



Balance and resilience
amid geopolitical uncertainty





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CIO Viewpoint

Chong Jiun Yeh, Group Chief Investment Officer



A wide range of outcomes calls for balance and resilience

Rising geopolitical risks

The global investment environment entering the second quarter of 2026 remains supported by resilient growth and broadly constructive earnings expectations across major regions. Structural forces, including innovation in artificial intelligence (AI) and investment in energy and infrastructure, continue to underpin medium-term opportunities and provide a foundation for long-term wealth creation.

At the same time, the risk environment has become materially more uncertain. Geopolitical developments, particularly in the Middle East, have increased the potential for energy market disruptions, renewed inflation pressures and sudden shifts in market sentiment.

We are taking the risks surrounding the Iran conflict and the Strait of Hormuz very seriously. Recent developments suggest that this episode may not follow the familiar geopolitical playbook, particularly given the possibility of prolonged disruption to global energy flows and meaningful second-order effects on inflation, growth and broader market confidence. As a result, the range of plausible outcomes has widened meaningfully.

While we do not view a full-blown, extreme escalation as our central expectation and assign a lower probability to such an outcome, uncertainty remains very high. In particular, we see roughly equal probability between scenarios in which geopolitical tensions ease and risk assets recover, and those in which disruptions persist for several more months, resulting in weaker growth and elevated volatility.

In this environment, caution and risk management take precedence. We do not believe current visibility justifies turning materially bearish, nor do we see sufficient clarity to systematically take advantage of market declines. Instead, our focus is on maintaining balanced portfolios that can navigate this period of uncertainty – remaining invested in long-term structural opportunities, while managing downside risks through diversification, disciplined risk budgets and appropriate hedges.

Here's a summary of our views

- The outlook is more two-sided, with resilient growth and innovation offset by heightened geopolitical risks. We are neutral on equities relative to benchmarks, emphasising diversification and selectivity, overweight gold, and remain underweight cash.
- We expect no further Fed hikes and anticipate 0-1 rate cut later in 2026.
- We expect UST 10-year yields to range between 4.00 - 4.70 percent in 2Q 2026, with yield curves remaining upward sloping as the easing cycle tapers.
- We see the USD as structurally weak over the coming years, though likely range-bound through 2Q 2026, with the potential for near-term strength if geopolitical tensions intensify

Global Asset Allocation

Risks have become more skewed

Geopolitics are unsettling an otherwise positive outlook

The global macro backdrop heading into the second quarter of 2026 remains supported by broadly resilient growth and healthy earnings expectations across major regions.

Geopolitics, however, are challenging this otherwise constructive backdrop. Recent actions by the US have raised questions around established international norms and conflict containment, increasing uncertainty over energy security, trade stability and global growth. Developments in the Middle East, in particular, underscore how quickly geopolitical risks can disrupt growth and earnings.

While geopolitical outcomes remain difficult to predict, markets are likely to focus less on political intent and more on the implications for economic stability, inflation and risk premiums. As a result, investors are reassessing the reliability of the global policy and security environment, increasing the likelihood of structurally higher risk premiums and reinforcing the need for more cautious, resilient and diversified portfolio construction.

Scenario analysis

For the ongoing Iran conflict, we judge that the distribution of outcomes has widened and now see three probable scenarios.

- **Bull case: Conflict resolves in the near term (40 percent probability):**
Diplomatic or military developments allow the Strait of Hormuz to reopen, restoring confidence in global energy supply. Oil prices normalise toward US\$70 per barrel, inflation pressures ease, and risk assets recover from recent drawdowns. Under this scenario, equities could regain lost ground, with gains of around 5 percent, while US 10-year yields stabilise in the 4.0-4.5 percent range.
- **Bear case: Conflict over several months (40 percent probability):**
Energy infrastructure disruptions persist, oil prices remain above US\$100 per barrel for an extended period, and reserves are drawn down. The global economy experiences a mildly stagflationary backdrop, with higher volatility across financial markets. Equities could decline by 5-10 percent, while bond yields remain elevated in the 4.5-5.0 percent range.



Anthony Raza
Head of
Multi-Asset Strategy

- **Extreme bear case: Prolonged conflict and disruptions (20 percent probability):** Boots on the ground and a prolonged closure of the Strait of Hormuz for much of the year trigger a sharp and sustained energy shock. Oil prices remain above US\$150 per barrel for several months, while global growth deteriorates into recession, reflecting heightened vulnerability in an economy increasingly reliant on energy-intensive, AI-driven activity. Under this outcome, risk assets would likely sell off materially, with equities declining by around 20 percent, while bond yields become more volatile, with swings in a broad 3.0–5.0 percent range.

This scenario distribution reinforces our view that risk/reward is currently more two-sided. While upside remains, downside risks are sufficiently material that portfolios should not be positioned aggressively around a single outcome. Against this backdrop, we have moved to a more neutral and risk-aware asset allocation stance, prioritising resilience, diversification and selectivity.

AI is a powerful structural theme but risks remain

Before geopolitics dominated the risk landscape, our focus was on assessing the opportunities and disruptions emerging from AI. We have been struck by the rapid evolution: last year's AI systems were primarily "chatbots," while this year's are increasingly "doers." Tools like Claude Cowork, Claude Code and OpenClaw illustrate how much practical work AI can now accomplish. It is clear their capabilities – and computing demands – are rising quickly.

From a strategic perspective, we continue to view AI as a durable structural theme and do not believe it justifies being considered a bubble at this stage. The opportunities continue to support hardware tech investments, and leading firms within the AI ecosystem are well positioned to benefit as adoption broadens over time.

That said, the near-term investment profile of AI has become more complex. Market leadership has become increasingly narrow, valuations in parts of the ecosystem are elevated, and the pace of capital spending is likely to be more sensitive to macro volatility and funding conditions than in earlier phases of the cycle. At the same time, AI-driven disruption is creating greater earnings uncertainty for some software and service industries, even as confidence is growing in the need for more data centres and computing power to support AI adoption.

Against the backdrop of heightened geopolitical risk, we are mindful that high valuations can leave markets more exposed to drawdowns when sentiment deteriorates. We would favour selective exposure to areas of the AI value chain characterised by stronger balance sheets, clearer earnings visibility and strategic importance, while maintaining disciplined risk management in the current environment.

Asset allocation implications

Equities:

We are neutral on equities relative to benchmarks for relative-return mandates. While earnings growth and long-term innovation trends remain supportive, heightened geopolitical uncertainty warrants a more measured and risk-aware approach. Within equities, we have downgraded previous overweights in Asia and Japan to neutral, reflecting a more balanced assessment of near-term risk and return. We have also downgraded the US from overweight to neutral, given elevated valuations and concerns around longer-term US dollar weakness. For absolute-return oriented strategies, where capital preservation is paramount, we maintain an underweight bias to equities until the balance of risks improves more clearly.






Fixed income:

In fixed income, we remain broadly diversified, with a preference for Asian credits as our favoured segment given supportive fundamentals and attractive carry. We do not expect a Fed funds hike and continue to anticipate between zero and one rate cut this year. In this environment, yield curves are likely to remain upward sloping as the global easing cycle tapers.

Commodities and gold:

We maintain a constructive view on commodities, and continue to view gold as an important diversifier, supported by demand for metals tied to technology and energy-infrastructure buildouts. Unlike the previous decade of near-zero rates, investors now benefit from positive real yields that offer a stable return anchor in a more volatile environment.

Global Asset Allocation Strategy

Sector	View	Notes
Equities 	N	<p>Rationale: While global growth and earnings trends remain supportive over the medium term, elevated geopolitical risks and valuation sensitivity have made near-term risk/reward more two-sided.</p> <p>Risks: A faster resolution of geopolitical tensions or renewed confidence in growth could support a stronger equity rebound, while a prolonged conflict would increase downside risks.</p>
Fixed Income 	N	<p>Rationale: We remain broadly diversified in fixed income, recognising its role in portfolio stability amid heightened uncertainty.</p> <p>Risks: Inflation trends remain uncertain, and US policies continue to be inflationary, raising the risk that inflation data could again weigh negatively on markets in 2026.</p>
Commodities 	+	<p>Rationale: Solid global growth, ongoing demand from AI infrastructure and green industries, and persistent gold demand all support healthy structural demand for commodities.</p> <p>Risks: Geopolitical developments bring both upside and downside risks. Shortages could result in higher prices, but if the Middle East conflict triggers an economic slowdown, commodity prices would likely fall.</p>
Alternatives 	N	<p>Rationale: Alpha opportunities have improved over the past year, enhancing the appeal of alternative strategies.</p> <p>Risks: In recent years, the core asset classes of equities, fixed income, gold and cash have delivered solid returns, reducing some of the demand for alternatives.</p>
Cash 	-	<p>Rationale: Selective opportunities across equities, credit and commodities argue for staying invested.</p> <p>Risks: Geopolitical events may trigger volatility and create attractive entry points. In such scenarios, maintaining some cash reserves would be valuable.</p>

Global Equities

A more two-sided outlook

Shifting to a neutral stance

Global equities enter the second quarter of 2026 with a mixed set of signals. On the positive side, global growth remains resilient, and earnings expectations are still broadly constructive across major regions, supported by ongoing innovation and investment in areas such as artificial intelligence, digital infrastructure and energy transition. These structural drivers continue to underpin the medium-term equity outlook.

However, the near-term risk environment has become more challenging. Elevated geopolitical uncertainty, heightened energy supply risks and higher sensitivity to valuations have increased the likelihood of more volatile and uneven equity returns.

While structural growth drivers remain intact, elevated geopolitical risks warrant a more neutral equity stance in the near term, with a strong emphasis on selectivity, diversification and risk management.

Regional perspectives

United States:

We downgrade US equities to neutral. The US continues to host many of the global leaders across AI and innovation-driven industries, but lofty valuations and a narrowing market leadership increase downside sensitivity in risk-off environments. In addition, concerns around longer-term US dollar weakness and policy uncertainty limit the scope for sustained outperformance from current levels.

Asia:

We have lowered our equity stance on Asia to neutral. Structural growth drivers, improving competitiveness in technology and manufacturing, and generally strong regional balance sheets remain supportive over the medium term. As global investors gradually diversify away from USD-denominated assets, Asian currencies have firmed, providing greater policy flexibility and allowing regional central banks to ease conditions in support of growth.

However, the near-term outlook is more challenging. Higher energy prices, global trade uncertainty and greater earnings sensitivity argue for a more measured allocation. Accordingly, we favour selective exposure rather than broad-based positioning, focusing on markets and sectors with more resilient fundamentals and clearer earnings visibility.






Anthony Raza
Head
Multi-Asset Strategy

Japan:

Historically, Japanese equities have tended to perform well following strong electoral mandates, which can signal political continuity and provide businesses with greater policy clarity. We remain encouraged by Japan's ongoing structural improvements in corporate governance, alongside steady gains in margins and returns on equity.

That said, Japan's equity market is not insulated from global risk sentiment. Reliance on imported energy increases vulnerability under more adverse geopolitical scenarios, while broader market volatility limits the scope for near-term outperformance. Against this backdrop, we have downgraded Japan to neutral, favouring a more balanced and selective approach.

Equities Regional Strategy

Region	View	Notes
US 	N	<p>Rationale: The US carries both the benefits and the challenges of being the epicentre of AI development. It benefits from hosting many AI leaders, but it also suffers from having many of the industries most at risk of disintermediation—such as software—based there. We think the opportunities and risks largely offset each other, and the structural decline of the USD suggests US market performance may ultimately be neutral.</p> <p>Risks: Most economists do not expect a US recession, but if recession risk becomes more widely accepted, US equities would likely suffer the most due to their higher valuations.</p>
Europe 	N	<p>Rationale: Europe has endured two years of sub-1 percent GDP growth and is only now beginning to show stronger economic trends. Earnings growth is expected to exceed 10 percent for the next two years, which is above trend for Europe. This has helped Europe become one of the top performing markets in 2025.</p> <p>Risks: Europe remains heavily dependent on Middle Eastern energy supplies, leaving it more exposed to inflation risks.</p>
Japan 	N	<p>Rationale: Japan's average prime minister typically lasts just over a year, but a strong electoral mandate can create a period of political and business stability. This helps to support Japan's medium-term equity story.</p> <p>Risks: Japan remains sensitive to global risk sentiment and continues to be dependent on Middle Eastern energy resources, limiting near-term upside in more adverse scenarios.</p>
Asia 	N	<p>Rationale: Asia continues to build competitive advantages in chips, memory, alternative energy and EVs. The region's middle class is expanding to rival that of the US, making it increasingly attractive for direct investment. Currency strength has also provided greater policy flexibility in several markets.</p> <p>Risks: Geopolitical risks in the Middle East pose challenges for Asia and rising US recession risks could negatively impact the region.</p>

Asia Equities

Turning tactically cautious on Asia

We are tactically more cautious on Asia at this stage, notwithstanding our constructive medium-term outlook. While the recent spike in oil prices presents downside risks to near-term corporate earnings, the overall impact on Asia's growth should remain manageable. Most Asian economies also retain fiscal space to mitigate the drag.

Cautious on China and Hong Kong

We turn tactically cautious on China and Hong Kong, shifting both markets from overweight to underweight. While China's economic rebalancing continues and structural progress in innovation-driven industries remains intact, the near-term backdrop is challenged by soft domestic consumption and a less supportive external environment. Export strength alone is unlikely to fully offset these headwinds in the coming quarter.

That said, policy support has been gradually accumulating, and sectors tied to AI hardware, industrial upgrading and energy transition continue to show signs of more stable earnings momentum. These areas, alongside China A-shares, which offer clearer exposure to policy-aligned themes, represent important sources of medium-term upside should confidence and consumption recover more meaningfully. We therefore frame our underweight as tactical rather than structural and maintain selective exposure to segments with improving long-term fundamentals.

Overweight Korea

Conversely, we upgrade Korea from underweight to overweight. As a higher-beta market, Korea offers good exposure to Asia's defence and shipbuilding industries. We remain neutral on Taiwan, maintaining selective overweights in AI and tech supply-chain stocks in line with our positive view on AI-driven capex momentum. India stays at underweight as upside appears capped in the absence of foreign fund inflows, despite stabilising earnings revisions and moderating valuations.

Selective but cautious across ASEAN

Within ASEAN, we downgrade Thailand and Malaysia from overweight to neutral. Thailand's premium valuations look demanding against its subdued growth outlook, while in Malaysia we remain selectively overweight on bottom-up opportunities. We also downgrade Indonesia from overweight to underweight, given the lack of catalysts for a market re-rating and downside risks to the rupiah. We remain underweight Singapore, as valuations have become less attractive amid limited tailwinds for the financial sector.



Paul Ho

Group Head of Asia
ex Japan Equities







In contrast, we upgrade the Philippines from underweight to overweight. Market expectations are low and the Philippines offers one of the most compelling valuation opportunities in ASEAN. We also retain our overweight on Vietnam, supported by robust earnings growth underpinned by a strong macro environment, with further upside potential from prospective index inclusion.

Disciplined sector positioning





At the sector level, we adopt a barbell strategy focused on staying engaged while managing downside risks. This supports our overweight in materials and energy, as well as cyclicals including China and Korean industrials, Taiwan AI hardware, and China AI names. At the same time, we maintain exposure to defensives such as Korean consumer staples. We remain underweight consumer discretionary, healthcare, and financials.

Key risks to our cautious outlook include a re-acceleration in China's GDP growth momentum, a further spike or persistent elevation in oil prices, renewed US dollar strength, and heightened geopolitical or trade tensions.

Asia ex-Japan Country Strategy

Country	View	Notes
China 	-	<p>Rationale: Export strength unlikely to offset lacklustre domestic consumption in the near term.</p> <p>Risks: Stronger policy support; consumption rebound; easing geopolitical/trade tensions.</p>
Hong Kong 	-	<p>Rationale: Preference for China A-shares over H-shares given Hong Kong's YTD outperformance.</p> <p>Risks: Decline in HIBOR; fiscal policy support.</p>
India 	-	<p>Rationale: Upside limited without foreign fund inflows, despite more palatable valuations.</p> <p>Risks: Stronger-than-expected consumption recovery; fiscal stimulus</p>
Indonesia 	-	<p>Rationale: Cautious on macro backdrop and downside risks to the rupiah; opportunities remain in commodities.</p> <p>Risks: IDR strength; index rebalancing.</p>
South Korea 	+	<p>Rationale: Higher-beta market with leverage to defence and shipbuilding sectors.</p> <p>Risks: Sharp deterioration in domestic consumption; inflation shock.</p>
Malaysia 	N	<p>Rationale: Focus on selective bottom-up opportunities; relatively less vulnerable to oil-price shocks.</p> <p>Risks: MYR weakness.</p>
Philippines 	+	<p>Rationale: Valuations are one of the lowest in ASEAN with low investor expectations.</p> <p>Risks: PHP weakness; vulnerability to oil-price shocks.</p>

Asia ex-Japan Country Strategy

Country	View	Notes
Singapore 	-	<p>Rationale: Valuations less attractive; limited tailwinds for the financial sector.</p> <p>Risks: Valuation premium persists.</p>
Taiwan market 	N	<p>Rationale: Cautious overall but selective tech overweights maintained</p> <p>Risks: Sharp decline in tech hardware demand.</p>
Thailand 	N	<p>Rationale: Premium valuations despite subdued 2026 growth; some support from post-election policies.</p> <p>Risks: Stronger-than-expected earnings growth.</p>
Vietnam 	+	<p>Rationale: Strong macro fundamentals underpin earnings growth; index inclusion potential.</p> <p>Risks: Weaker VND; sensitivity to higher oil prices</p>

Global Fixed Income

Position for elevated uncertainty

Favour high quality IG credits

Global fixed income enters the second quarter of 2026 with a mixed backdrop, as resilient fundamentals meet a resurgence in geopolitical tensions. While headline yields remain attractive and expected policy easing should provide support, the asset class faces competing forces from sticky inflation, uneven global growth data, and ongoing energy related risks. Against this environment, we maintain a selective stance across fixed income segments.

We remain underweight Developed Market (DM) fixed income, as volatility in global yields and a steepening bias in the US yield curve continue to weigh on government bonds. Although DM bonds should still deliver reasonable returns given attractive starting yields and eventual rate cuts, the near-term risk/reward remains less compelling. Within DM, we prefer high quality investment grade (IG) credit over government bonds. We see particular value in 2-5 year US IG and 4-7 year European IG, which offer better carry, resilience during risk events, and a more favourable risk adjusted profile in a slowing global economy.

Within the emerging markets, favour IG sovereigns and credits

In Emerging Markets (EM), we take a constructive stance, favouring IG EM sovereign and corporate credits over the high yield (HY) segment. Elevated geopolitical uncertainty, shifting US policy direction, and potential weakness in global growth make higher quality EM names more attractive relative to the HY segment. EM corporates continue to offer appealing risk adjusted returns, though dispersion remains high. We are negative on EM local currency bonds, as a firmer USD and weaker fund flow dynamics may keep local curves under pressure.

Across rates, we stay underweight duration given persistent inflation pressures and uncertainty around the impact of higher energy prices on the pace of rate cuts. We also maintain a steepening bias, as the pause in recent curve steepening reflects short-term inflation dynamics rather than a shift in longer-term structural factors. Sector-wise, we note more favourable leverage and earnings revision profiles in Tech, Materials, and Industrials, though we prefer Utilities, Healthcare, and Financials at this stage of the cycle for their more stable fundamentals.

Overall, global fixed income continues to offer selective opportunities, especially in high quality IG credit across both DM and EM. However, the combination of geopolitical tensions, slowing growth indicators, and inflation uncertainty reinforces the need for a quality-focused approach in the quarter ahead.



Goh Wee Liam
Head of
Global Fixed Income

Fixed Income Sector Strategy

Sector	View	Notes
Developed Market (DM)	-	<p>Rationale: Continued yield volatility likely to persist, though we still expect it to deliver reasonable returns supported by attractive yields and potential interest rate cuts</p> <p>Risks: Heightened geopolitical uncertainty and slowing economic growth could put downward pressure on bond yields</p>
DM Government	-	<p>Rationale: A steepening yield curve could weigh on government bond prices</p> <p>Risks: Geopolitical uncertainty and weaker growth could push bond yields lower</p>
DM Credit	+	<p>Rationale: We favour high-quality DM IG credits—particularly 2-5 year US IG and 4-7 year European IG—as global high-grade bonds remain effective buffers against volatility amid geopolitical risks and a slowing economy.</p> <p>Risks: Stronger-than-expected inflation may push yields higher, while softer AI-related capex and rising geopolitical risks could widen spreads.</p>
Emerging Market (EM)	+	<p>Rationale: Given the uncertainties around President Trump's policy direction and elevated geopolitical risks, we prefer IG EM bonds over the high yield (HY) segment</p> <p>Risks: Slower than expected global AI related capex and heightened geopolitical uncertainty could weigh on growth expectations and lead to wider credit spreads.</p>
EM Government	+	<p>Rationale: Maintain a preference for IG EM sovereigns over HY given policy uncertainty and elevated geopolitical risks.</p> <p>Risks: Escalating trade tensions, geopolitical risks, and fiscal pressures may pose headwinds</p>
EM Corporate	N	<p>Rationale: EM corporates continue to offer attractive risk-adjusted returns</p> <p>Risks: Slower global economic growth could lead to wider spreads</p>

Fixed Income Sector Strategy

Sector	View	Notes
EM Local Currency	-	<p>Rationale: We turn negative on EM local currency bonds, as a stronger USD is likely to weigh on fund inflows.</p> <p>Risks: A reversal in USD strength could challenge this view.</p>
Duration	-	<p>Rationale: We underweight duration given persistent inflation and uncertainty over how energy prices may affect the pace of rate cuts.</p> <p>Risks: Growth disappointments or a weaker US labour market could shift the outlook.</p>
Yield Curve	+	<p>Rationale: The steepening of the US yield curve has paused amid higher short-term inflation and uncertainty around the Fed's policy path.</p> <p>Risks: If the Fed's independence is undermined by ongoing legal challenges, the curve could steepen further.</p>

Asia Fixed Income

Preference for HY over IG

Constructive fundamentals across Asia credits

Asia credit's strong start to 2026 has driven valuations tighter. This has been supported by constructive credit fundamentals and favourable technicals across the Asia credit market, and we expect these factors to continue providing a backstop for valuations even as macro and geopolitical uncertainties increase. We prefer selective names in high yield (HY) over investment grade (IG), as HY spreads offer a better buffer against the more uncertain backdrop ahead.

Credit spreads for both IG and HY have tightened steadily over recent years. IG spreads, in particular, are now trading at historic lows, leading to some spread widening year-to-date, though this has been partially offset by the rally in rates. HY spreads have also compressed and currently sit below their long-term averages, yet have managed to tighten further year-to-date despite periods of market volatility.

Technical: favourable supply and demand

Supply and demand dynamics remain favourable. On the supply side, we expect net refinancing to turn slightly positive in 2026, but issuance should be well absorbed by the sizable coupon and maturity repayments flowing back to investors. We do not expect supply to accelerate meaningfully this year, given limited new funding needs and relatively more attractive local-currency funding costs versus USD. On the demand side, fund flows have become more balanced into Asia this year, providing additional support.

Fundamentals: fewer defaults

Defaults declined last year and are expected to fall further this year, largely due to the resolution of distressed China property HY names. Overall credit metrics are improving across both Asia IG and HY, with rating upgrades outpacing downgrades in recent quarters, especially within HY. HY maturities are also well-spaced, avoiding any near-term maturity wall, and the remaining issuers tend to be higher-quality names with solid funding access.

Conclusion: Stay invested

With constructive technicals and improving credit fundamentals acting as a backstop, we continue to prefer selective 'up-in-quality' HY over IG, given HY's better spread cushion against macro volatility and stretched valuations in the IG space.



Joyce Tan
Head of
Asia Fixed Income

Asia Fixed Income Strategy

Sector	View	Notes
Sovereigns / Quasi-Sovereigns	N	<p>Rationale: Slight underweight in Indonesia and the Philippines due to historically tight valuations and, in Indonesia's case, deteriorating fundamentals. Investor confidence has weakened amid policy uncertainty under the new government, fiscal risks from large spending programmes, and pressure on both the currency and local markets following MSCI's warning of a potential downgrade due to transparency concerns.</p> <p>Remain neutral on Sri Lanka and Pakistan, as both have experienced significant rallies over recent quarters and valuations are now very tight. Selectively positive on certain China LGFVs with strategic importance and diversified funding channels, supported by strong central government backing, even as carry has tightened meaningfully.</p> <p>Risks: Ongoing conflict involving Iran and the US/Israel may drive oil prices higher and weigh further on Asia's largely import-dependent economies through higher inflation. Pakistan could also be exposed to collateral risks. While wider spreads may eventually present opportunities, a prolonged conflict would be broadly detrimental.</p>
Financials	+	<p>Rationale: Positive on selective Indian NBFCs, given the decent spread pickup over bank senior debt. Apart from unsecured and microfinance lending, signs of credit stress remain limited, supported by constructive regulatory measures.</p> <p>Risks: Rising macro volatility could dampen economic growth and weigh on credit performance.</p>
Real Estate	N	<p>Rationale: Selectively positive on China real estate names with robust shareholder support or solid balance sheets backed by diversified funding sources. Prefer mixed commercial-residential developers over purely residential names, given their more resilient cash flows.</p> <p>Selective on Hong Kong developers with higher non-HK portfolios, strong capital management, and well-laid refinancing plans.</p> <p>Risks: In China, weaker-than-expected policy support may lead to renewed softness in the physical property market, while any credit events could undermine investor confidence.</p>

Asia Fixed Income Strategy

Sector	View	
Utilities	N	<p>Rationale: Limited new supply from India renewables, partly due to more attractive domestic financing conditions, supports the appeal of USD bonds from these issuers for carry. Philippine renewable names have successfully refinanced key maturities, aided by improved PPA contract terms from local regulators.</p> <p>Risks: Adverse changes to PPA terms or higher domestic funding costs could weaken credit profiles.</p>
Industrials	N	<p>Rationale: In Oil & Gas, remain selectively positive on issuers with stable production costs, low leverage, and manageable liquidity profiles. In metals and mining, prefer companies with stronger operational efficiencies, where ramp-ups in major projects may offer upside potential.</p> <p>Risks: A sharp downturn in oil and commodity prices – including seaborne coal – would negatively affect sector performance.</p>

Global Currencies

From geopolitics to inflation: The USD reaction function

The USD's 2026 trajectory continues to be shaped by a combination of macro uncertainty, persistent inflation pressures, and episodic geopolitical shocks. Prior to the Iran escalation, consensus expectations leaned toward a softer USD following its late-2025 depreciation and assumptions of a gradual Fed easing cycle. The flare-up altered this narrative sharply: risk assets weakened, energy prices spiked, short-term inflation expectations rose, and the USD firmed as markets reassessed the path of monetary policy and unwound non-USD exposures. With core inflation still sticky and U.S. real yields comparatively elevated, the dollar retains a durable layer of support in the near term.

Near term: USD supported by a repriced easing path

In the near term, USD resilience is well-grounded. Energy-related price pressures have lifted front-end inflation expectations, reducing both the probability and depth of imminent Fed cuts and effectively pausing the recent steepening of the US Treasury curve. Elevated term premium and uncertainty around policy timing could keep yield curves choppy and push US rates higher. Market expectations for 2026 Fed easing have already been pared back from roughly two cuts previously to now about one cut.

Positioning dynamics also reinforce USD strength. After prior reductions in long positions, USD longs have rebuilt. Rates and currency markets remain highly sensitive to geopolitical developments, inflation releases, and shifts in energy prices. Against this backdrop, the dollar remains well supported.

Medium term: USD poised to ease once conditions normalise

Beyond the immediate horizon, the medium-term setup appears more balanced. While a geopolitical premium may linger, currency markets tend to mean-revert as headline risks fade—particularly if energy markets stabilize. Structural diversification away from USD assets continues, reflecting investor desire to rebalance away from concentrated US exposures amid a less predictable policy environment. The prospect of some degree of Fed easing under the newly appointed Chair, alongside persistently large fiscal deficits, limits the potential for a sustained and structural USD up-leg.

Bottom line: Neutral USD

Our Q2 2026 USD outlook is Neutral. We expect the dollar to remain resilient while geopolitical uncertainty persists, particularly with the Iran situation unresolved. If tensions ease and macro conditions normalize, USD strength should moderate, with the currency trading broadly range-bound over the remainder of 2026. Recent USD firmness appears tactical rather than structural.



Edward Ng
Portfolio Manager,
Multi-Asset Team

Currency Strategy

Currency	View	Notes
US Dollar USD	N	<p>Rationale: Supported near term by geopolitical uncertainty, higher energy-linked inflation, elevated real yields, and a shallower Fed easing path. Structural diversification away from USD remains a medium-term headwind but may slow while Middle East tensions persist.</p> <p>Risks: A quick resolution of the Iran situation and easing oil prices could renew USD weakness on improved risk sentiment.</p>
Euro EUR	N	<p>Rationale: Vulnerable near term to higher energy prices and risk-off flows; a prolonged energy shock would weigh on Eurozone growth. ECB may need to remain cautious if inflation persists. Medium-term diversification away from USD offers some support but upside capped by episodes of renewed USD strength.</p> <p>Risks: De-escalation of geopolitical tensions may lift EURUSD; prolonged conflict could dampen growth and limit EUR gains.</p>
Japanese Yen JPY	N / -	<p>Rationale: Elevated USDJPY supported by higher U.S. yields, continued domestic portfolio outflows, and softer tourism inflows (including weaker Chinese visitor flows). Market concerns over BOJ's policy stance and response to inflation add downward pressure.</p> <p>Risks: A more decisive BOJ tightening cycle or impactful FX intervention could strengthen the JPY.</p>
Singapore Dollar SGD	N	<p>Rationale: USDSGD may stay elevated in the near term amid geopolitical risk. MAS is likely to remain hawkish given resilient domestic growth and a higher inflation trajectory, with potential for a steeper SGD NEER slope. SGD continues to outperform most regional FX on safe-haven flows.</p> <p>Risks: Renewed global risk-off could spur broader USD strength; a stronger-than-expected MAS inflation assessment could trigger faster SGD appreciation.</p>

Global Commodities

Strong cyclical and structural trends support commodities

The combination of strong economic fundamentals and heavy investment in chips, data centres and energy infrastructure offers a powerful backdrop for commodities. Geopolitics can sometimes reduce risk-taking, which can be negative for commodities, but the current Middle East conflict carries significant supply risks that could place upward pressure on many energy and metal markets. Nitrogen and other fertilisers also face supply risks due to regional tensions, just as planting season begins in the Northern Hemisphere. If planting activities are disrupted, agricultural prices could also experience upward pressure.






Gold remains supported by strong long-term fundamentals, with central banks and investors continuing to accumulate the metal at a pace that exceeds miners' ability to supply it. It also remains an effective diversifier against economic and inflation risks and is gaining importance as a reserve asset in a world where confidence in the USD has been gradually weakening. In the near term, however, gold prices may face further weakness due to rising inflation concerns stemming from heightened Middle East tensions, as well as expectations of higher global interest rates. But we do not expect these short-term pressures to alter the broader structural case for gold, where steady demand and constrained supply remain key supports.

We continue to believe investors should emphasise diversification, which includes maintaining steady allocations to commodities. While the backdrop for commodities is constructive, we are keeping our overall allocation at neutral levels given attractive opportunities in other asset classes. However, we recommend an overweight in gold and view it as an important allocation within diversified portfolios.



Anthony Raza
Head of
Multi-Asset Strategy

Commodity Sector Strategy

Sector	View	Notes
Commodities 	+	<p>Rationale: The growth outlook for 2026 appears stronger, supporting an extended economic cycle, which typically benefits commodities that perform well in the later stages of long expansions. New technologies in AI and energy are also placing heavy demand on metals.</p> <p>Risks: Geopolitical risks could weaken the global growth outlook.</p>
Gold 	+	<p>Rationale: Gold should continue to act as a safe haven over the long term and remains supported by central bank purchases, which are growing faster than miners can increase supply.</p> <p>Risks: Inflation risks remain elevated and could reduce the case for rate cuts, which have been a supportive factor for gold.</p>
Base Metals 	+	<p>Rationale: A more stable growth outlook in China supports metals such as copper. China's strength and continued progress in EV development also underpin demand for key industrial metals.</p> <p>Risks: If AI-related investment proves overly ambitious, it could reset expectations for metals demand. Rising recession risks would also weigh on base metals.</p>
Energy 	+	<p>Rationale: Geopolitical risks remain elevated and continue to put substantial upward pressure on energy prices.</p> <p>Risks: Military conflicts around the world may eventually be resolved, which could remove some of the support behind higher oil prices.</p>
Others 	N	<p>Rationale: Broad commodity segments such as agriculture have generally stayed on track despite modest weather-related and trade-related disruptions.</p> <p>Risks: Tariffs could continue to complicate the agricultural outlook.</p>

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