



Investment Research

Global Outlook

May 2026



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Markets Review

Investment Research Division

May 2026

Market Outlook

United States

Five years after the initial post-COVID supply shock, inflation still runs significantly above the Fed's target. Progress during the last 18 months has effectively been non-existent, with core PCE for the month of February 1 percentage point above the Fed's target. On top of the effect of tariffs, estimated at 50-75bps of the gap, the war in Iran has brought a new layer of pressure on prices. March headline CPI came in at +0.9% MoM, the highest print since June 2022. The hiking story, however, is probably going to need further support. We remain distant from observing inflation expectations de-anchor to levels similar to those seen during the 2022 inflation spree, where 5y5y forward inflation expectations rallied 60bps in 3 months. Second-round effects like the ones that can be affected by monetary policy are largely contingent on a tight labour market and upwards pressure on wages.

The growth rate of job openings and non-farm payrolls continues to fall, consumer sentiment sits at all-time lows, and wage growth is slowing to rates below the pre-COVID years. The unemployment rate is still low according to historical standards, but this can be deceiving in a low-hire-low-fire economy with a falling participation rate. Our baseline scenario anticipates a moderate impact on inflation and real output from the end of the war in Iran. However, topics like the US fiscal sustainability and the cost of debt, the possibly strengthened de-dollarization trend, and the US relationship with its allies add on to the already existing list of threats to the economy.

Euro Area

Speaking at the IMF's spring meetings in Washington, Christine Lagarde acknowledged that higher energy costs have pushed the euro area "in between the baseline and the adverse" scenarios described in the last SMP. With oil and gas prices expected to average around \$90-\$100 per barrel and gas €60 per MWh during the second quarter, real incomes are expected to come under pressure. We see real GDP growth in 2026 at 0.8%, slightly below the ECB's baseline.

This is consistent with recent survey data like flash PMIs and ZEW indicators rapidly contracting. Inflation should land around 2.6%, consistent with the euro area's sensitivity to energy shocks given its reliance on energy imports and the relatively large weight of energy in the inflation basket. On the monetary policy side, the Governing Council is expected to look through the energy-driven inflation shock, supported by the fact that headline inflation had been close to target for the past two years and inflation expectations remain broadly anchored. In that sense, it is worth highlighting how, in Lagarde's words, "the landscape is not the same as in 2022". The medium-term economic outlook is supported by increased defence and infrastructure spending and improving domestic and foreign demand, though persistent competitiveness.

challenges and the expiration of the NGEU program remain structural concerns on the horizon.

United Kingdom

Real GDP grew 1.3% in 2025, with quarterly growth stuck at 0.1% in Q4, and the OBR now projects only about 1.1% real growth for 2026, while headline CPI has re-accelerated from 3.0% in February to 3.3% in March (CPIH 3.4%) as the renewed energy shock from the Iran conflict lifts fuel and utility prices and keeps inflation well above the Bank of England's 2% target, forcing the MPC to hold Bank Rate at 3.75% after six cuts from the 5.25% peak and prompting markets to price out further easing in favour of a non-trivial probability of additional hikes as 10-year gilt yields grind back towards 5% (around 4.99% on 24 April, roughly 50 basis points higher year-to-date).

Under the surface, the labour market has shifted decisively from post-pandemic overheating to conventional slack: payrolled employment has fallen by about 74,000 over the year to February, unemployment has eased back to 4.9% after peaking just above 5% at the turn of the year, vacancies have dropped to around 711,000 (their lowest level since early 2021), and regular pay growth has slowed to 4.2% in the three months to December (equivalent to real gains of only about 0.5% on a CPIH basis and roughly 0.8% on a CPI basis) with the Bank's preferred private-sector pay measure down to around 3.4%, levels broadly compatible with a 2% inflation regime rather than the wage-price spiral fears of 2022-23.

China

China's economy entered 2026 with unexpected momentum, with Q1 GDP printing at 5.0% YoY, comfortably within the 4.5-5.0% official target band. The outperformance, however, masks a familiar structural imbalance: industrial production jumped 6.1% YoY while retail sales grew just 2.4%, and exports surged 14.7% in USD terms, the fastest pace since early 2022. Manufacturing and front-loaded external demand are carrying the economy while domestic consumption lags, and export momentum is already fading. March exports decelerated sharply to 2.5% YoY from 21.8% in January-February as the Iran war began to filter through global trade flows.

The inflation picture remains fundamentally deflationary, temporarily disguised by the energy shock and Lunar New Year base effects: headline CPI eased to 1.0% in March from February's three-year high of 1.3%, while housing costs in the CPI basket continue to contract, a reminder that the property correction remains unresolved. Policy has responded with a 4% of GDP budget deficit and a large bond issuance program, while the PBoC's room to ease is constrained by imported inflation; domestic fuel price controls effectively transfer the oil shock onto state oil firms' margins. Our baseline sees full-year GDP moderating to 4.6-4.7%, with the risk skew asymmetric: as the world's largest oil importer, every additional month of elevated crude compounds the



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terms-of-trade-hit, and the external tailwind that carried Q1 is unlikely to be repeated as tariff front-loading normalises.

Japan

Japan enters 2026 with the BoJ's normalisation story firmly on track but fragile. After the December 25bps hike that took the policy rate to 0.75% (its highest level since 1995), the central bank has signalled readiness for further tightening while emphasizing that real interest rates remain significantly negative. The hike passed without open opposition from the Takaichi administration despite her prior stance against rate hikes, a pragmatic recognition that yen weakness and the cost-of-living crisis had made further accommodation politically untenable.

The inflation dynamics are set to bifurcate: core inflation is projected to decelerate below 2% from April to September on slower food prices and government price controls, while core excluding fresh food and energy is expected to remain well above 2%, consistent with a wage-price mechanism that has genuinely taken hold. Rengo reported an average shunto wage demand of 5.94% as of early March, broadly in line with last year's 6.09%, with actual settlements likely in the low-3% range on base pay versus 3.7% in 2025: the fourth consecutive year of meaningful growth, enough to embed a new wage norm.

Growth remains the soft spot, with Q3 2025 GDP contracting 2.3% annualized and the Takaichi cabinet responding with a 21.3 trillion-yen stimulus package. Our baseline expects one more 25bp hike in 2026, most likely in the summer once SME wage trends become visible, taking the policy rate to 1.0%; the bigger tail risk remains external, as Japan's exporters remain highly exposed to any further deterioration in global demand stemming from the Iran conflict's second-round effects.

Canada

Canada's economy is navigating a complex period as economic growth has slowed even further. In the current state, it is not only weighed down by US trade tensions but also by the shock of the energy crisis as a result of the Middle Eastern conflict. Real GDP grew by 1.7% in 2025. This was better than the expected growth but contracted by 0.6% in Q4 while Q1 2026 only had slightly positive growth. The growth projected for 2026 is between 1 and 1.4%, which is mainly driven by increased household spending through higher wages. Projected inflation remains close to the target of 2% set by the Bank of Canada, with CPI at 1.8% in February. However, rising energy prices as a result of the Iran conflict are expected to push headline inflation further up in the coming months.

The labour market has seen some stabilisation but remains weak. The unemployment rate stayed at 6.7% in March which is a 0.4% decrease from the peak of 7.1% in mid-2025. Wage growth accelerated to 4.7% YoY, which is the highest percentage since late 2024. However, this is partly driven by lower-paying positions being lost as over 100,000 low-paid jobs were lost in the first 2 months of 2026. The Bank of Canada has held its interest rate at 2.25% since late 2025 after having cut rates by 100 bps during 2025. The Bank of Canada faces a difficult policy trade-off as economic growth is slowing down while energy-driven inflation is rising, making it hard to decide between cutting rates or keeping them at current levels. If the Iran conflict doesn't de-escalate and continues disrupting

energy supply, the central bank may need to cut rates further. However, if higher energy prices feed through into consumer prices, the bank may be forced to hold or even tighten. As a net energy exporter, Canada does stand to slightly benefit from higher oil prices, and if the conflict were to de-escalate, the economy could gain some momentum into late 2026.

Emerging Markets

Emerging markets had a great 2025 as the MSCI EM index returned 33.57%, which significantly outperformed the developed markets. Growth projections for 2026 are at 3.9% up from 3.7% in 2025. This varies widely by region though. India continues to lead the major EM economies, with a projected GDP growth of 6.6%, supported by strong domestic demand.

The biggest disruptions to the outlook of the emerging markets came in late February after the outbreak of the Iran conflict. The closure of the Strait of Hormuz caused one of the greatest supply disruptions in oil market history, as around 20% of global crude was taken off the market. Brent crude saw an increase in price of around 40%. This made it easy to identify the winners and losers of the conflict. Oil-exporting countries in the Middle-East and Africa have benefited a lot from higher revenues while net importers of oil in South and Southeast Asia are facing high inflation and weaker currencies. India is most exposed to these disruptions.

However, fundamentals remain solid in emerging markets. FX reserves cover 135% of ST external debt, giving most of the countries a solid buffer, while fiscal deficits are expected to narrow slightly. The main question for the outlook of emerging markets lies in the duration of the conflict. If the ceasefire holds and the oil disruptions stop, EMs are well positioned to keep outperforming developed markets. However, in case of a prolonged conflict, inflation may increase and rates may have to increase again after the cuts over the last year.



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From defence to duration: Europe's rearmament and the new fiscal regime

The reframing: beyond defence equities

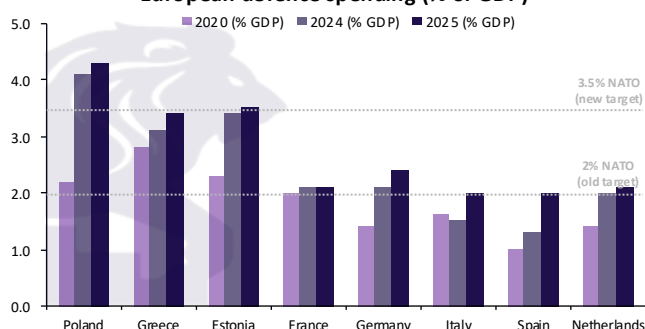
Markets have treated Europe's rearmament as a sector story: defence equities rally, procurement pipelines lengthen, and investors rotate into Rheinmetall and BAE Systems. That framing is not wrong, but it is far too narrow. The real significance of Europe's rearmament lies not in what it means for defence-sector earnings, but in what it reveals about a structural shift in European fiscal tolerance. For the first time since the euro's inception, the institutional and political architecture of fiscal restraint in Europe's core, above all Germany, has been deliberately loosened. The implications run through sovereign duration, safe-asset supply, term premium, intra-European spread differentiation, and the domestic capex cycle. Defence is the catalyst; the regime shift is fiscal.

What changed: Germany and the EU framework

The pivotal event was the amendment to Germany's Basic Law on 18-21 March 2025, which reformed the constitutionally enshrined debt brake (Schuldenbremse). The Bundestag voted 512-206 to exempt all defence spending above 1% of GDP from borrowing limits and to create a €500bn infrastructure and climate fund (Sondervermögen), to be disbursed over 12 years. The scale is material: the 2026 federal budget foresees €174.3bn in borrowing, more than triple the €50.5bn of 2024, with defence spending rising to €117.2bn (~2.4% of GDP) and targeted at 3.5% by 2029. This is no longer incremental; Germany's fiscal anchor of bond-market scarcity has shifted.

At the EU level, the European Commission launched the ReArm Europe / Readiness 2030 plan in March 2025, aiming to mobilise up to €800bn for defence through three channels: a €150bn SAFE loan instrument (adopted May 2025), the coordinated activation of the national escape clause under EU fiscal rules for up to 1.5% of GDP in additional defence spending over four years (activated for 15 member states in July 2025, and for Germany in October), and expanded European Investment Bank financing for defence-industry suppliers. The institutional scaffolding is now in place. The question is no longer willingness but speed, distribution, and pricing.

European defence spending (% of GDP)



Macro transmission: real but uneven

The aggregate growth uplift from higher defence and infrastructure spending is positive but should not be overstated. The ECB's Economic Bulletin (May 2025) estimated the cumulative fiscal impact of new defence measures at 0.6% of GDP over 2025-27, reaching 0.3% per annum by 2027. The Bank of Finland's analysis placed the defence-spending fiscal multiplier between 0.6 and 1.0, while the European Commission's estimate was lower (0.1-0.4) once tax-financing offsets are accounted for. Germany's Bundesbank projects domestic GDP growth of 0.7% in 2026 and 1.2% in 2027,

with the infrastructure fund potentially lifting output by 1.25% by 2029 if allocated productively.

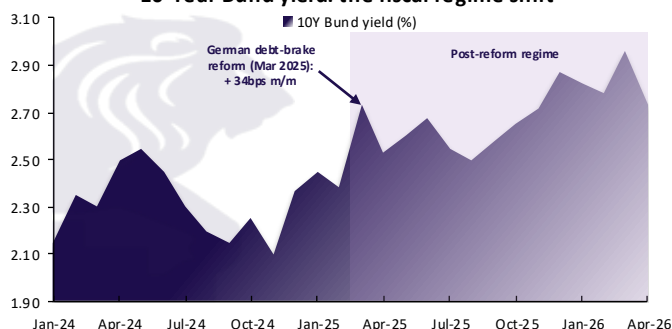
The national picture is uneven. Poland, already at 4.7% of GDP on defence, and the Baltic states face capacity constraints more than financing constraints. France, with its structural deficit above 5% and debt above 110% of GDP, has limited room to leverage the escape clause without further spread pressure. Italy and Spain, whose fiscal positions have paradoxically improved in relative terms, may benefit from the convergence trade, but the transmission runs through industrial-base effects and EU procurement allocation rather than direct fiscal expansion. Implementation lags, procurement leakage to non-EU suppliers, and persistent industrial-capacity bottlenecks in ammunition and heavy equipment will moderate the growth impulse at least through 2027.

The centrepiece: from defence to duration

The most important market implication is not in equity sectors but in sovereign duration. Germany's debt-brake reform fundamentally alters the supply dynamics of the euro area's benchmark safe asset. The 10-year Bund yield rose 34bps in March 2025 alone, the largest monthly move since the 2022 inflation shock, and has traded in a structurally higher range since, reaching around 2.96% in March 2026 before easing to around 2.73% in early April on global risk-off flows. The ECB noted in January 2026 that the 2025 yield-curve steepening was among the strongest since the euro's introduction, driven by a repricing of term premium linked to expected bond supply and fiscal-policy uncertainty.

The valuation framework for long-duration euro assets is shifting. Under the old regime, Bund scarcity compressed term premium and anchored the entire euro-area curve. With net Bund supply projected at €234bn in 2026 and the infrastructure fund adding issuance through 2037, that anchor is loosening. This does not mean yields must rise monotonically. Cyclical forces, ECB policy, and global risk appetite still matter, but the structural floor under euro-area term premium has moved higher.

10-Year Bund yield: the fiscal regime shift



Intra-European sovereign dispersion adds a second layer. The narrative of peripheral spread compression that dominated 2024-25, with Italy's BTP-Bund spread falling from 158bps in January 2024 to 59bps in January 2026, was partly a function of Germany repricing higher, not only of peripheral improvement. France, with an OAT-Bund spread oscillating around 72-80bps and limited fiscal room for consolidation before the 2027 presidential election, remains the fault line. As Bund yields establish a higher floor, the spread distribution across Europe will increasingly reflect relative fiscal credibility, a framework the market had largely set aside since the ECB's asset-purchase era.



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From defence to duration: Europe's rearmament and the new fiscal regime

ECB's constrained role as amplifier, not corrector

The European Central Bank is the most important variable the fiscal regime shift cannot control. After eight rate cuts between June 2024 and June 2025 that brought the deposit facility rate to 2.0%, the ECB has reached what it views as a broadly neutral stance, with inflation close to target and core measures easing. The ECB's own analysis estimated no direct inflationary impact of new defence spending over the 2025-27 horizon, due to the absence of a direct link to consumer goods prices, but the medium-term growth impulse in 2026-27 is real enough to remove any remaining pressure to cut further.

More consequential for markets, however, is the interaction between fiscal issuance and the ECB's ongoing balance sheet runoff. With APP and PEPP non-reinvestments returning approximately €500bn of securities to the market in 2026 alone, on top of net Bund issuance projected at €234bn for the same year, the private sector faces a structural absorption problem in long-duration euro paper that the ECB has neither the mandate nor the incentive to resolve. The Transmission Protection Instrument exists but is categorically inapplicable: it can counter disorderly spread dynamics inconsistent with fundamentals, not a term premium repricing that is itself the direct consequence of improved fundamentals: more spending, more growth, more supply. The ECB's peak QE impact had suppressed ten-year sovereign risk premia by approximately 175bps; that buffer has now fallen to around 75bps and will continue to erode.

The result is a central bank that is structurally sidelined from the duration story: it is not pushing yields higher, but it is no longer the force that kept them artificially low. In the new regime, the market clears the duration itself, and the equilibrium is structurally above where the old scarcity framework would have placed it.

Cross-asset implications and signposts

In equities, the beneficiaries extend well beyond pure defence. European industrials, capital-goods producers, grid and energy-infrastructure suppliers, logistics firms, and construction-linked sectors stand to benefit from the broader public-investment cycle enabled by the €500bn infrastructure fund and EU procurement programmes. This is a capex story, not a defence trade.

In fixed income, the key call is not directional on yields but on curve shape and sovereign differentiation. A structurally higher Bund term premium favours curve-steepening positions and argues for selectivity in peripheral exposure: Italy's improved trajectory versus France's structural deficit creates asymmetric spread risk. In FX, a fiscally less restrictive Europe is structurally more supportive for the euro than the old austerity framework: higher real rates, improved growth expectations, and capital inflows to a deepening euro-area bond market all favour the currency. EUR/USD rose from around 1.04 in early March 2025 to above 1.08 in the weeks following the German announcement and traded near 1.13 on average through 2025. In commodities, the effect is modest but directionally supportive for industrial metals and infrastructure-linked demand, especially copper and steel.

The regime-shift thesis hinges on several forward-looking signposts. Confirmation requires: continued execution of the German infrastructure fund (first meaningful disbursements began Q4 2025); sustained Bund issuance at the elevated 2026 pace; progress on EU SAFE instrument deployment; and evidence of

domestic capex transmission beyond defence procurement. Invalidation risks include a sharp global slowdown that forces fiscal retrenchment, a reversal of the political consensus behind higher defence spending, or ECB interventions that re-compress term premium. Over the next 6-18 months, the Bund-OIS spread, the pace of infrastructure-fund commitment, and the distribution of sovereign deficit outcomes relative to the escape-clause framework will be the critical metrics to monitor.



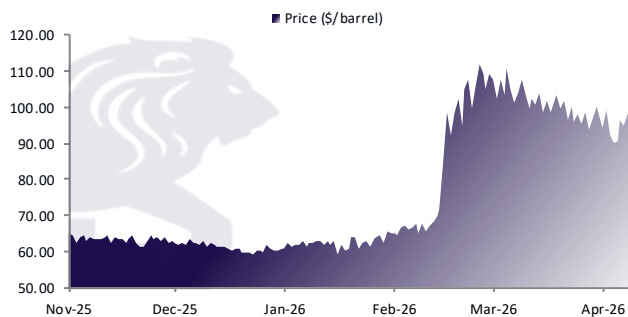
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Hormuz and Bab el-Mandeb: vulnerabilities under the U.S. blockade

Illusion of energy independence

Although the United States only depends on 8% of its oil imports from the Strait of Hormuz, the country is fully experiencing the consequences of rising oil prices on globalized markets. Initially, Trump declared that the closing of the strait would have little to no effect on American inflation, as 80% of US oil imports are provided by Mexico, Canada and Brazil. Nonetheless, numbers tell a different story. Brent crude surged from approximately \$61 per barrel in January to above \$110 by late March. Prices briefly retreated to the \$90-95/bbl range following the April 7-8 ceasefire, but renewed tensions and stalled normalization of Hormuz flows pushed Brent back toward the \$110–115/bbl range by early May.

Brent crude oil (USD/Bbl)



Inflation pressures and Washington's response

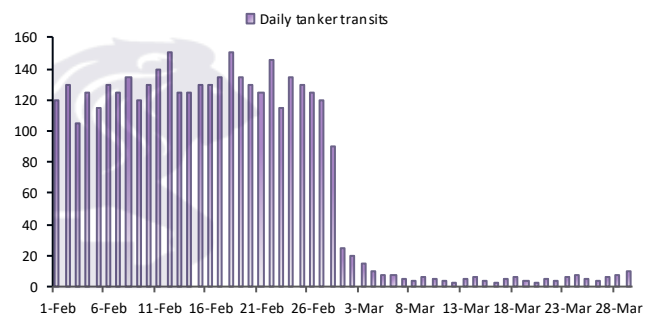
US retail gasoline reached \$3.30 per gallon compared to \$2.30 on 28 February, an increase of almost 40% in six weeks. Trump himself recognized that elevated prices could persist until the November midterm elections. Supporting this claim, the consumer sentiment index sharply declined to a historical low of 49.8 in April, well below pre-war levels. Additionally, inflation expectations have been revised by the OECD, projecting a 3% inflation in 2026, 0.8 points above the previous forecast, while the IMF cut its US growth outlook to 2.3%.

Washington's response has been both military and economic. The US has authorized the release of 172 million barrels over several weeks as part of a coordinated International Energy Agency (IEA) action to mobilise 400 million barrels. Additionally, the Jones Act was temporarily suspended in March to allow foreign vessels to transport goods between US ports, an emergency measure aimed at reducing domestic energy costs.

Looking ahead: a game of chicken

The US naval blockade launched on 13 April and the closing of the Strait of Hormuz on 18 April truly represent an "strategic game of chicken," a confrontation where each side seeks to inflict more pain than it can endure. On the one hand, Iran closing the strait penalizes not only the US but also Tehran, which can no longer export its 1.7 million barrels per day. This measure was implemented by Iran, which labelled the US blockade as "acts of piracy." Only a few tankers flying "friendly" flags (China, Russia, India, Malaysia, and South Korea) are granted permission to pass through. Conversely, America's naval blockade completely cuts off Iranian oil exports, inflicting on Tehran an estimated cost of \$435 million per day. Both countries use leverage and see who cedes first. Although the United States has massive strategic reserves and a significant energy buffer due to its domestic production, the political clock is rapidly ticking, with November midterm elections approaching. With consumer sentiment still weak and inflation concerns elevated, the political durability of any prolonged disruption remains a key constraint.

Strait of Hormuz: daily shipping traffic collapse



The second strait: Bab el-Mandeb

The Bab el-Mandeb Strait is the narrow sea passage at the southern entrance of the Red Sea, located between Yemen, Djibouti and Eritrea. At its narrowest point, about 29 km wide, it connects the Red Sea to the Gulf of Aden and the Arabian Sea and beyond that the Suez Canal with the Indian Ocean. In other words, it is one of the world's main maritime chokepoints for shipping between Europe and Asia. The Red Sea route accounts for about 12% of global maritime trade volume annually, and Bab el-Mandeb is the southern gate to this corridor. For energy, the latest U.S. EIA chokepoint data show 4.2 million barrels per day of crude oil and petroleum liquids transiting Bab el-Mandeb in the first half of 2025, down from 9.3 million barrels per day in 2023. For Europe specifically, the route is critical because Persian Gulf oil and gas shipments to Europe and North America pass through Bab el-Mandeb. When ships divert away from Bab el-Mandeb and Suez, the alternative route around southern Africa adds about 8 to 10 days to Asia-Europe shipping times, raising freight and insurance costs for Europe.

While Iran does not control Bab el-Mandeb directly, it could try to influence or shut down the route through the Houthis in Yemen, who control large parts of Yemen's Red Sea coastline and have already shown they can threaten vessels in this corridor. In early April 2026, Ali Akbar Velayati, an adviser to Iran's Supreme Leader, warned that the flow of global energy and trade could be disrupted there, and TIME reported that Maersk paused future Trans-Suez sailings through Bab el-Mandeb because of security concerns. TIME also reported that a Yemeni military official said closing Bab el-Mandeb was among the Houthis' main options if the Iran war escalated further.

Beyond the war: clearing the strait

Publicly reported traffic fell from around 130 ships per day before the crisis to just 6 ships per day in March, and regardless of the development of the current US-Iran war, the strait of Hormuz is not ready for commercial operational readiness in the immediate short term due to newly laid Iranian mines, some of which are reportedly lost. Returning the Strait to a situation close to routine commercial use would more likely take weeks to months: a useful historical benchmark is the 1991 Gulf War, which required a major fleet effort over weeks to finish clearing Iraqi-laid mines in Hormuz. As traffic in the strait fell by about 95% and the average pre-war traffic averaged 20 million barrels a day, we estimate that the inoperability of the strait prevents the flow of about \$1.8bn worth of crude oil a day. The April 7th ceasefire had little to no impact on the transit of ships through the strait (in fact, fewer passed through it the next day), which perfectly underlines how de-escalating the conflict on its own is not enough to restore the flow of oil to pre-war levels.

South Korea & Singapore: economic and market perspectives

South Korea market overview

South Korea enters Q2 2026 with a clear split between external strength and domestic fragility. March 2026 exports hit a record USD 86.1bn (+48.3% y/y), with semiconductors alone accounting for USD 32.8bn (+151.4% y/y), approximately 38% of total export value. The trade surplus widened to a record USD 25.7bn. Despite these figures, domestic demand remains largely stalled. Retail sales were flat at 0.0% m/m and consumer confidence (CCSI) fell to 107.0 in March, down 5.1 points month-on-month.

South Korea's monetary policy dilemma

The Bank of Korea is caught in a genuine policy bind. With its Base Rate at 2.50% against the Fed's 3.50-3.75%, a gap of approximately 112 bps, one might expect rate hikes to defend the KRW. Instead, the BoK forward guidance points firmly to a conditional easing bias. The explanation lies in Korea's domestic vulnerability as the country carries one of the highest household debt-to-income ratios globally, the majority of which is variable rate, meaning any meaningful hike transmits almost immediately into higher monthly payments for millions of households. This would directly compress disposable income in an economy where domestic demand is already the weakest link.

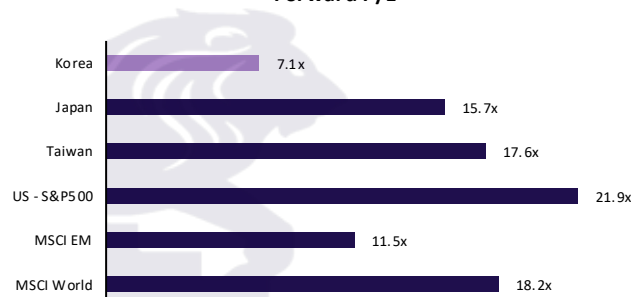
Adding to this, the unique Jeonse rental system, in which tenants pay lump-sum deposits of 50-80% of property value rather than monthly rent, ties the real estate market closely to financing costs, and a rate shock would risk destabilizing landlord refinancing and collateral values across the banking system. The GDP picture makes the case for caution even clearer as full-year 2025 real GDP came in at just +1.0%, with Q4 printing -0.2% q/q. The BoK's 2026 base case of 2.0% growth depends almost entirely on the semiconductor cycle holding up, not on any recovery in domestic demand.

Equities: semiconductors' dominance

MSCI Korea is, in practice, a semiconductor index. Information technology accounts for 57.6% of the benchmark, with Samsung Electronics (32.7%) and SK Hynix (18.2%) together representing 51% of total index weight. Any serious view on Korean equities must therefore start with a view on AI memory pricing. The current upcycle is underpinned by demand for High Bandwidth Memory (HBM), with SK Hynix being the dominant supplier of HBM3E, the component inside Nvidia's H100 and H200 GPUs, meaning Korean semiconductor revenues are effectively a function of AI capex. This structural link is powerful, but it cuts both ways as the same index concentration that amplifies upside in a strong cycle also amplifies downside if AI capex slows, memory supply overshoots demand, or pricing turns ahead of expectations. Rising manufacturing inventories (+3.4% m/m, Feb 2026) are worth monitoring as a potential early warning of supply build.

On valuation, Korea appears cheap at first glance, but the picture is more nuanced. The index trades at a forward P/E of 7.1x, against 11.5x for MSCI EM, 15.7x for Japan, and 17.6x for Taiwan. However, this is partly a mechanical effect as semiconductor earnings are elevated at cycle peak and the market applies a discount because it does not trust those earnings to persist. The more structurally informative signal is dividend yield. Korea at 1.19% pays roughly half of peers (EM 2.32%, Japan 2.02%, Taiwan 1.92%). This gap does not reflect a bad year for payouts; it reflects a persistent pattern.

Forward P/E

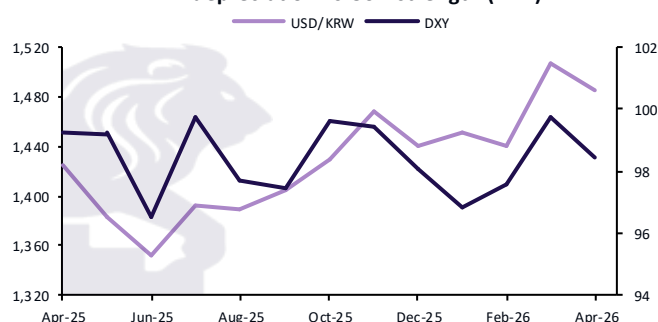


Korean equities have sold off amid Middle East-driven risk aversion, briefly entering bear market territory. The sell-off reflects external shock sensitivity rather than a deterioration in fundamentals and is more likely a correction phase.

KRW under pressure: cyclical vs. structural forces

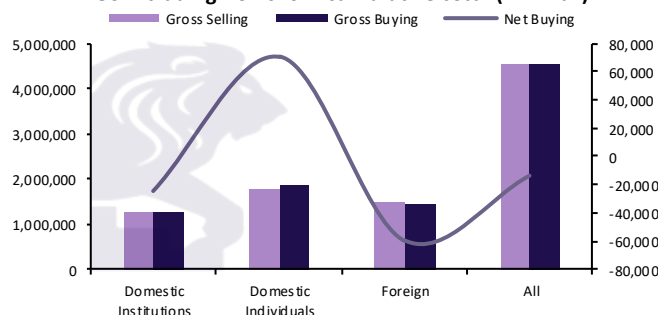
The Korean won remains under pressure, having fallen to one of its lowest levels in years and briefly moving above 1,500 per USD. This is relevant because a weaker currency raises import costs, adds inflation pressure, and reduces the attractiveness of Korean assets for foreign investors, especially in a volatile FX environment. While exporters may benefit in the short term, the broader signal is that Korea is being seen as vulnerable in the current global backdrop. The weakness is not just a stronger USD story but also reflects Korea-specific pressure.

KRW depreciation vs USD strength (DXY)



According to the Bank of Korea, the move has been driven largely by the Middle East conflict and foreign investor outflows from Korean equities. As geopolitical risk increased, profit-taking and capital outflows put direct downward pressure on the won.

KOSPI trading flows: 6m cumulative total (KRW bn)



This helps explain why the BoK did not respond by raising rates, even though the currency was under pressure. In theory, a higher policy rate could help support KRW by narrowing the gap with the US. In practice, the BoK is constrained by weak domestic conditions. Korea's policy rate remains at 2.5%, and the central



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South Korea & Singapore: economic and market perspectives

bank has signalled caution rather than urgency. Household debt is still high, much of it is tied to variable rates, and domestic demand remains soft. A sharp rate increase would quickly raise debt-servicing costs for households and risk weakening consumption further. The BoK therefore appears more focused on avoiding damage to the domestic economy than on defending the currency through aggressive hikes. The current governor, Rhee, has also suggested that policymakers do not view the current level of KRW as a signal of structural weakness. In their view, what matters is the speed of the move and the extent to which it diverges from the broader rise in the dollar index.

A leadership transition at the BoK adds further uncertainty to the policy outlook. President Lee Jae-myung has nominated Shin Hyun-song, currently at the BIS, as the next governor. Known for his relatively hawkish stance, Shin has emphasized pre-emptive action to contain inflation and financial imbalances. His appointment suggests that further rate cuts may be less likely, even as growth remains weak, with the policy bias gradually shifting toward tightening and greater focus on financial stability. That said, KRW remains exposed to global risk sentiment, foreign equity flows, and the semiconductor cycle. Continued geopolitical tensions, capital outflows, or weaker AI demand could keep the won under pressure, highlighting Korea's limited domestic policy flexibility in the face of external shocks.

At the same time, Korea's inclusion in the World Government Bond Index (WGBI) provides a structural offset. The inclusion is expected to attract an estimated USD 50-70bn of passive inflows into Korean government bonds over time, supporting fixed income demand and offering a stabilizing anchor for the currency. However, the near-term impact remains limited, as geopolitical risks and ongoing outflows continue to dominate. Overall, while WGBI inclusion strengthens Korea's structural position, KRW is likely to remain driven by cyclical global factors in the near term.

Singaporean market overview

With 5% GDP growth in 2025, the Ministry of Trade and Industry (MTI) revised its 2026 growth forecast to 2-4% in February. Advance estimates now show that GDP grew by 4.6% YoY in Q1 2026, moderating from 5.7% in Q4 2025, suggesting that momentum remains solid but is easing from late-2025 highs. Inflation remains steady, at 1.2% in February, and the labour market recorded a low 2% unemployment rate in Q4 2025.

The AI boost is evident in its trade. Despite US tariffs, 2025 non-oil domestic exports (NODX) surpassed the 2.5% growth forecast to 4.8%. The 2026 year began strongly with a 9.3% YoY NODX increase, however, it missed the 12.1% forecast and followed by just 4% growth, with non-electronic NODX shrinking by 6.9% but electronic NODX rising by 43.2%.

The AI engine

In February, Deputy PM and Minister of Trade and Industry Gan Kim Yong stated that the "manufacturing, wholesale trade and finance & insurance sectors saw strong growth on the back of the global AI investment boom". These sectors alone collectively represented 62.1% of Singapore's sizable 2025 GDP growth, and this trend has continued into 2026. In January electronics NODX and NORX (non-oil re-exports) increased by 56.1% and 69.4% respectively, and in February by 43.2% and 40.9%. These were the strongest 2 months in electronics NODX growth in over two years,

and Singapore is capitalizing on this newfound success. In February, major Singaporean telecommunications conglomerate Singtel, alongside KKR, acquired data centre provider STT GDC for S\$13.8bn. In January, Micron announced two commitments, worth \$24bn and \$7bn respectively, into AI-related manufacturing facilities in Singapore, where it already makes 98% of its flash memory chips. In April, Microsoft announced a \$5.5bn commitment into cloud and AI infrastructure in the country and in January, the Singaporean government itself announced a \$1bn investment into AI research. Singapore is at the forefront of the AI wave and is on track to gain more from it than most.

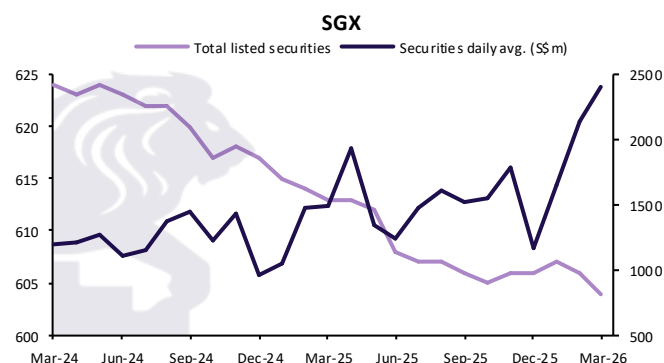
However, if AI monetization disappoints and capex begins to slow, Singapore may find itself in an overextended and overly dependent position. The upcoming Washington hearings on Singapore's section 301 investigation will be crucial: they have the potential to add costly US tariffs on Singaporean semiconductors and other AI-related electronics

Energy risks

Singapore imports almost all its energy. In 2025, over 70% of its oil came from the Middle East and 45% of its natural gas came from Qatar alone. Amidst the Iran War and the closure of the Strait of Hormuz, electricity tariffs have increased by 2.1%, and with Singapore's tariff being based on "fuel prices from the first 10 weeks of the preceding quarter", prices are expected to sharply increase. A nearly S\$1B support package has been announced to counteract these rising costs, but amidst the uncertainty regarding the aftermath of the current 2-week ceasefire, Singapore may risk soon facing rising energy prices and cost-push inflation.

Singapore Exchange (SGX)

To boost the SGX, in November it partnered with Nasdaq to link both exchanges, and the MAS has introduced tax rebates and exemptions on new corporate listings and fund managers. The government's Equity Market Development Programme (EQDP) has injected S\$6.5bn into stimulating the SGX, and the STI (Singaporean benchmark index) has reflected this push: when the EQDP was first announced last February the STI was priced at less than 4000. A year on it surpassed 5000. In the same month, average daily trading value increased by 45% YoY, the highest since 2020. Paradoxically, while trading value has steadily increased with the EQDP, listings have not followed. In March 2026 the SGX boasted 604 listed securities; a year before that, it had 613, and in March 2024, it had 624. To attract more IPOs, Singapore may have to consider other ways to build legitimacy; failure to do so may jeopardize a long-term STI rally.



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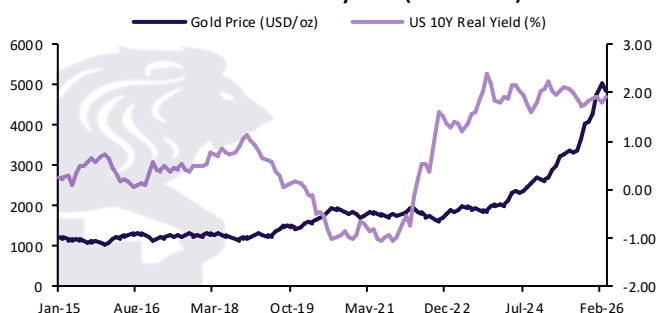


Gold and silver: diverging monetary and industrial drivers

Shifting macro drivers in gold and silver markets

Gold and silver have moved together in the past based on real interest rates, inflation expectations, and changes in the US dollar. But this relationship has weakened significantly over the past few years. Gold has continued to perform well despite relatively high real yields and only moderate inflation pressures, suggesting a shift in its underlying drivers. Indeed, gold is getting more support from monetary and financial demand, while silver is still more closely linked to cyclical industrial conditions. The declining correlation between gold prices and US 10-year real yields relative to the pre-2020 period illustrates that traditional macro drivers now explain a smaller share of price variation, pointing to the growing importance of structural and non-rate-sensitive demand.

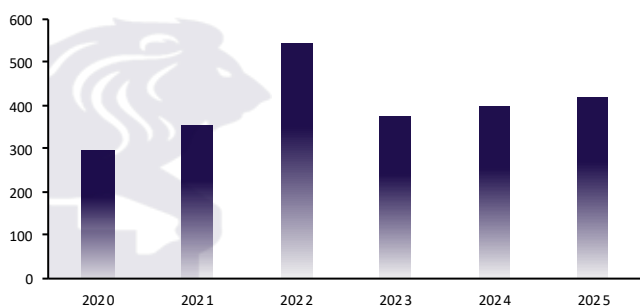
Gold vs US 10Y real yields (2015-2026)



Structural drivers of gold demand

Gold's strength has been supported by steady demand from central banks, especially in emerging markets seeking to diversify reserves away from the US dollar. In recent years, official sector purchases have accounted for a significant share of total gold demand. At times, they have exceeded 20-25%, highlighting their role as a key marginal driver. This trend has occurred at the same time as more geopolitical fragmentation and worries about the long-term health of advanced economies' finances. This has made gold an even better store of value that isn't tied to any one government. Because of this, gold has stayed resilient even when real yields have been stable or rising. This suggests that structural demand has partly replaced traditional macro relationships. Indeed, financial flows have increased the sensitivity of gold prices to positioning dynamics, where relatively small reallocations in ETF holdings or futures positioning can amplify price moves.

Sustained central bank gold demand



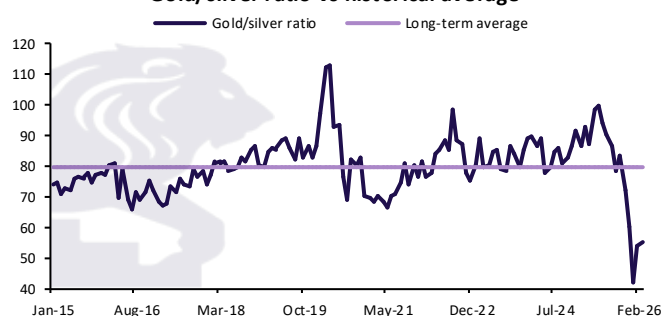
Silver's cyclical industrial demand

Silver, on the other hand, still shows its dual role as both a monetary and industrial metal, with the latter more dominant currently. Industrial demand, especially from photovoltaics, electronics, and electrification, is still structurally strong.

However, short-term dynamics have been limited by uneven global manufacturing momentum, especially in China and Europe. Trade fragmentation and changes to the supply chain have also hurt industrial activity, which has made it harder for silver to benefit from the same macro environment that has helped gold. Because of this, the gap between the two metals grew for most of the time, but recent price movements show that silver can still outperform over shorter horizons when industrial and speculative momentum improves.

The difference is clear in the gold/silver ratio, which stayed above its historical average for an extended period. From a valuation perspective, the elevated ratio can be interpreted as a premium for monetary uncertainty, with deviations from its long-term average reflecting shifts between macro and industrial dominance. This has shown that the usual relationship between the two metals was breaking down. This was because of differences in the types of demand: gold was driven by central banks and financial investors, while silver was still more dependent on industrial use. The recent narrowing of the ratio suggests that this divergence is not unidirectional and can reverse quickly when industrial conditions improve.

Gold/silver ratio vs historical average



Convergence prospects for gold and silver

Looking ahead, the scope for further convergence between gold and silver will depend on whether the current divergence in demand regimes begins to narrow. For silver, a sustained re-rating relative to gold would likely require a broad-based improvement in cyclical industrial conditions rather than a purely speculative rebound. In particular, stronger global manufacturing momentum, a recovery in export-oriented production, and continued capital expenditure linked to electrification, electronics, and photovoltaic deployment would be needed to translate structurally supportive end-use trends into sustained price performance.

This remains a plausible scenario given that silver's industrial demand rose to a record 680.5 million ounces in 2024, marking the fourth consecutive annual high, with support from green economy applications and technology-related sectors. Yet this structural strength has not fully offset silver's exposure to short-term weakness in the global industrial cycle, meaning that its upside remains conditional on an effective transmission from macro stabilisation into physical industrial offtake. In this sense, any narrowing of the gold/silver ratio should be interpreted not simply as a valuation adjustment, but as evidence of a shift in the relative weight of industrial versus monetary demand across precious metals.

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Asset Class Preferences

Investment Research Division

May 2026

Overview

Strategic View



Tactical View



Fixed Income

Global fixed income remains strategically neutral, but tactically we see a selective preference for the front end relative to the long end over a six-month horizon. Higher starting yields and resilient income support the asset class overall, yet dispersion across regions and sectors remains elevated. Tactically, we favour U.S. short-duration and euro-area short-duration bonds, where repricing has improved carry and risk-reward, while we stay neutral on US long duration and underweight euro long duration given persistent term-premium volatility, heavy sovereign supply and reduced central bank support. In credit, investment-grade remains neutral as carry is still attractive, but valuations are rich, while high-yield is underweight due to tight spreads and limited compensation for macro and refinancing risks. Emerging market debt remains neutral, as supportive medium-term fundamentals are currently offset by geopolitical uncertainty, a firmer US dollar and greater sensitivity to global risk sentiment.

Strategic View



Tactical View



Equities

We retain a mild overweight on global equities both strategically and tactically over a six-month horizon, supported by resilient earnings, the ongoing AI capex cycle and still-positive nominal growth, but with a clear preference for a broader and more selective market leadership. Tactically, we favour Europe and Japan over the U.S., while remaining underweight the UK and neutral on EM and China given the less supportive growth and energy backdrop. Sector-wise, we prefer information technology, healthcare, industrials, financials and energy, where structural growth, fiscal support, defence spending and stronger cash-flow dynamics remain supportive. We stay neutral on telecom, consumer discretionary and staples, as weaker pricing power and a more uneven consumer backdrop limit conviction despite their defensive characteristics.

Strategic View



Tactical View



Commodities

Commodities remain strategically neutral, but tactically we move to an overweight stance over a six-month horizon, driven by selective opportunities rather than a broad-based bullish view across the complex. Geopolitical risk, supply disruptions and the value of portfolio hedges remain supportive. We favour natural gas and gold, where structural LNG tightness and persistent safe-haven demand continue to underpin prices, while remaining underweight oil as current price levels still appear above what medium-term fundamentals can justify.

Strategic View



Tactical View



Currencies

Currency exposure remains strategically neutral and tactically neutral at the portfolio level over a six-month horizon. Within the currency sleeve, we favour selected relative-value positions: long JPY and EUR versus USD, with sterling kept neutral. The dollar may retain near-term safe-haven support, but medium-term fundamentals still point to gradual depreciation as rate differentials narrow and reserve-diversification flows persist. Bank of Japan normalisation supports the yen's asymmetric upside, particularly given still-crowded carry positioning. The euro benefits from a more credible European policy mix and diversification away from the dollar, while sterling remains balanced as valuation and rate support are offset by weaker growth and sticky inflation.

 Underweight
  Neutral
  Overweight
  Previous weight

Fixed Income Breakdown

Investment Research Division

May 2026

Fixed Income

Tactical View



U.S. Short Duration

The Fed has held rates steady at 3.5%-3.75% during its March FOMC meeting, its second consecutive pause, and is expected to maintain its stance throughout 2026, projecting just one rate cut this year. Faced with a 3.3% March CPI (up from 2.4% in February) driven by a sharp spike in gasoline and oil prices linked to the Iran conflict, coupled with a weakening labour market, the Fed has no choice but to remain on hold. Powell acknowledged that US job creation has slowed to essentially zero. In this environment, short-duration Treasuries offer attractive returns, yielding near 3.8%. If the conflict were to escalate, short-duration bonds would benefit from a flight to safety. Conversely, if geopolitical tensions eased, inflation would moderate and rate cut expectations would revive, benefiting short-term prices. Nevertheless, returns could flatten if the Fed maintains rates for an extended period, and price upside could be reduced if the Fed were forced to hike if oil reaches exorbitant prices.

Tactical View



U.S. Long Duration

10-year bonds offer an attractive 4.3% yield and could benefit from easing geopolitical tensions, inflation cooling and eventually rate cuts. Similarly, if recession risks increase and a flight to safety occurs, investors will significantly benefit from price gains. Nevertheless, structural headwinds persist. With deficits around 6% of GDP and a weak recent auction, investors are reluctant to absorb U.S. debt. Furthermore, Trump seeks 1.5 trillion dollars for defence spending, adding future supply pressure and widening term premiums. Given the significant uncertainty regarding the war's trajectory, oil prices, and an unsustainable deficit, elevated volatility is expected to persist. Notably, the Fed has shifted to shorter maturities, reducing its demand for long-duration bonds. Until the situation becomes clearer, we remain prudent in long-duration bonds.

Tactical View



EUR Short Duration

Since the outbreak of the war, markets have priced in ca. 2.5 rate hikes for 2026, with Euribor forward-starting swaps now implying one-year rates peaking at 2.9% and remaining there for the foreseeable future. This arguably reflects an excessively hawkish response from both investors and the ECB itself rooted in memories of 2022, when the central bank was the last to tighten and inflation was allowed to spiral out of control. The current scenario is different, however. Inflation is running cooler, forward inflation expectations remain well anchored by historical standards, and the labour market has loosened. February saw a modest uptick in unemployment, while the March prints for Economic Sentiment and Consumer Confidence were the weakest since April 2025 and October 2023 respectively. Slack in the labour market will contain second-round effects from any moderate inflation shock, enabling the ECB to largely look through the near-term price pressures and abstaining from hiking. Lagarde's recent statement that the euro area currently stands "in between the baseline and the adverse" scenarios described in the last SMP further strengthens our view that the front end is trading cheap.

Tactical View



EUR Long Duration

We believe a steady increase of the term premium to be the dominant driver of the long end of the curve in the coming months. This trend is mostly driven by investors factoring in a sharp increase in Bund supply as Germany plans to borrow more than three times as much in 2026 as in 2024, France continues to issue at €300bn+ levels, and SSA issuance this year is expected to reach record levels. Available data also suggests that Dutch pension funds which transitioned to a defined contribution system in 2025 have yet to reduce their interest rate hedges. With around 45 funds expected to follow in 2026 - and a further wave, including ABP, in 2027 - significant paying flows have yet to materialise. The fading of the ECB as a structural buyer only exacerbates this dynamic, as demand increasingly shifts into the hands of price-sensitive investors. The 10-year Bund at just 3% is unattractive on a cross-market basis compared to the 4.3% offered by Treasuries and the 4.8% on gilts. While our baseline view on the short end provides relief to the long end, there is little reason to expect further flattening at this stage of the Iran war; especially considering the strong steepening trend seen in 2025. In our view, the long end is trading rich.

 Underweight
  Neutral
  Overweight
  Previous weight

Fixed Income

Tactical View



Investment-Grade Credit

IG spreads remain very tight, with the ICE BofA US Corporate Credit hovering around 90 bps after reaching decade lows in January. Strong corporate performance and stable earnings have driven the spreads to these tight levels, which means there is little room left for further tightening. The geopolitical landscape has seen a massive shift over the past few months, as the Iran conflict has led to significant uncertainty on the markets through elevated energy prices and potential shortages of oil, gas (LNG) and other commodities. In this situation, IG credit continues to offer reliable carry and could benefit from a shift to quality flows if recession fears increase. But the risk of higher inflation and interest rates will have a negative value impact especially for bonds with a longer duration. We acknowledge the stability of the asset class while recognising that there is little room for further tightening.

Tactical View



High-Yield Credit

High-yield spreads remain tight across global markets at around 290 bps, offering limited upside. Since the start of the year, conditions have significantly deteriorated. Default rates have continued to increase, leverage went up and the Iran conflict has led to significant market uncertainty on the markets through elevated energy prices and potential shortages of oil, gas (LNG) and other commodities. While strong earnings until now provide some support for HY credit, these are overshadowed by a weakening labour market and risk of further spread widening due to increased fear of recession. US HY still offers a better carry compared to its European peers, but this premium is still insufficient to compensate for the macro backdrop. With CPI at 3.4%, borrowing costs remain elevated, meaning companies with maturing debt will be forced to refinance their debt at significantly higher rates.

Tactical View



Emerging Markets Sovereign Bonds

The tailwinds for EM bonds that emerged in 2025 (lower U.S. Treasury bond yields, a weakening US dollar and increasing USD inflows into emerging markets) were interrupted by the recent geopolitical developments in the Middle East: on one hand, the USD strengthened against EM currencies as investors seek safe-haven assets in a climate of high volatility, also resulting in sustained USD outflows from EM debt. On the other hand, the rise in oil prices has especially hurt emerging Asian economies, which are almost all net oil importers. Indian 10-yr bond yields have risen by about 30 bps from pre-war levels, after a peak at 7.1%. Turkey was a key outlier, experiencing a 540 bps spike in 10-year bond yields from a pre-war rate of 28.2%, with yields now stabilising at 29.7%. China has continued to deploy fiscal stimulus, while several LatAm economies faced tighter fiscal constraints. Emerging markets have historically underperformed with a strong USD, increasing inflation and heightened risk premia, and with halted US-Iran negotiations the trend of narrowing EM-DM bond-yield spreads over the last year faces an important challenge, leading us to downgrade EM bonds to neutral.

Underweight Neutral Overweight Previous weight

Equities Breakdown

Investment Research Division

May 2026

Equities: Regions

Tactical View



Europe

The European market trades at a valuation discount of around 26% vs. the S&P 500, and light positioning provides downside support. ECB expectations remain anchored at 2%, while German fiscal stimulus filtering through, together with rotation flows from US investors, supports the case. The strongest expectations are for defence, banks, and small caps, while potential drags include EUR/USD appreciation (around 1.17, potentially heading toward 1.20-1.25), which could materially compress reported EPS.

Tactical View



U.S.

Risks from currency fluctuations and potentially oil-driven inflation, currently at 3.3% (the highest in two years), as well as an unstable geopolitical environment, are weighing on the US outlook. Volatile employment figures, mainly driven by cuts in federal government employment, logistics, and finance, with unemployment currently at 4.3%, also support a cautious near-term view on market movements. At the same time, the market is trading near all-time highs, with the S&P 500 above 6,800 points, while Europe trades at a considerable discount despite similar risk factors.

Tactical View



Japan

Japan is pivoting toward a structural reflation regime with real wages turning positive in 2026 and growing 1.4% YoY, especially due to a 5.26% increase in average wages agreed in the most recent Shunto settlements. The Nikkei 225 faces short-run volatility from U.S. auto tariffs and a slowing global manufacturing backdrop capping earnings growth at 3%. While BoJ normalisation is underway, its gradual pace limits upward pressure on the yen, with FX dynamics currently dominated by a terms-of-trade shock. Recent increases in energy import costs have weakened the yen, providing some support to exporters, although they pose a drag on domestically driven growth. Nevertheless, in the long run the fundamentals remain strong, with ongoing corporate governance reforms improving ROE and gradual BoJ normalisation reflecting solid domestic conditions and a transition toward a more durable domestically driven growth regime.

Tactical View



UK

The UK remains structurally challenged, and the Iran war adds a meaningful new headwind, keeping us firmly underweight. UK GDP growth is expected to slow from 1.3% in 2025 to approximately 1.1% in 2026, with a weaker labour market and softer global trade compounding domestic pressures. The Bank of England faces a difficult path: sticky services inflation and the energy price shock arriving simultaneously constrain the room for rate relief, while fiscal space remains narrow with welfare spending now exceeding income tax revenue for the first time ever. A looming U.S. pharmaceutical tariff threat hangs over a sector of meaningful weight in the large-cap index. The energy shock compounds existing consumer income pressure, with UK households among the most exposed in Europe to LNG and power price surges given the country's dependence on imported gas. Without a credible domestic growth catalyst and recent risk episodes, we see limited potential.

Tactical View



Emerging Markets

Emerging markets are expected to keep growing faster than developed economies, with the IMF projecting around 4% growth in 2026. Countries like India continue to stand out, with growth above 6%. Brazil is another example as the country is also seeing some improvement, supported by recent Selic rate cuts. A weaker US dollar is also a positive point for EM, as it helps ease financial conditions and supports capital inflows into the region. That said, uncertainty remains a key factor to consider. The recent shock in the Middle East highlights how uneven the impact can be across different economies. Indeed, higher oil prices benefit exporters like Brazil but weigh on importers such as India. Geopolitical risks also remain elevated and can quickly affect the markets, particularly in countries more reliant on foreign capital such as Turkey or South Africa.

 Underweight
  Neutral
  Overweight
  Previous weight

Equities: Regions

Tactical View



China

China is seeing some support from policy, with authorities continuing to lean towards easing and potentially more rate cuts later in 2026. The equity market is still largely driven by big tech names, which have been showing better earnings momentum, with companies like Tencent reporting revenue growth of around 14% and profit growth close to 18%, adding a positive element to the outlook. However, the broader economy is still facing clear challenges. The property sector remains under pressure, with real estate investment down around 11% YoY, and consumption staying quite weak, with retail sales growing only about 2.8%. While policy is slightly helping, there has not been anything strong enough to materially change the overall growth picture. China's position as the world's largest oil importer also adds some vulnerability, especially given its reliance on Middle East supply.

Equities: Sectors

Tactical View



Telecom

We believe that telecommunications is a mature market and that even by leveraging AI technologies, no material unpriced developments are currently foreseeable. With the implementation of 3GPP Release 20 commencing as planned, many carriers have started rolling out 5G Advanced, while major technological leaps driven by AI remain uncertain. On the other hand, many carriers have started partnering with NVIDIA and other tech giants on a larger scale, which promises more synergies to come from the progress made in the IT industry. All things considered, we expect telecom to remain a low-growth industry with solid margins.

Tactical View



Healthcare

Healthcare is proving to be one of the more resilient sector calls in the current environment. As investors de-risk from concentrated AI and geopolitically exposed positions, healthcare offers what is largely absent elsewhere: high earnings visibility, sustainable cash flows, and minimal dependence on Strait of Hormuz energy flows or hyperscale capital expenditure. The GLP-1 obesity and diabetes drug cycle remains an extraordinary multi-year growth engine, with penetration still in early stages across most geographies. ADC oncology pipelines are maturing rapidly, with several major approvals expected within our six-month horizon. AI-enabled drug discovery is compressing R&D timelines and improving the probability of clinical success, enhancing the sector's innovation economics. Valuations remain attractive relative to the broader market, and earnings revisions have remained positive.

Tactical View



Information Technology

We maintain overweight on information technology, though with increasing attention to the broadening of the opportunity set beyond the original cohort of AI beneficiaries. Semiconductor demand for next-generation AI accelerators remains structurally elevated (shortening depreciation timelines, driven by rapid innovation and the need to deploy best-in-class equipment, are pressuring bottom lines), and software companies are finding tangible monetization of AI features through measurable enterprise productivity gains. Cloud computing, AI hardware and software, and cybersecurity remain the themes most likely to sustain outperformance over our investment horizon. The key risk is concentration: a large portion of recent index returns has been driven by a handful of hyperscalers, and any deceleration in capex guidance or miss in AI revenue conversion could trigger a sharp de-rating. The Iran war introduces a further complication: data centre power costs are rising materially as energy prices surge, which could compress margins at the infrastructure layer. At the same time, a measurable increase in AI use cases is driving top-line improvement for major players, while smaller firms are finding incremental applications from simpler LLM models.

Tactical View



Industrials

The shared view is a shift from light to heavy assets. ISM Manufacturing crossed 52.4 in February 2026, ending nine months of contraction. Defence is the highest-conviction theme due to global defence budgets exceeding \$2.8tn, NATO committing to 3.5% of GDP by 2035, and Germany's 2026 defence budget rising 25% YoY to €108bn. Aircraft manufacturers like Airbus and Boeing already hold enough contracts to fill 7-10 years of production, signalling a positive outlook for steadily growing revenues. Reshoring and AI infrastructure capex add cyclical support. The key risk still lies in execution capacity: labour shortages, supply chain constraints, and cost overruns could disconnect strong demand from actual earnings delivery. A peace deal remains the single biggest de-rating catalyst for European defence.



Equities: Sectors

Tactical View



Financials

Banks globally enter H2 2026 with solid capital buffers, benign credit quality, and stable ratings (85% stable outlook per Moody's and S&P). Net interest margin (NIM) compression from rate cuts is real and could reduce the size of commercial revenue, but the total impact is offset by fee income, trading revenue, and capital markets activity. ECB anchored at 2% is the Goldilocks scenario for European banks specifically. US deregulation unlocks buybacks and M&A. The sector is entering a fragile moment, though, with private credit competition intensifying, while rising doubts about its stability and AI reshaping operating models.

Tactical View



Consumer Discretionary

The sector is characterized by widening performance gaps as scaled players leverage operational efficiencies and pricing power to defend margins, while the broader industry faces pressure as tariff-induced inflation weighs on demand. This divergence is reflected in a 4.7% contraction in earnings estimates since the start of 2026, driving a sharp deceleration in Q1 growth expectations from 6.9% to 1.8%, alongside an 8.5% YTD decline and broad-based revisions across nearly 70% of the sector, including large players such as Amazon and Ford. However, continued margin resilience among leading players and the absence of a sharp demand contraction suggest the sector is undergoing a cyclical normalisation rather than a structural downturn.

Tactical View



Consumer Staples

The sector is transitioning from price-led to more volume-dependent growth as the effectiveness of prior pricing strategies fades, and consumers increasingly trade down. While a defensive bid supported early 2026 performance, with the U.S. sector up 6.4% year to date, underlying fundamentals have weakened, with Q1 earnings growth expectations revised down sharply to 1.6% from 6.3% at the start of the year. This reflects rising private-label penetration and intensifying price competition, which are eroding branded pricing power and limiting margin expansion despite some easing input costs. With growth moderating and pricing power fading, elevated valuations leave the sector's defensive premium increasingly exposed to weaker earnings momentum.

Tactical View



Energy

The energy sector is clearly supported in the short term, mainly due to the ongoing conflict in the Middle East. Oil prices have already risen sharply, with Brent going from around \$70 before the war to around \$115 now, reaching a peak close to \$120. This reflects steady demand, but also increasing concerns on the supply side, especially linked to the blockage in the Strait of Hormuz. The current price environment is very supportive, as the exceptionally high prices allow companies in the energy sector to benefit from higher cash flows and profitability. UAE's recent exit from OPEC and OPEC+ raises the risk of weakened supply discipline, raising both uncertainty and upside risk in oil prices. All these elements combined will, we believe, lead to strong earnings growth in the energy sector, already reflected in TotalEnergies' strong Q1 results.

Underweight
 Neutral
 Overweight
 Previous weight

Commodities Breakdown

Investment Research Division

May 2026

Commodities

Tactical View



Oil

The market environment has been reshaped by the Middle East conflict. US and Israeli strikes on Iran in late February escalated into a broader confrontation, and by early March Iran effectively closed the Strait of Hormuz, removing around 10 mb/d of supply and triggering the largest disruption since the 1970s. Brent rose above \$100/bbl and peaked near \$119.50/bbl on 9 March before the US moved to reopen the Strait. A fragile ceasefire was agreed on 7 April, with Iran allowing a conditional reopening, but shipping flows remain far below normal levels and re-escalation risk is high as negotiations begin. WTI now trades around \$105/bbl, up 50-60% from pre-conflict levels. The futures curve has shifted into extreme backwardation, with front-month contracts at a premium to deferred prices in the mid-\$70s, suggesting the market views the spike as a temporary supply shock rather than a structural shift. Structural fundamentals remain unchanged. Global inventories were elevated heading into the conflict, with the IEA estimating a 477 million-barrel build for 2025. US production remains resilient at 13.5 mb/d, while demand growth is subdued at 640 kb/d for 2026. Our base case is for Brent to normalize to \$75-85/bbl over the next six months as the geopolitical premium fades, assuming a gradual recovery in flows through the Strait. In a downside scenario where reopening is delayed, Brent could average around \$100/bbl in Q4 2026, while a more severe case with prolonged disruption and sustained losses of around 2 mb/d could push prices toward \$115/bbl. At current levels, upgrading would still imply buying above consensus expectations for late 2026..

Tactical View



Gold

Gold enters Q2 2026 at elevated levels, trading at \$4,750/oz, near record highs. The rally has been driven by persistent geopolitical risk, strong central bank demand, and expectations that the global tightening cycle is nearing its peak. While short-term price action has consolidated, the broader backdrop continues to support structurally higher levels. Over the past six months, gold has been driven by the interaction between real yields and geopolitical risk. Middle East tensions and energy disruptions have sustained safe-haven demand, while expectations that the Federal Reserve is near peak rates have limited upward pressure on real yields, removing a key headwind. As a result, gold has remained resilient despite relatively high nominal rates. The traditional inverse relationship with yields has become more nuanced. Strong physical demand, particularly from central banks and emerging markets, has provided a structural bid, suggesting gold increasingly reflects reserve diversification and geopolitical hedging rather than purely cyclical dynamics. The external backdrop remains mixed. Geopolitical tensions and elevated oil prices support gold, but persistent inflation and "higher-for-longer" rates could cap upside. A de-escalation in tensions would also reduce near-term safe-haven demand.

Tactical View



LNG

Iranian strikes on Qatar's Ras Laffan in March cut global LNG supplies by nearly a fifth, increasing TTF futures by 35% and JKM futures to a one-year high. QatarEnergy's CEO stated that these strikes "damaged equipment that produces about 17% of the company's LNG exports", and that repairing them "could take between three and five years". Soon after, it declared force majeure on contracts with buyers in Italy, Belgium, South Korea and China. Likewise, LNG growth outlook is bleak. The North Field East expansion, originally projected to contribute 32 Mtpa by November, has been pushed back at least into 2027. Wood Mackenzie, having originally projected 2026 global LNG supply to grow by 35 Mt, claims that "a disruption lasting five to six months would push annual global supply into year-on-year decline" and that "each additional month of disruption removes around 1.5% from annual global LNG availability". LNG's supply disruption is deeply structural and even a free reopening of the Hormuz Strait cannot rectify the physical damage caused to global LNG production. The EU entered 2026 with its lowest gas storages in 4 years and if it hopes to meet its legally binding 90% filling target by the end of the year, it may have to do so amidst unfavourable market conditions. With the current output capacity of LNG unlikely to recover in the short term and long-term growth delayed, European demand may place a structural price floor exacerbating bullish LNG prices.

 Underweight
  Neutral
  Overweight
  Previous weight

Currencies

Tactical View



Japanese Yen

The Japanese yen enters Q2 2026 at an inflection point, with drivers shifting from pure rate differentials to policy normalisation, positioning, intervention risk and external shocks. The yen remains structurally weak, with USD/JPY in the high-150s after briefly testing 160, reflecting still-wide yield differentials and Japan's low rates. The primary headwind remains the global carry environment. Although the BoJ has raised its policy rate to 0.75%, Japan still offers among the lowest yields in the G10, sustaining capital outflows and keeping USD/JPY highly sensitive to US rates. However, dynamics are less one-sided. The BoJ is in a gradual normalisation phase, while the Federal Reserve is holding at 3.50-3.75% after earlier cuts, suggesting US-Japan differentials have narrowed but remain elevated. Positioning reinforces the asymmetric profile. CFTC data again show sizeable yen shorts, leaving markets vulnerable to sharp appreciation if intervention, weaker US data or hawkish BoJ guidance trigger a squeeze; yen weakness tends to grind, while strength can be abrupt and positioning driven. The external backdrop is mixed. Geopolitical risk would normally support the yen, but higher energy prices are a terms-of-trade shock, limiting safe-haven demand. The yen remains undervalued on a real effective basis, providing a medium-term anchor. The outlook is range-bound near term, with medium-term appreciation as differentials compress and hedging demand gradually returns in late 2026.

Tactical View



Sterling

The UK macro picture has deteriorated. GDP growth stalled in Q4 2025 at +0.1% q/q, with the OBR downgrading its 2026 forecast to 1.1%. The labour market has weakened, with unemployment at 4.9% and youth unemployment at 15.8%. March 2026 PMIs confirm the slowdown, with manufacturing at 51.0 and services at 50.5. Inflation remains complex. CPI stood at 3.0% y/y in February, with core at 3.2% and services at 4.3%. Energy costs have risen sharply due to the Middle East conflict, with gas up around 60% and oil above \$100/bbl at the peak. The BoE expects CPI to rise to around 3.5% in Q3, delaying rate cuts, with Bank Rate likely to remain at 3.75% through September. Some MPC members have also flagged the risk of tightening if inflation expectations rise. Rate differentials offer limited support. The UK-US spread is narrow at 0-25bps, while the UK-EUR differential remains wide at +175bps, supporting GBP/EUR. The dollar has weakened modestly, and positioning remains bearish, with net short GBP at -52.7K contracts. While valuation and positioning offer some support, weak growth, persistent inflation risks, and delayed easing limit upside, with downside cushioned by valuation and relative rate support versus the euro.

Tactical View



U.S. Dollar

The USD enters Q2 2026 pulled in two directions: supported in the near term by safe-haven flows, yet structurally under pressure. The DXY closed 2025 at 97.96, down roughly 10% for the year, its steepest decline since 2017, driven by recession fears, three consecutive Fed rate cuts, and concerns over US fiscal credibility. It has since rebounded above 100 in early April 2026, reflecting safe-haven demand amid the Middle East conflict and the Strait of Hormuz disruption. The Federal Reserve held rates at 3.50%-3.75% in March, signalling a cautious stance. Powell emphasized uncertainty around the Middle East shock, suggesting the Fed will remain on hold until its impact becomes clearer. Near-term dollar dynamics reflect competing forces. Safe-haven demand and still-elevated US rates relative to the ECB (2.00%) and BoJ (0.75%) provide support. However, the structural bear case remains intact. The DXY's 2025 decline, heavily bearish positioning, and expectations for renewed Fed easing point to further downside. Most forecasts place DXY in the low-to-mid 90s by end-2026 once geopolitical risk fades and rate differentials narrow. Structural pressures include weakening fiscal credibility, a reduced US growth premium, and ongoing reserve diversification away from the dollar. The outlook for 2026 is therefore sequential: near-term strength followed by medium-term weakness. While geopolitical tensions and a Fed pause may support the dollar in the short run, its resilience near 100 appears temporary and not supported by underlying fundamentals.

Underweight Neutral Overweight Previous weight

Currencies

Tactical View



Euro

The euro enters Q2 2026 with a more constructive medium-term backdrop than in prior quarters, supported by a combination of relative dollar weakness, improving policy credibility in Europe, and renewed investor interest in diversifying away from US assets. While the ECB deposit facility rate has been reduced to 2.00%, the euro has remained resilient, suggesting that FX performance is no longer being driven solely by short-term rate differentials but increasingly by broader capital-allocation flows and relative macro positioning. Europe is still exposed to energy-price shocks and geopolitical uncertainty, which can weigh on growth and temporarily limit upside in the single currency, especially if higher oil and gas prices deteriorate the region's terms of trade. However, this is increasingly offset by Germany's fiscal expansion, a less fragile euro-area growth mix, and a gradual reassessment of the euro as a credible alternative reserve and diversification currency at a time when structural confidence in the dollar has softened. In relative-value terms, several large asset managers remain constructive on EUR versus USD over the medium term, with expectations that the dollar-weakening trend should continue once geopolitical stress fades and policy differentials narrow further. The outlook is therefore one of near-term resilience with medium-term appreciation potential, supported by portfolio reallocation and an improving policy mix rather than by cyclical momentum alone.

 Underweight  Neutral  Overweight  Previous weight