Q3 2026 Market Outlook

Navigating a more demanding investment landscape

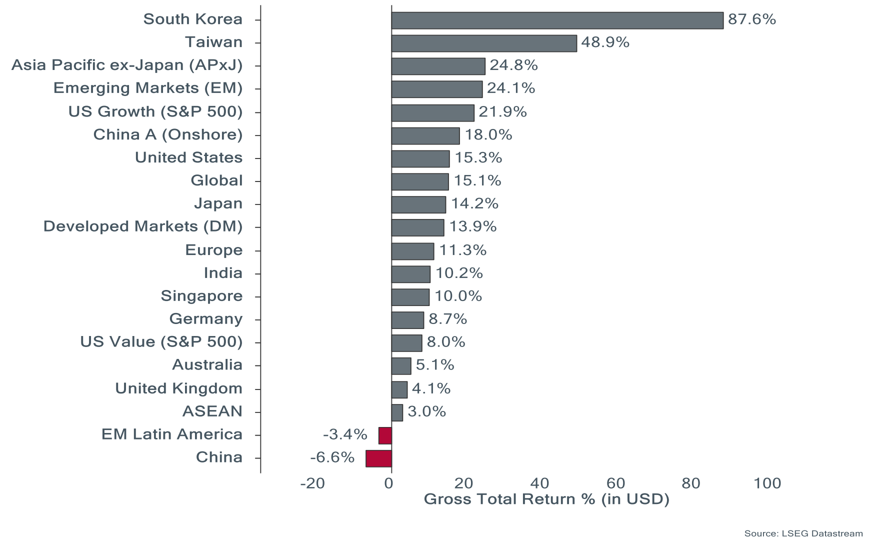
Q2 2026: Quarterly Market Recap

Easing Geopolitical Tensions Support Risk Assets; Bonds Resilient Throughout Market Volatility

Equities

Global equities rebounded strongly in the second quarter of 2026 as easing energy-risk premia, resilient earnings and renewed confidence in the AI-led capital expenditure cycle supported a return to risk assets. The MSCI All Country World Index (ACWI) rose 15.1%, with gains strongest early in the quarter before volatility increased towards late June as the artificial intelligence (AI) valuation debate intensified and the "higher-for-longer" rates backdrop re-emerged. Concerns over Strait of Hormuz disruptions and oil price volatility faded by quarter end as tanker flows improved and ceasefire arrangements gained traction, reducing inflation tail risks. US equities led Developed Markets with a 15.3% gain, supported by strong earnings delivery and renewed investor appetite for AI beneficiaries, although profit taking in long-duration growth stocks emerged towards the end of the quarter. The MSCI AC Asia Pacific ex-Japan Index surged 24.8%, rebounding strongly on renewed technology leadership and resilient regional macroeconomic conditions. Gains were led by Korea and Taiwan amid the AI-driven semiconductor cycle, while China lagged due to weak domestic demand and persistent risk premia.

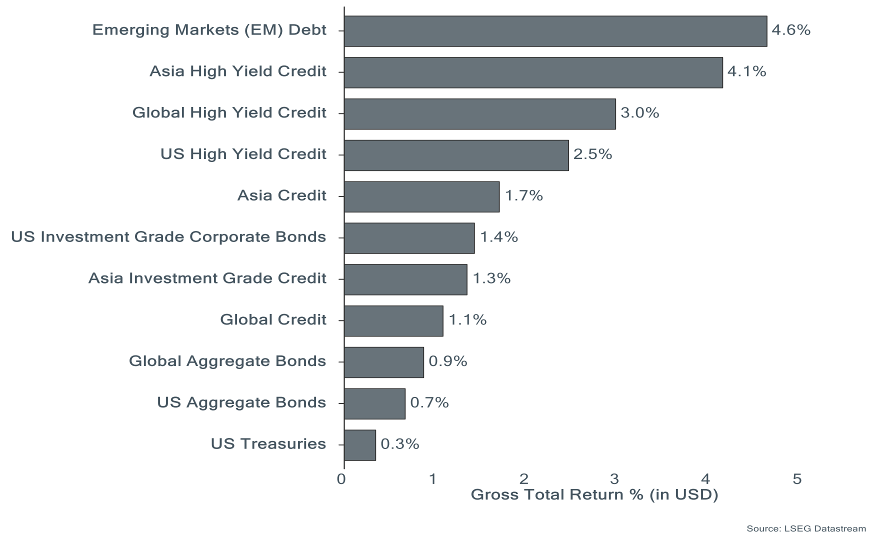
Global Equities: Q2 2026 Performance



Fixed Income

Global bond markets delivered positive returns in the second quarter of 2026, with the Bloomberg Global Aggregate Index rising 0.9% as easing oil prices, moderating inflation concerns and a late quarter rally in government bonds offset earlier volatility driven by geopolitical uncertainty and shifting monetary policy expectations. Global government bonds experienced heightened volatility as geopolitical uncertainty, volatile energy prices and shifting monetary policy expectations pushed sovereign yields higher. US Treasury yields rose over the quarter. Emerging market USD sovereign debt was the standout performer across fixed income markets, with the JPMorgan Emerging Markets Bond Index (EMBI) Global Diversified Index gaining 4.6% on tighter spreads, attractive carry, improved risk sentiment and duration support. Global high yield bonds outperformed investment-grade corporates and government bonds, supported by attractive carry, shorter duration, resilient corporate fundamentals and tight credit spreads despite ongoing geopolitical and macroeconomic volatility.

Global Fixed Income: Q2 2026 Performance



Data source: Eastspring Investments; MSCI; LSEG Datastream. Performance data is provided as of 30 June 2026. Equity returns are referenced by the respective MSCI market indices quoted in USD (gross total returns). Exceptions are the "US Growth (S&P 500)" and "US Value (S&P 500)", which are represented by the S&P 500 Growth (TR) Index and S&P 500 Value (TR) Index, respectively. "DM Equities" is represented by the MSCI World Index. The fixed income markets are represented as follows: "Asia High Yield Credit": J.P. Morgan Asia Credit Non-Investment Grade Index, "Global High Yield Credit": ICE BofA Global High Yield Index, "Asia Credit": J.P. Morgan Asia Credit Index, "US High Yield Credit": ICE BofA US High Yield Constrained Index, "Asia Investment Grade Credit": J.P. Morgan Asia Credit Investment Grade Index, "Emerging Markets (EM) Debt": J.P. Morgan EMBI Global Diversified Index, "US Treasuries": ICE BofA US Treasury Index, "US Investment Grade Corporate Bonds": ICE BofA US Corporate Index, "US Aggregate Bonds": Bloomberg US Aggregate Index, "Global Credit": ICE BofA Global Credit Index, and "Global Aggregate Bonds": Bloomberg Global Aggregate Bond Index. Past performance of the indices is not indicative of future performance of the indices.

Currencies

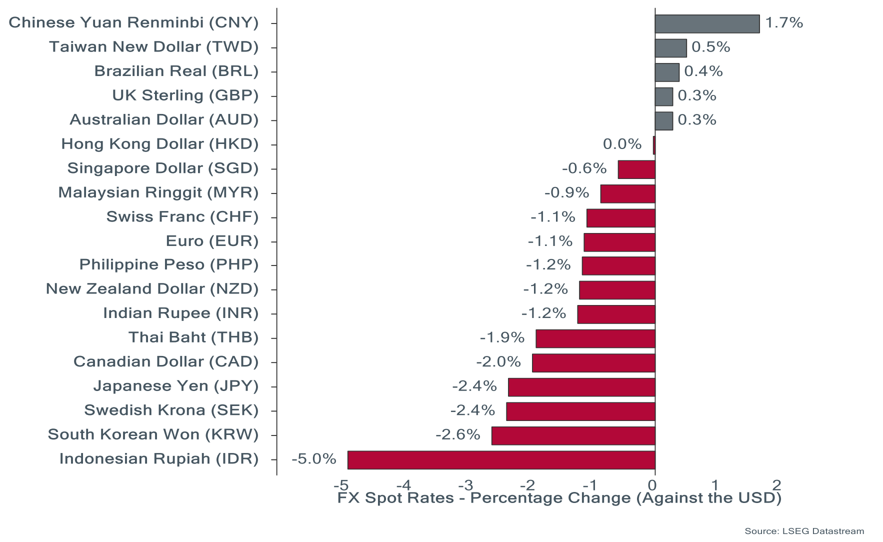
During the quarter, the broad-based U.S. Dollar Index (DXY) gained 1.2% against a basket of six major currencies, supported by a more hawkish US Federal Reserve outlook, strong demand for US assets alongside improving external balances.

Asian currencies delivered mixed performance during the quarter, as the Chinese yuan and Taiwan dollar strengthened against the US dollar, while the yen, won, rupiah, peso, baht, rupee, ringgit and Singapore dollar weakened amid elevated energy prices, geopolitical uncertainty and broad strength in the US dollar. Across the region, central banks remained active in smoothing currency volatility, while shifting expectations for US monetary policy and geopolitical developments shaped forex market performance throughout the quarter.

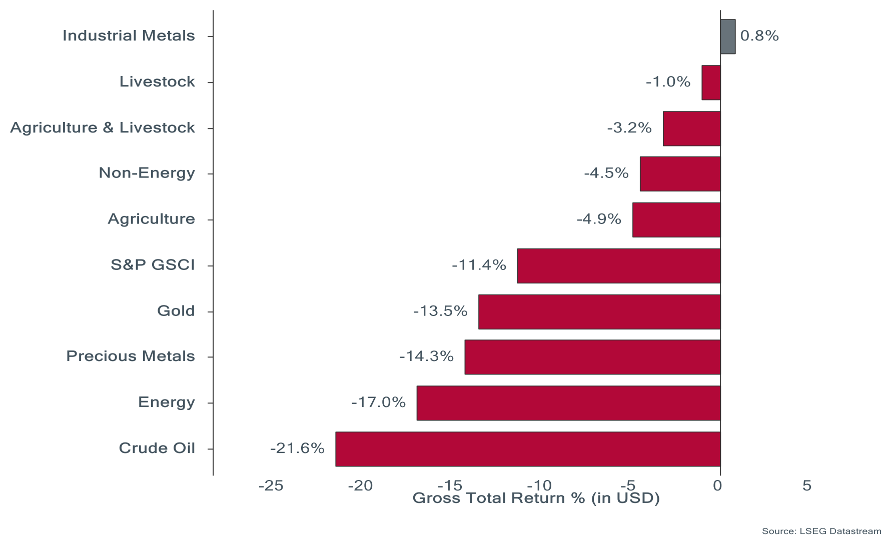
Commodities

During the quarter, commodities broadly declined, with the S&P Goldman Sachs Commodity Index (GSCI) falling 11.4%, driven primarily by weakness in crude oil, energy markets, and precious metals. Crude oil prices retreated following the announcement of a ceasefire between the United States and Iran, reducing immediate concerns over a broader regional escalation. Meanwhile, gold and other precious metals weakened amid a stronger U.S. dollar (USD), firmer inflation expectations, and easing geopolitical tensions.

Currencies: Q2 2026 Performance (against the USD)



Commodities: Q2 2026 Performance



Source: LSEG Datastream; S&P Global. Performance data is provided as of 30 June 2026. For the “Currencies (against the USD)” chart, the currency performances for the respective currencies are based on the closing spot rates (versus the USD), as calculated by Refinitiv. For the “Commodities” chart, please note the following. Crude Oil: S&P GSCI Crude Oil Index, Energy: S&P GSCI Energy Index, Livestock: S&P GSCI Livestock Index, Gold: S&P GSCI Gold Index, Precious Metals: S&P GSCI Precious Metals Index, Agriculture & Livestock: S&P GSCI Agriculture and Livestock Index, Non-Energy: S&P GSCI Non-Energy Index, Agriculture: S&P GSCI Agriculture Index, and Industrial Metals: S&P GSCI Industrial Metals Index. Past performance of the indices is not indicative of future performance of the indices.

Macro Outlook

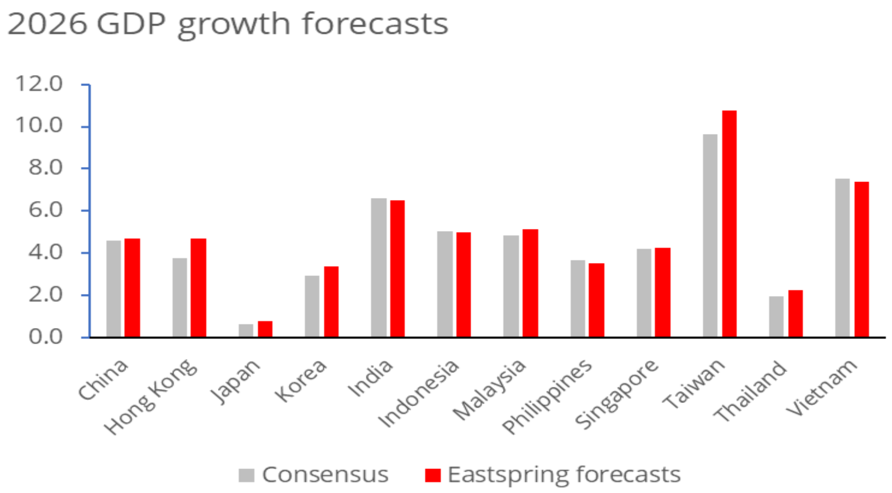
Uneven growth, higher inflation, tighter policy

Growth

The global expansion remains intact, but less broad-based. Full year 2026 global growth is likely to be about 3.0%, down from about 3.5% before the Iran War inspired energy shock, with Europe and Southeast Asia bearing most of the drag from higher energy prices. Linkages to the AI capital expenditure boom are driving dispersion in growth across countries and sectors.

In the US, gross domestic product (GDP) should grow 2.1% in 2026 and 2027, led by AI infrastructure spending. Hyperscaler capex and related power-grid investment are offsetting weak non-AI business capex and contracting housing, leaving consumption dependent on further wealth gains or faster wages.

Asia's export cycle should stay strongest where AI hardware exposure is high. Singapore, Malaysia, Taiwan, Korea and Thailand are benefiting from tech and data centre investment; Taiwan's 47% export jump points to GDP growth close to 9% this year before moderation. China should grow 4.8%, supported by exports and strategic industrial spending, but weak housing, modest incomes and delayed fiscal execution bias risk to the downside. India's GDP growth should slow to 6.5% due to the energy shock and a weak monsoon drag on agriculture



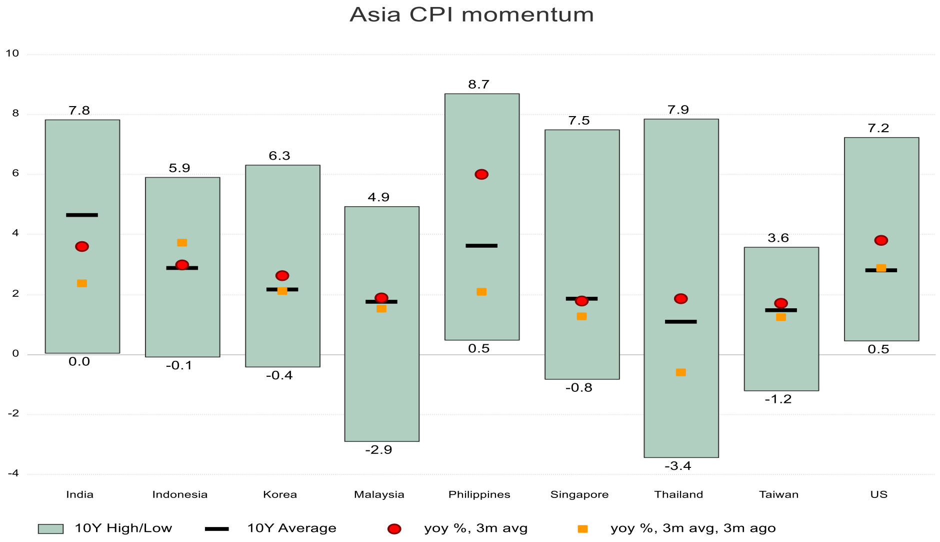
Source: Bloomberg, Eastspring. July 2026

Inflation

Although energy prices have fallen from the April highs, they remain at levels that point to pressure higher goods price inflation in the coming quarters Sharply higher purchasing managers' index (PMI) survey prices-paid indexes in Asia and the US support this outlook. Thus, although headline US inflation probably peaked in May, core is likely to remain sticky around 2.5% - 2.7%.

Asian inflation has begun to rise, both because of higher energy prices and persistently high GDP growth. We see inflation rising above historic averages in all countries except China. Higher inflation is likely to drive policy tightening in India, Indonesia, Korea, Malaysia, the Philippines, and Taiwan.

China remains the main disinflation counterweight. Weak domestic demand should pull consumer price index lower after peaking at 1.2%, reinforcing downward pressure on bond yields. Thailand also continues to experience disinflationary domestic demand forces.



Source: LSEG Datasteam. July 2026

The use of indices as proxies for the past performance of any asset class/sector is limited and should not be construed as being indicative of the future or likely performance of any investment. Any projection or forecast is not necessarily indicative of the future or likely performance of any investment."

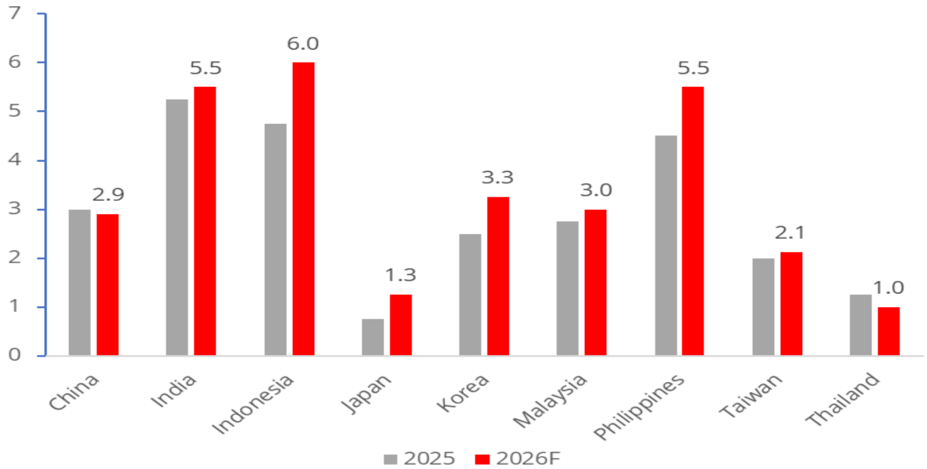
Monetary Policy

Monetary policy has shifted from easing toward selective tightening. We expect the US Federal Reserve (Fed) to raise the Fed Funds rate by 25 basis points (bps) at its September or October meeting based on our outlook for US employment growth to remain robust and core inflation to remain sticky. Weakness in either of these would challenge our Fed expectation. Absent downside surprises to employment and core inflation, we believe US Treasury yields need new Fed Chairman Warsh to deliver on his hawkish rhetoric about inflation to sustain falls.

In Asia, rate hikes are likely where inflation, currency pressure or external balances are most stressed. Policy rates are likely to rise in Indonesia, India, Korea, the Philippines and Taiwan. The Reserve Bank of India is likely to hike 25bps to 5.5% as inflation climbs toward 4.5%–5.0%, while the Philippines faces the largest required adjustment. Indonesia's governance concerns, possible downgrade risk, equity market weakness and widening current account deficit leave Bank Indonesia under pressure to lean against IDR weakness. Korea and Taiwan should tighten as AI-led activity sustains demand and imported goods inflation rises.

China remains the exception, with weak domestic demand and low inflation keeping yields under secular downward pressure. Malaysia should hold at 2.75%, while Singapore is more likely to maintain the Singapore Dollar Nominal Effective Exchange Rate (SGDNEER) appreciation path, a modest steepening is possible.

Eastspring policy rate forecasts



Source: Eastspring. July 2026

Currency Outlook

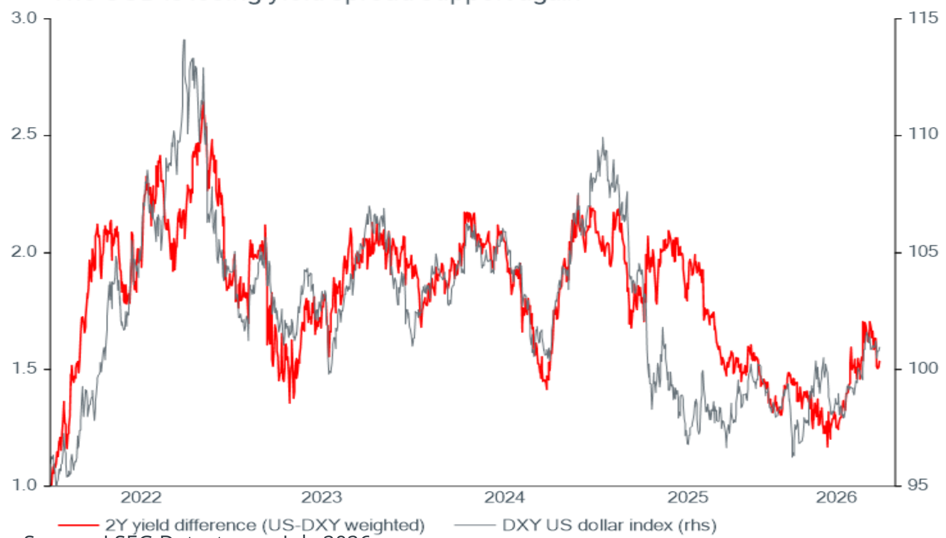
The USD has probably peaked versus the major currencies. Market pricing for Fed hikes looks full at 33bps by end-2026 vs. 43bps for the European Central Bank (ECB) and 24bps for the Bank of Japan. This has led to front-end spread support for the USD beginning to fall.

Nonetheless, divergence among Asia's currencies is likely to continue over the next couple of quarters. One group – the Chinese Yuan (CNY), Malaysian Ringgit (MYR), and Singapore Dollar (SGD) – are likely to appreciate modestly against the USD and more robustly relative to peers. The CNY is benefiting from the combination of China's huge current account surplus and what appears to be a new policy preference for gradual currency strength. Similarly, Singapore's monetary settings create a stronger policy incentive for SGD strength. Malaysia's net neutral energy import balance leaves the MYR supported by its current account surplus and capital inflows into AI infrastructure.

In contrast, the deterioration in terms of trade for much of Asia points to continued trend depreciation pressure on the Indonesian Rupiah (IDR), Indian Rupee (INR), and Philippine peso (PHP). These currencies' fundamentals were weak before the Iran – US war and have deteriorated since. They require tighter monetary conditions to stabilise in a higher energy-cost world. Structural pressure from outward investment keeps the South Korean Won (KRW) and Taiwan Dollars (TWD) biased to depreciate, but the semiconductor export surge is cushioning both for now.

The key risks we see are greater than expected inflation in the US and any prolonged further rise in energy prices due to hostilities in the Middle East.

The USD is losing yield spread support again



Source: LSEG Datastream July 2026

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Top key risks to monitor	Likelihood	Magnitude of Market Impact
Two main downside US risks stand out. Although US inflation and wage growth moderated through June, both remain risk factors for second half (H2). Purchasing Manager Index Prices Paid subcomponents have risen to multi-year highs pointing to inflationary pressure in goods. US employment has also been stronger than expected and Fed surveys suggest employment may remain robust. This could lead to a reacceleration in wage growth. If these risks materialise they would imply larger than expected Fed rate hikes and tighter global liquidity conditions. A second key risk is the magnitude and durability of the AI infrastructure spending boom. Asian export growth is now highly concentrated and dependent on demand from this sector. If spending were to fall it would weaken exports and growth across the region.	Medium	High
Key upside risks include a recovery in US job creation that pushes US growth above 2.5% without increasing wage growth significantly. This could come from the combination of AI capex and adoption increasing demand for labour while also boosting productivity sufficiently to restrain unit labor cost increases.	Medium	Medium
Geopolitical instability. A lasting settlement to the Iran-US conflict remains elusive. Ceasefires are likely to remain fragile for the foreseeable future. We also continue to monitor the potential for stress emerging from China-Taiwan cross-strait relations as well as disputes between China and the Philippines about territorial water boundaries.	Low	High

Data source: Eastspring Investments (Singapore) Limited. Views are as of 23 July 2026. Please note that the information provided here is subject to change at Eastspring's discretion without prior notice.

Asset Allocation Views

Tactically risk-on with restraint, while staying nimble and vigilant amid geopolitical tensions

Geopolitical tensions remain elevated and are likely to generate periodic volatility. However, the broader backdrop remains supportive for risk assets, underpinned by resilient global growth, healthy labour markets and the ongoing AI-led capex cycle. As a result, we remain tactically constructive on global equities over a 3-month horizon, while adopting a more measured stance given elevated valuations and geopolitical uncertainty.

Within equities, we continue to favour the US, Emerging Markets (EM) and Asia over Europe. The US remains supported by resilient economic growth and sustained AI-related investment, while selected EM and Asian markets offer attractive valuations and favourable earnings momentum, particularly across technology-related sectors. By contrast, Europe faces a more challenging backdrop of softer growth, structural energy constraints and weaker earnings.

Within fixed income, we maintain a neutral stance on US government bonds as inflation risks and geopolitical uncertainties are broadly offset by moderating growth expectations and potential safe-haven demand in the near term. In credit, we continue to prefer US high yield over investment grade bonds, supported by resilient fundamentals, attractive all-in yields and strong investor demand.

We also remain constructive on Emerging Market hard currency debt, where attractive carry, resilient fundamentals and ongoing demand for income-oriented assets continue to support returns despite the potential for near-term volatility.

Asset Allocation Views

● Underweight ● Neutral ● Overweight

↑↓ Upgrade/downgrade in view from previous quarter – No change

Asset	3m		12m		Rationale
Global Equities	● Overweight	–	● Neutral	–	The macroeconomic backdrop over the next one to three months remains constructive for global equities, underpinned by a reassertion of the soft-landing narrative across major economies. In the United States, growth resilience continues to surprise to the upside, supported by robust consumer spending, a still-tight labour market, and a sustained capex cycle tied to AI infrastructure, reshoring, and grid modernisation. In Asia, Japan's nominal reflation story is intact, while China retains meaningful policy optionality, with incremental fiscal and property-sector measures acting as a 'call option' of sorts, on broader emerging market growth. All things considered, nominal GDP growth remains sufficient to sustain top-line earnings momentum, while the absence of meaningful recessionary signals in labour markets, credit spreads, and leading indicators, reinforces the "no landing to soft landing" tactical setup that historically underwrites risk-on equity performance. Within equities, we maintain a stronger tactical preference for markets outside Europe. We see scope for continued upgrades to earnings expectations in the US and select Emerging Markets, particularly in sectors such as technology hardware, power equipment, and materials, to name a few. In our view, robust profitability among end customers should continue to support demand across these industries.
US Government Bonds	● Neutral	–	● Neutral	–	US Treasury yields have repriced higher amid rising inflation expectations and reduced expectations for near-term Fed rate cuts, resulting in a bear-flattening of the yield curve as front-end yields increased more sharply than longer-dated maturities. Since the end of February (coinciding with the onset of the Iran conflict), 1Y, 2Y, and 3Y Treasury yields have risen by 47bps, 75bps, and 75bps respectively, compared to increases of 51bps, 42bps, and 35bps for 10Y, 20Y, and 30Y maturities. While energy-related inflation risks remain elevated, higher starting yields, moderating growth expectations, and potential safe-haven demand provide important offsets. With these factors broadly balancing each other, we maintain a neutral outlook on US government bonds over both the 3-month and 12-month horizons.
Cash	● Neutral	–	● Neutral	–	We remain neutral on cash, emphasizing both flexibility and liquidity to respond swiftly to potential opportunities or risks as they emerge.

Data source: Eastspring Investments (Singapore) Limited. 3m = 3-month view. 12m = 12-month view. Asset class views are as of 10 July 2026 and should not be taken as a recommendation. The information provided here is subject to change at the discretion of the Investment Manager without prior notice.

Asset Allocation Views (cont.)

Asset Allocation Views

Global Equities	3m		12m		Rationale
US	●	–	●	–	The near-term macroeconomic backdrop remains supportive, underpinned by the continued outperformance of the US economy relative to global peers. Real GDP tracking estimates remain comfortably above trend, supported by resilient consumer spending, positive real wage growth, healthy household balance sheets, and a significant wealth effect stemming from record-high equity and housing valuations. The labour market remains structurally tight without showing signs of a meaningful overheating. Underpinning the cyclical picture is a durable, multi-year investment supercycle tied to AI infrastructure, power generation, and grid modernisation, in addition to the reshoring of advanced manufacturing, which is now beginning to broaden beyond the technology complex into industrials, utilities, and capital goods. The US macro setup offers a rare combination of resilience, breadth, and durability that is supporting our positive view. However, US equity valuations remain a watchpoint over the longer term as the S&P500 continues to trade close to its all-time closing high of 7609.78 set on 2 June 2026.
Europe	●	↓	●	–	Over the shorter-term tactical horizon, European equities face a less favourable backdrop, characterised by softening growth momentum, downward earnings revisions among cyclical sectors, rising trade and tariff uncertainties, structural energy constraints, and limited valuation support once sector composition is taken into account. Positioning has normalised, removing prior tailwinds, while political and fiscal overhangs create asymmetric downside risk. We also maintain our underweight view over the 12-month cyclical horizon.
Emerging Markets (EM)	●	–	●	–	The team remains tactically constructive on Emerging Markets (EM) and Asian equities, targeting attractive pockets/segments of lower relative valuations within the global equity universe through selective, tactical intra-equity allocation. We expect earnings expectations for major technology-exporting markets, particularly those exposed to technology hardware, power equipment, and materials, to remain supported and continue trending higher over the near term. While we remain tactically constructive on EMs, we have more recently reduced exposure to single-country positions, in favour of broader EM. This follows a fundamental downgrade and reflects a more cautious near-term outlook amid stretched technicals, potential rotation/outflows (including IPO-related flows), and asymmetric risk. Our 12-month cyclical stance remains neutral.
Asia Pacific ex-Japan	●	–	●	–	Please refer directly above. Given Asia's outsized representation in the Emerging Markets universe, our tactical and cyclical outlooks for the region largely mirror our broader EM rationale.
Government Bonds	**3m**		**12m**		**Rationale**
US	●	–	●	–	While geopolitical developments continue to create upside risks to inflation, recent market pricing suggests investors are increasingly balancing these concerns against signs of further moderating US growth. The resulting tension between inflation resilience and softer economic activity is likely to limit the scope for a sustained directional move in Treasury yields. Given this balanced risk-reward profile, we maintain an overall neutral view on US government bonds over both the tactical (3-month) and cyclical (12-month) horizons.
Europe	●	–	●	–	European government bonds face a challenging balance between energy-related inflation risks and weakening economic growth. While European Central Bank policy trajectory remains largely uncertain, despite its recent policy rate hike (first time since 2023) in June, we believe softer growth will limit the scope for materially higher yields. In the United Kingdom, the significant repricing in UK gilts, combined with softer labour market conditions, weakening economic momentum and expectations that the new UK government will maintain a broadly growth supportive fiscal stance, supports a modestly positive tactical view. However, persistent inflation and policy uncertainty across the region warrant a neutral 12-month outlook.

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Asset Allocation Views (cont.)

Asset Allocation Views

Government Bonds (cont.)	3m		12m		Rationale
Singapore	●	–	●	–	Singapore government bonds face a balanced mix of modest imported inflation pressures and a softer external growth environment. While geopolitical developments and energy prices warrant monitoring, the combined effects of overall slower global activity and existing policy stance should help anchor medium-term inflation expectations. We therefore maintain a neutral view on SGS bonds over both the 3-month and 12-month horizons.

Credit	3m		12m		Rationale
US High Yield	●	–	●	–	The team remains constructive on US high yield given continued support from solid credit fundamentals, including ongoing net upgrades and a default environment that remains below long-term averages. In addition, improving technicals, robust investor demand, and still-attractive all-in yields (with the yield-to-worst currently hovering close to 7%) continue to underpin the asset class, despite historically tighter spreads.
US Investment Grade	●	–	●	–	US investment grade credit continues to benefit from resilient corporate fundamentals and low default risk. However, spreads remain near historically tight levels, limiting further upside looking forward, and thus offering less compelling carry relative to other higher yielding credit segments. Combined with its greater duration sensitivity to interest rate volatility, this supports a neutral stance over both the 3-month and 12-month horizons.
Emerging Markets (USD) Bonds	●	–	●	–	Emerging Market corporate bonds remain supported by attractive carry, resilient fundamentals, and an ongoing demand for income-oriented assets, underpinning an overall positive tactical outlook. However, geopolitical tensions in the Middle East, energy market volatility, potential trade disruptions and periods of sustained US dollar strength may generate episodic volatility. While near-term risk-reward remains favourable, more balanced valuations and macro uncertainty support a neutral 12-month view.
Asian Credit	●	–	●	–	Asian corporate bonds continue to benefit from resilient credit fundamentals, healthy demand for income-generating assets and a supportive regional investor base. However, compared with Emerging Market corporate bonds, the asset class offers less attractive carry and more limited spread compression potential at current valuations. Ongoing geopolitical uncertainties, including Middle East tensions, potential trade disruptions and US dollar volatility, further limit the scope for significant outperformance. On balance, we view the asset class as fairly valued and maintain a neutral stance over both the 3-month and 12-month horizons.

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Why past technology cycles matter for AI investors

Since the 1960s, major technological developments have reshaped how people live, work, and connect. Each new wave of technology has created clear leaders and attractive investment opportunities, but also periods of excessive optimism and sharp setbacks.

The latest wave is Artificial Intelligence (AI), a technology that is widely seen as transformative. Earlier technology cycles largely improved access, efficiency and connectivity but AI goes further by reshaping how work is done and how decisions are made across industries.

AI is being adopted faster and across more industries than previous technologies. This could lead to sharper market swings, making it important for investors to identify the likely winners.

Past technology cycles offer useful lessons. While comparisons with the dot-com era are understandable, AI remains in the build-out phase and differs in three ways:

- AI monetisation is becoming visible, but earnings remain concentrated in a small group of leaders
- AI demand will continue to outpace compute capacity as more workloads require inference
- For hyperscalers, first mover advantage to secure compute capacity is key, rather than price

The AI cycle is expected to create opportunities across multiple phases, but selectivity is key. Investors should focus on companies with proven monetisation, pricing power and the ability to scale.

The opportunity extends beyond a narrow group of US AI leaders. While the US leads AI development, Asian supply chain companies remain critical to scaling the ecosystem and capturing value across the AI value chain.

Major tech cycles since the 1960s

	Value factor and regional dynamics	Key takeaways for investors
Mainframe (1960s - early 1980s)	Indirect user benefit driven by enterprise efficiency, but accessibility was limited. **The cycle was US-led while Asia was largely a consumer**	**Value was concentrated among a few players, limiting competition** and narrowing the investment opportunity set
Personal computing (early 1980s – mid 1990s)	Direct user benefit driven by productivity tools, but connectivity was limited. **The cycle was US-led while Asia manufactured hardware**	Rapid entry of new players increased competition, leading to shakeouts rather than a sharp crash. **Value concentrated in those with scale and control**
Internet (mid 1990s – late 2000s)	Users enjoyed connectivity and access through digital platforms which simplified daily tasks such as shopping and banking. **The cycle was US-led while Asia manufactured semiconductors & components** but had limited global platform leadership	**The dot-com cycle (1995-2002) was narrative-led and became a clear speculative bubble** followed by a crash as valuations overshot real earnings. This is now the benchmark cycle for all comparisons
Mobile & Cloud (late 2000s – late 2010s)	Users of mobile were able to do everything anywhere (on demand) while cloud accelerated innovation and deployment speed. **The US continued to lead in software and operating systems while Asia built the mobile hardware, strengthened the supply chain and created its own local platforms**	**Mobile/smartphone cycle was adoption-led** and reached billions of users, resulting in growth with corrections but no systemic crash. **Cloud/platform cycle was earnings-led** with firms that adopted cloud at scale showing stronger profitability. There were **periods of valuation resets but no broad sector collapse**
Artificial Intelligence (late 2010s – present)	Users can automate tasks and offload thinking, driven by data, compute, and models. **US still leads in frontier AI models while Asia is not only an enabler through hardware and scale but is also competing for leadership in AI**	Investment has surged and recent returns have been driven more by earnings growth than pure valuation expansion. But the market remains concentrated in a small group of "AI leaders". **As the cycle is still ongoing, long-term winners are not yet fully visible**

Source: Eastspring Investments July 2026

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