in 2026, including geopolitical tensions, inflationary pressure, limited scope for rate cuts, atop an increasingly concentrated equity market. As public assets become more exposed to the same economic and policy forces, traditional diversification may offer less protection. The CIO Diversified Alternatives Strategy (henceforth referred to as the Strategy) seeks to address this challenge by incorporating return drivers that respond differently to inflation, interest rates, and geopolitical risk. The aim is not to replace equities and bonds, but to complement them with genuinely differentiated sources of return from the alternatives asset classes to reduce volatility, limit drawdowns, and further improve portfolio resilience.

Diversifying the diversifiers. Allocating to alternatives is only the first step. The allocation to alternatives itself must also be diversified, as each alternative asset class has distinct risks and may perform differently across market environments. The Strategy therefore combines complementary sleeves:

- Private equity and venture capital provide long-term growth;
- Private credit offers contractual income and floating-rate exposure;

Traditional diversification has become less dependable

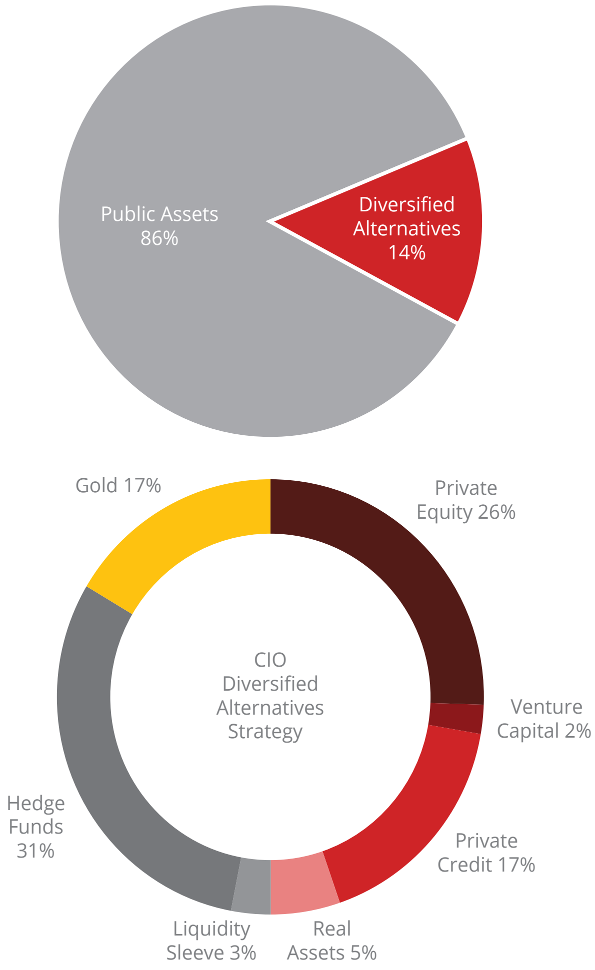


Source: Bloomberg, DBS

- Infrastructure and real estate provide tangible assets, cash flows, and inflation protection;
- Hedge funds seek differentiated returns across markets and strategies; and
- Gold provides monetary diversification and potential value preservation.

Together, these sleeves provide three sources of return: growth, income, and diversification. This is the principle of diversifying the diversifiers. In other words, combining alternative asset classes artfully so that no single asset class can disproportionately weigh on portfolio returns at any given time.

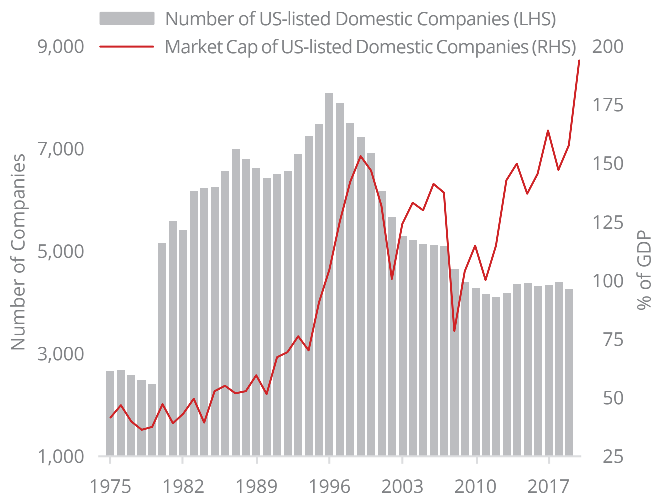
Overview of the CIO Diversified Alternatives Strategy



Source: DBS

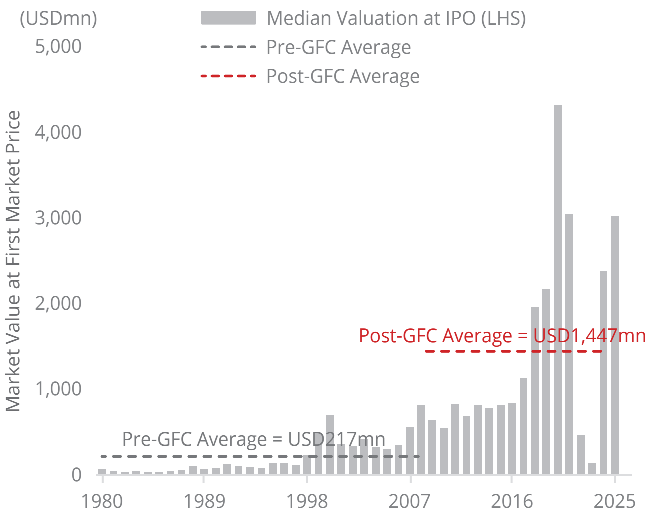
Private equity: accessing value creation before public listing. Within the Strategy's growth allocation, private equity provides access to a large segment of the corporate universe that is not available through public markets. There are approximately 96,000 private companies with annual revenues above USD200mn, compared with approximately 16,000 public companies. Investors who focus solely on listed markets could therefore miss more than 80% of this combined universe. This difference is particularly relevant in technology and artificial intelligence, where many companies choose to remain private while developing their products, growing revenues, and building scale. By the time they list publicly, a substantial share of their growth and valuation appreciation may already have occurred. Investing before an IPO can therefore provide access to a different stage of value creation than investing only after a company has listed. Private equity returns are supported mainly through active ownership. Private equity managers typically work closely with portfolio-company management teams to improve operations, accelerate revenue growth, and expand margins. However, managers vary considerably in their ability to deliver these improvements, resulting in significant differences between top- and bottom-quartile performers. Manager selection is therefore critical. The Strategy seeks to diversify across top-quartile managers, sectors, geographies, and vintage years to reduce its reliance on any single investment, manager, or fund cohort.

Publicly traded companies are fewer but larger



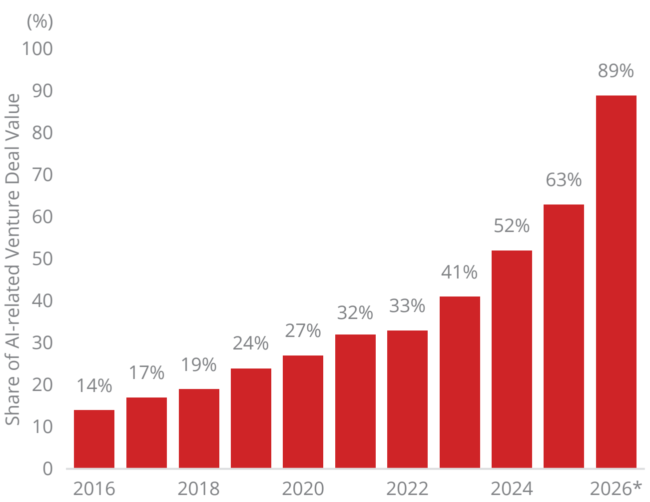
Source: World Development Indicators, DBS

Greatest value creation happens pre-IPO in private markets post-GFC



Source: University of Florida (Jay Fritter), Bloomberg, DBS

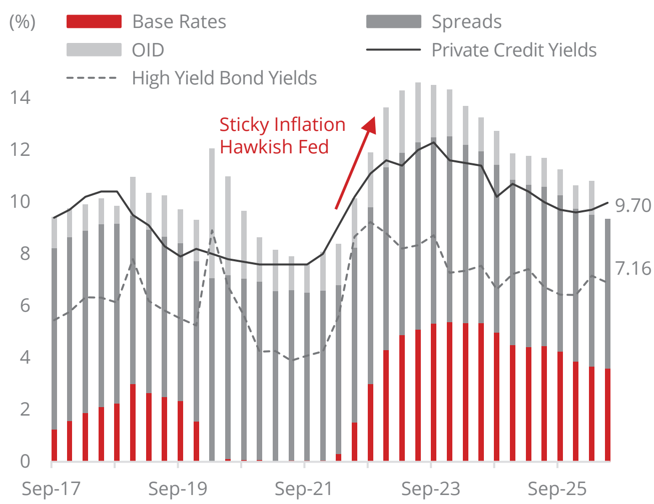
Private markets remain key to capturing early-stage AI opportunities



Source: Preqin, DBS
*2026 figures are indicative and may not reflect full-year outcomes

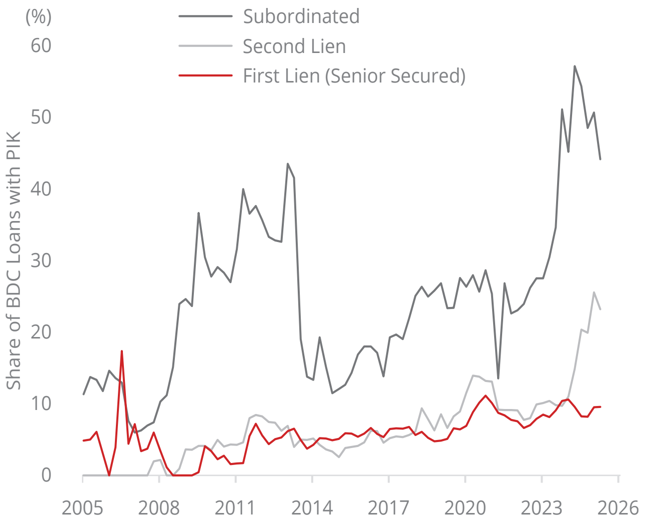
Private credit: income with selectivity. While private equity supports capital growth, private credit can provide contractual income and floating-rate exposure, complementing fixed-rate bonds across different interest-rate cycles. Recent headlines have underscored the importance of separating credit risk from fund-level redemption pressures. Importantly, redemption pressure at the fund level does not mean that the underlying loans have defaulted, and neither should it be interpreted as evidence of systemic stress. This is because redemption pressures are sentiment-driven and credit risk can actually vary considerably by borrower profile and loan structure. In direct lending, for example, larger borrowers have generally performed better than smaller ones and have exhibited default rates far lower than high-yield bonds. Similarly, first-lien senior-secured loans have proved more resilient than subordinated lending, showing fewer payment-in-kind instances. These differences reinforce the importance of disciplined underwriting and strong lender protections negotiated by capable managers. Once again, manager selection and diversification are paramount. With careful selection, private credit can prove to be a reliable and differentiated source of income within a broader alternatives allocation.

Floating rate nature of private credit keeps yields above high-yield bonds



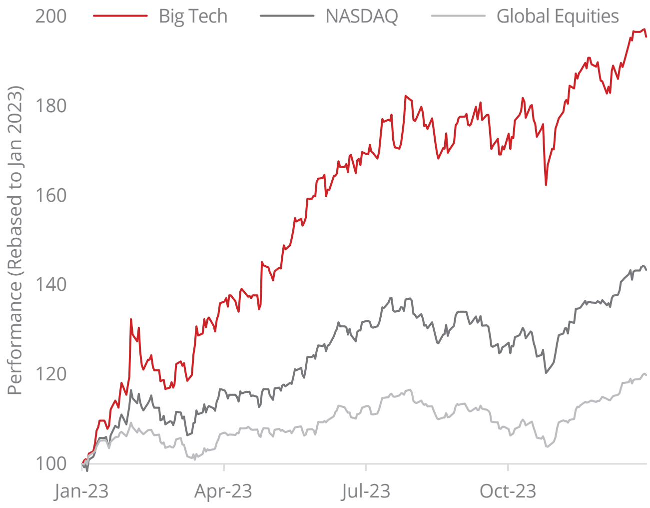
Source: Houlihan Lokey, Bloomberg, DBS

Subordinated PIKs surged during the 2022 rate hike while first-lien held firm



Source: Pitchbook, DBS

Dispersion creates opportunities for hedge fund strategies



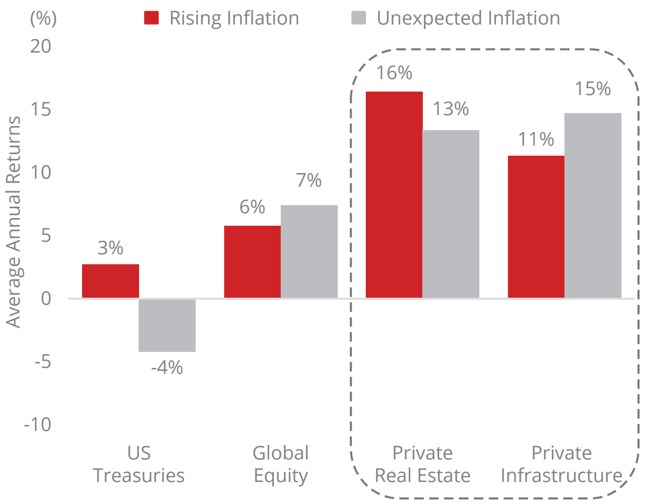
Source: Bloomberg, DBS

Hedge funds: turning dispersion into opportunity. Hedge funds form the Strategy's largest sleeve because the regime change from near-zero interest rates has increased the importance of company fundamentals, financing costs, and policy exposure in driving investment outcomes. As a result, performance has become more varied across companies, sectors, and regions, creating a broader opportunity set for hedge fund managers. Long-short managers, for example, can invest in stronger businesses while shorting those challenged by deteriorating fundamentals, or excessive valuations. Macro, event-driven, credit, and relative-value managers can similarly seek to capture pricing differences across interest rates, currencies, securities, and capital structures. The ability to pursue opportunities across a range of markets and strategies can enhance portfolio resilience. Hedge fund strategies have historically exhibited relatively low correlations with traditional assets, experienced smaller drawdowns than global equities, and even generated positive returns during certain periods of market stress. However, these characteristics vary considerably by strategy and manager, making careful selection essential. The Strategy therefore evaluates investment skill alongside leverage, transparency, and fees, and selectively allocates to strategies and managers with the potential to deliver differentiated returns.

Gold and real assets: keys to value preservation. Gold and real assets strengthen diversification by introducing return drivers distinct from private equity, private credit, and hedge funds. Gold provides monetary diversification during periods of currency weakness, sovereign risk, monetary expansion, and geopolitical uncertainty. Infrastructure generates cash flows from essential services and long-term contracts, often with inflation-linked revenues, while real estate provides income and exposure to tangible assets. Historically, both infrastructure and real estate have outperformed bonds during inflationary periods. Each asset also responds to a different set of market forces. Gold is influenced by real interest rates, US monetary policy, and the strength of the dollar. Infrastructure and real estate are shaped by financing costs, asset quality, occupancy, location, and manager execution. Together, the combination of gold and real assets supports the preservation of monetary, inflation-linked, and scarcity-related sources of value.

Taking an institutional approach to portfolio construction. Once the role of each alternative asset class has been established, the next step is to determine how they should be combined. The Strategy is neither an equal-weighted basket nor a collection of individually

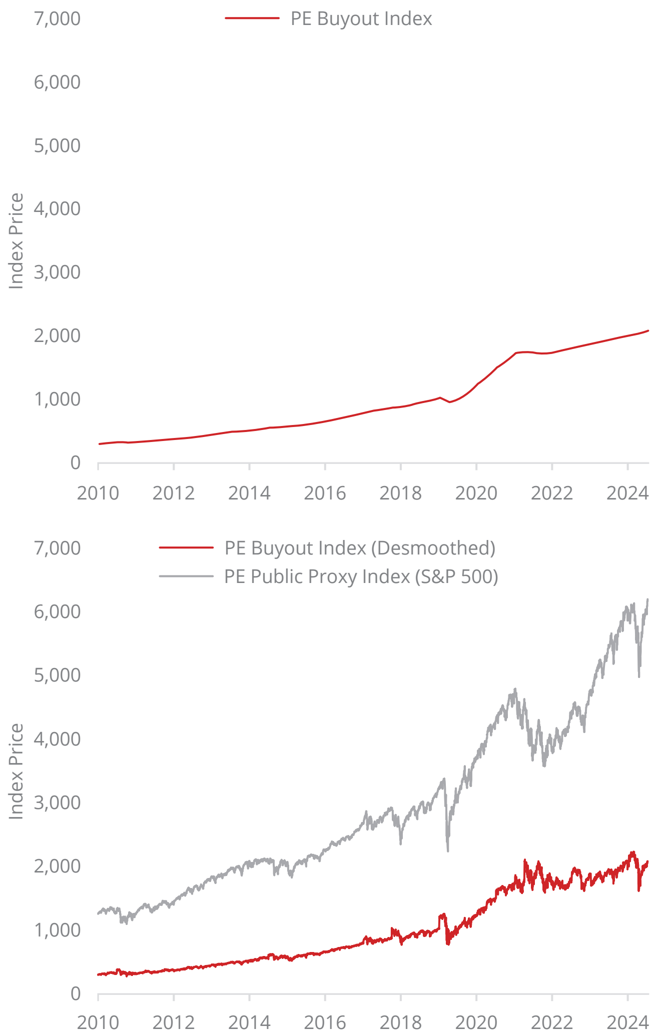
Real assets outperform long-bonds under inflationary regimes



Source: Bloomberg, Preqin, DBS

attractive investments. Its allocation reflects quantitative analysis, forward-looking investment views, and practical implementation constraints. Traditional mean-variance optimisation provides a useful starting point by assessing expected returns, volatility, and correlations. However, infrequent private-market valuations can smooth reported returns and understate risk. Shorter track records, leverage, illiquidity, and asymmetric return distributions create further limitations. To address these, the analysis uses public-market proxies, leverage adjustments, and statistical desmoothing to better represent private-asset behaviour. The analysis also incorporates Conditional Value at Risk, or CVaR, which focuses on losses in the worst part of the return distribution rather than average volatility alone. Mean-CVaR analysis is applied across private equity, private credit, and real assets to identify more efficient allocations while accounting explicitly for downside risk. Importantly, the quantitative analysis informs rather than determines the final allocation. Historical data cannot fully capture regime shifts or investment outlooks. The results are therefore balanced with qualitative judgement. This supports the largest allocation to hedge funds, a sizeable position in private equity, a more measured allocation to private credit, and complementary exposures to gold and real assets. The result is an actively constructed portfolio whose weights reflect both the long-term role of each asset class and the prevailing balance of risk and opportunity.

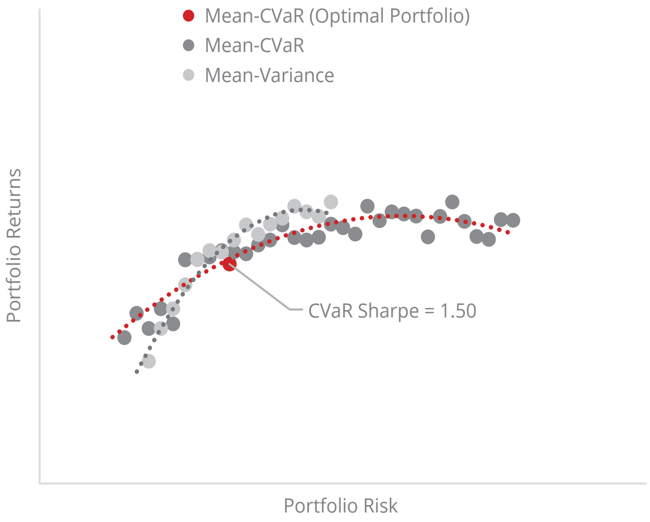
Statistical desmoothing produces a more realistic representation of private-asset behaviour

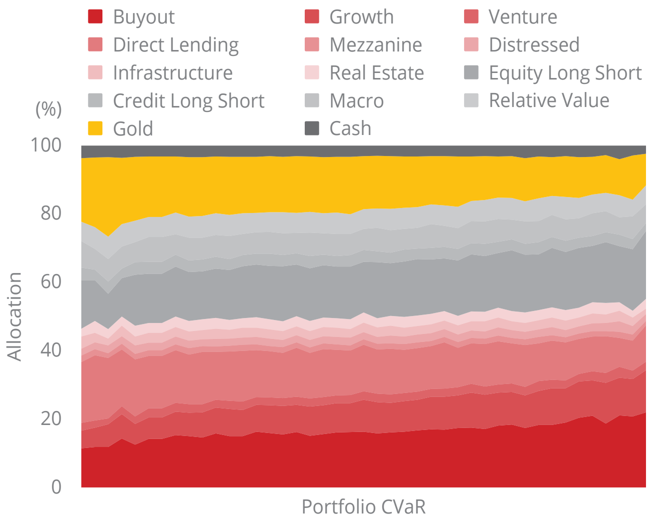


Asset Class	Strategy	LTV	Proxy Indices
Private Equity	Buyout	45%	US Large Cap
Private Equity	Growth	0%	US Small Cap
Private Equity	Venture	0%	Global Micro Cap
Private Debt	Direct Lending	35%	US Corporate High Yield
Private Debt	Distressed	0%	US Corporate High Yield
Private Debt	Mezzanine	60%	Convertible Debt
Real Estate	Real Estate	55%	US REITs
Infrastructure	Infrastructure	60%	Global Infrastructure

Source: Preqin, Bloomberg, DBS

Mean-CVaR optimisation of a diversified alternatives portfolio unveils a robust risk-reward outcome

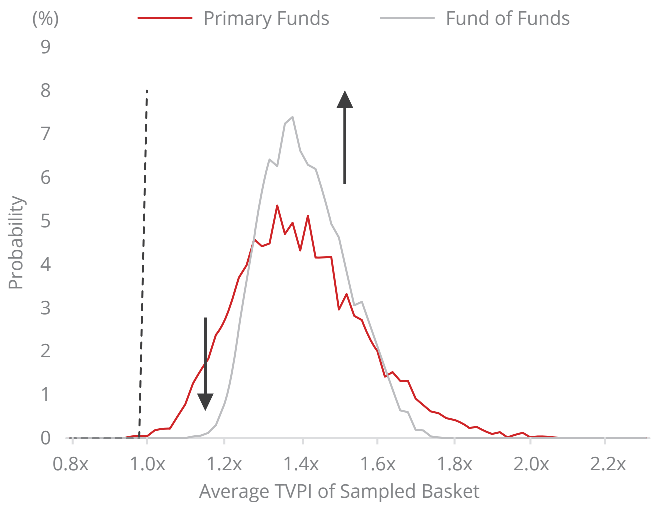




Source: Preqin, Bloomberg, DBS
Note: Return and volatility figures were computed from 25 years (Mar 2000–Jun 2025) of desmoothed quarterly index returns. The optimal portfolio refers to the model portfolio that achieves the highest Sharpe Ratio, i.e. provides the highest possible return for a given level of risk

Moving from construction to implementation. An alternatives allocation must translate portfolio design into efficient implementation. In private markets, high minimum commitments make it difficult to build sufficient diversification through individual fund investments. Effective implementation requires exposure across managers and strategies, as well as successive vintage years, because closed-end funds call and return capital gradually over time. Taking a fund-of-funds approach can potentially solve these challenges by pooling capital across multiple underlying funds. A single investment provides diversified exposure across managers, strategies, and vintage years, reducing concentration risk and eliminating the need to manage numerous individual fund commitments. It also streamlines fund selection, capital calls, portfolio monitoring, and administration. This structure introduces an additional layer of fees, overlapping holdings, and withdrawal restrictions. In return, it delivers broader diversification, stronger access to managers, and professional oversight, providing an efficient route to diversified private-market exposure.

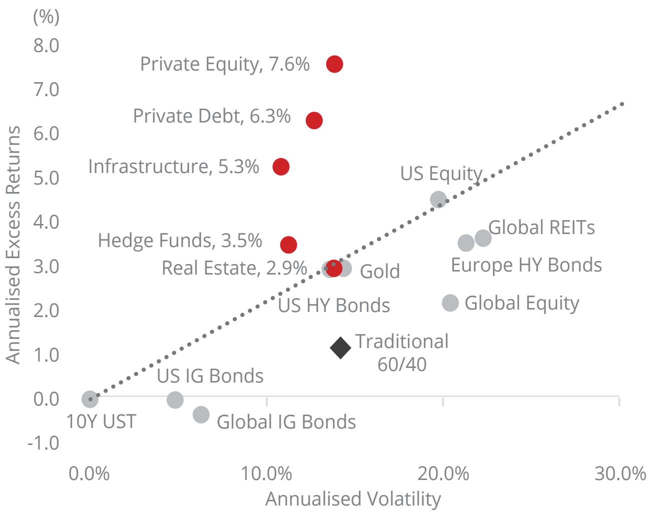
Taking a fund-of-funds approach minimises tail-risk and improves the probability of better returns



Source: Pitchbook, DBS

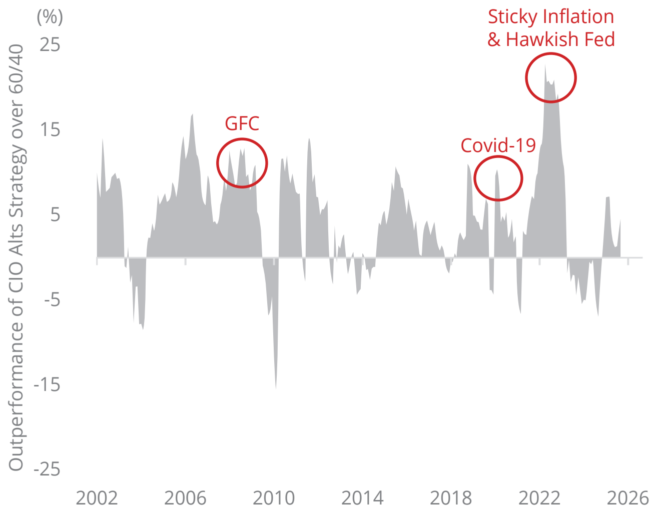
From standalone allocation to portfolio impact. Constructing and implementing an efficient alternatives allocation is only part of the exercise. The ultimate test is whether it improves an investor's overall portfolio when combined with existing holdings. Historical modelling indicates that adding the Strategy to a traditional 60/40 portfolio improved risk-adjusted outcomes across several distinct periods of stress, including the Global Financial Crisis, the Covid-19 shock, and the subsequent period of persistent inflation and tighter monetary policy. Its performance across different market regimes supports its use as a strategic allocation rather than a response to any single market view. This also provides a practical path for investors. Rather than replacing public equities and bonds, investors can introduce the Strategy gradually, with the allocation calibrated to their liquidity needs, risk tolerance, and investment horizon.

Alternatives deliver stronger excess returns



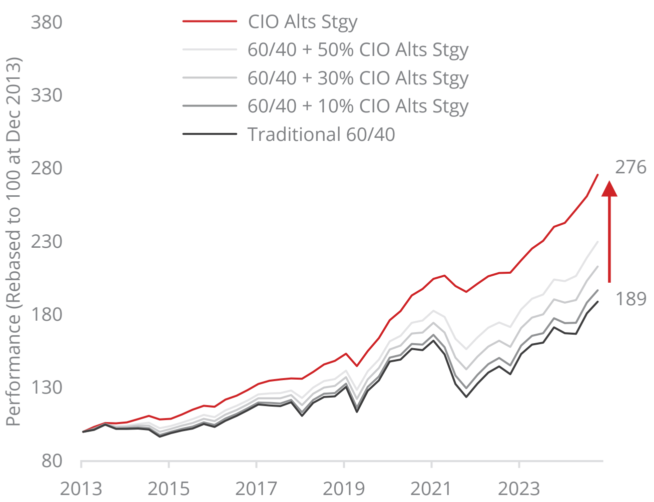
Source: Bloomberg, Preqin, DBS
Note: Excess returns were computed relative to 10Y US Treasury returns. Historical returns from Mar 2002 to Sep 2025 were sampled

Back-tested alternatives strategy outperformed 60/40 in key stress periods



Source: Bloomberg, Preqin, DBS
Note: 'CIO Alts Strategy' refers to the CIO Diversified Alternatives Strategy

Adding small alternative allocations can boost traditional portfolio returns



Source: DBS
Note: 'CIO Alts Stgy' refers to the CIO Diversified Alternatives Strategy. Traditional 60/40 refers to a portfolio of 60% global equities and 40% global bonds. Quarterly returns from Dec 2013 to Sep 2025 were sampled

The future of portfolio resilience lies beyond 60/40. By combining differentiated sources of growth, income, and protection, the CIO Diversified Alternatives Strategy seeks to reduce reliance on any single market outcome and strengthen portfolios across economic cycles. For investors able to take a long-term view, a disciplined and diversified allocation to alternatives, alongside traditional investments, can provide a more robust foundation for preserving wealth, managing uncertainty, and capturing opportunities that traditional markets alone may not offer.

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Glossary

Acronym	Definition
AI	artificial intelligence
ASEAN	Association of Southeast Asian Nations
AT1	additional tier 1
AxJ	Asia ex-Japan
bbl	barrel
BDC	Business Development Companies
bn	billion
BNM	Bank Negara Malaysia
BOJ	Bank of Japan
BOK	Bank of Korea
BOT	Bank of Thailand
BSP	Bangko Sentral ng Pilipinas
bps	basis points
CAA	CIO Asset Allocation
CAGR	compound annual growth rate
CGB	China Government Bonds
CPI	Consumer Price Index
DM	Developed Markets
DXY	US Dollar Index
EBITDA	earnings before interest, tax, depreciation, and amortisation
ECB	European Central Bank
EM	Emerging Markets
EMEA	Europe, the Middle East, and Africa
eop	end of period
EPFR	Emerging Portfolio Fund Research
EPS	earnings per share
ERP	equity risk premium
ETF	exchange-traded fund
EU	European Union
EV	electric vehicle
FDTR	Federal Funds Target Rate
FOMC	Federal Open Market Committee
FX	foreign exchange
G3	Group of Three
G10	Group of Ten
GDP	gross domestic product
GFC	Global Financial Crisis

Acronym	Definition
GW	gigawatt
HICP	Harmonised Index of Consumer Prices
HY	high yield
ICE	Intercontinental Exchange
IEA	International Energy Agency
IG	investment-grade
IGB	India Government Bonds
IMF	International Monetary Fund
IPO	Initial Public Offering
IT	Information Technology
IRGC	Islamic Revolutionary Guard Corps
JGB	Japanese Government Bond
KLIBOR	Kuala Lumpur Interbank Offered Rate
KTB	Korea Treasury Bonds
LHS	left hand side
LLM	large language model
LME	London Metal Exchange
LNG	liquefied natural gas
LPR	loan prime rate
M&A	mergers and acquisitions
MAS	Monetary Authority of Singapore
MGS	Malaysia Government Securities
mmbpd	million barrels per day
mn	million
MOU	memorandum of understanding
MSCI	Morgan Stanley Capital International
mt	metric tonne
NAV	net asset value
NDF	non-deliverable forward
NEER	nominal effective exchange rate
NII	net interest income
NIM	net interest margin
OIS	overnight indexed swap
OPM	operating profit margin
P/B	price-to-book
P/E	price-to-earnings
PBOC	People's Bank of China
PCE	personal consumption expenditure

Acronym	Definition
PE	Private Equity
PIK	Payment-in-Kind
PMI	Purchasing Managers' Index
PPI	Producer Price Index
QTD	quarter-to-date
R&D	research and development
RBA	Reserve Bank of Australia
RBI	Reserve Bank of India
REIT	real estate investment trust
RHS	right hand side
ROA	return on asset
ROE	return on equity
SAA	Strategic Asset Allocation
SaaS	Software-as-a-Service
SGDNEER	Singapore Dollar Nominal Effective Exchange Rate
SHFE	Shanghai Futures Exchange
SNB	Swiss National Bank

Acronym	Definition
SOFR	Secured Overnight Financing Rate
SORA	Singapore Overnight Rate Average
SPR	Strategic Petroleum Reserve
TC/RC	Treatment Charge/Refining Charge
TIPS	treasury inflation protected securities
tn	trillion
TOPIX	Tokyo Stock Price Index
UAE	United Arab Emirates
UCITs	Undertakings for Collective Investment in Transferable Securities
UST	US Treasury
VC	venture capital
VRRR	Variable Rate Reverse Repo
WWII	World War II
WTI	West Texas Intermediate
YTD	year-to-date
ZIRP	Zero Interest Rate Policy

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June 2026

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March 2026

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September 2025

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Rising Above Inflation
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A Divergent World
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Resilient in the Storm
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Build to Last
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New Wine, New Skin
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A Changing World
June 2019

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Lift to Win
March 2019

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December 2018

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Steer Through Rough Seas
June 2018

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Mind the Bends
March 2018

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The Bull Ain't Done
December 2017

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