

Equities

July 2026

Moderately constructive stance for equities

Equities ended 1H2026 on a strong note despite geopolitical uncertainty, higher oil prices, and inflation concerns. The AI investment theme remained the key driver of performance, supporting gains in US, Japan, Korea, and Taiwan equities.

Looking ahead, the economic outlook remains broadly constructive. Combined with resilient corporate earnings, this continues to support a positive environment for risk assets. While AI remains a core structural growth theme, investor focus is increasingly shifting toward companies' ability to monetise AI investments and deliver sustainable earnings growth. Firms with strong earnings visibility, supported by ongoing investment and revenue expansion, are likely to remain favoured.

As the AI investment landscape becomes more crowded and concentrated in mega-cap stocks, markets may be more vulnerable to geopolitical shocks, earnings disappointments, or other unforeseen events.

Key market drivers in 2H2026 include the US midterm elections and the Federal Reserve's policy and interest-rate outlook. Historically, midterm elections often result in losses for the incumbent party and increase the likelihood of a divided government. For markets, policy implications matter more than politics, as legislative gridlock can reduce uncertainty and often prove supportive for equities.

Against a backdrop of persistent inflation, rising fiscal deficits, and geopolitical tensions, investors will closely monitor the elections for their potential impact on fiscal, trade, and industrial policies.

Within our tactical asset allocation strategy, we maintain a moderately constructive stance on equities, with an overweight position in US equities, neutral positions in Japan and Asia ex-Japan, and an Underweight position in Europe.

While equities may experience periods of consolidation following the strong rally, we view any pullbacks as opportunities to add to strategic positions. Sector-wise, we favour Information Technology, Communication Services, Materials, and Utilities, which stand to benefit from continued capital expenditure growth and long-term themes such as AI and Security and Resilience (S.E.C.U.R.E.).

US – Climbing the wall of AI concerns

Investor concerns about the sustainability of the AI CAPEX cycle remain, particularly as some US hyperscalers face declining or even negative free cash flow due to significant AI-related investments. However, despite fluctuations in sentiment over the past two years, hyperscaler CAPEX trends have remained broadly intact, supported by resilient demand. This should continue to underpin earnings growth and investment across the technology value chain. Micron's recent earnings results also highlight the strong growth trajectory of AI infrastructure spending.

More broadly, earnings revisions across the S&P 500 remain positive across most sectors, providing a supportive backdrop for the upcoming earnings season. Encouraging developments in US-Iran negotiations related to the Strait of Hormuz have also helped ease geopolitical risks and reduce market risk premia.

We remain constructive on US equities. Our forecast assumes 2027 earnings-per-share growth of 15%, below the current consensus expectation of 18%, providing room for potential upside.

Europe – Challenging macro backdrop

The European macroeconomic backdrop remains challenging, with growth slowing and inflation staying elevated. In the UK, ongoing political uncertainty continues to weigh on sentiment, while across the region, progress toward reopening the Strait of Hormuz could help ease energy costs, although inflation and consumer confidence may take longer to recover.

Against this backdrop, we favour sectors that offer inflation protection, such as Materials and Energy, alongside defensive areas including Telecommunications and Utilities. Within cyclical sectors, we remain selective and prefer companies exposed to the long-term structural themes of AI adoption and enablement, as well as Security & Resilience (S.E.C.U.R.E.).

Germany's fiscal stimulus measures could support a cyclical growth recovery, but it may be premature to expect a return to the outperformance seen in the previous decade. Structural challenges - including an ageing population, increased competition from China, and elevated energy costs - are likely to remain headwinds. While easing geopolitical tensions may provide near-term support, we continue to focus on companies with strong fundamentals, pricing power, and resilient earnings within European equities.

Japan – Favour structural investment themes

Japanese equities have been volatile, initially declining before rebounding on news of progress toward reopening the Strait of Hormuz. Valuations are currently at the upper end of their historical range, reflecting improved investor sentiment and strong earnings expectations.

The Bank of Japan recently raised its policy rate by 25 basis points to 1.0%, in line with market expectations. Meanwhile, the government has unveiled a long-term growth strategy centred on public-private investment across key strategic sectors, with further details expected in the coming months.

We continue to favour structural investment themes, particularly AI-related opportunities across the semiconductor ecosystem, including equipment, components, parts, and materials manufacturers. A further easing of geopolitical tensions could support cyclical sectors such as banks, construction, defence, and real estate.

However, the Bank of Japan has highlighted upside inflation risks, which could weigh on real household incomes and private consumption. As such, while the medium-term outlook remains constructive, we remain selective and focused on companies with strong earnings visibility and exposure to long-term growth themes.

Asia ex-Japan – Selectivity is key

We maintain our neutral stance on Asia ex-Japan equities, as performance across the region remains highly divergent. The AI theme has driven strong gains in South Korea and Taiwan, but market performance has become increasingly concentrated, with a handful of stocks accounting for a significant share of index returns. Investor enthusiasm, particularly in South Korea, has also raised concerns about elevated market positioning.

In contrast, Indonesia has been a notable underperformer. We remain Underweight given continued macroeconomic challenges and uncertainty surrounding its Emerging Markets status, which may continue to weigh on investor sentiment.

Within the region, we continue to see more attractive opportunities in Hong Kong, China, and Singapore equities, where valuations remain reasonable and market fundamentals appear more compelling. Overall, while the regional outlook remains mixed, selective positioning remains key.

China/HK – Diverging performance between onshore and offshore markets

The performance gap between onshore and offshore Chinese equities continues to widen, and we expect this trend to persist. The onshore A-share market remains better positioned, benefiting from greater exposure to technology, innovation, and industrial upgrading themes, stronger earnings growth prospects, and relatively low correlation with US equities, making it more resilient to external shocks.

In contrast, offshore Chinese equities have been weighed down by softer economic data, particularly retail sales, as well as concerns over new regulatory requirements affecting outbound investment activity. However, the upcoming 2Q26 earnings season could prove to be an important catalyst. Large internet and platform companies may be nearing the end of intense subsidy-driven competition in areas such as food delivery and quick commerce, potentially supporting stronger profitability and positive earnings revisions.

We maintain our preference for the onshore A-share market and continue to advocate a barbell strategy, combining quality yield-generating companies with selective exposure to AI-related beneficiaries. Favoured areas include power equipment, energy storage, and other sectors supported by policy initiatives and the ongoing AI investment cycle.

Singapore – Attractive valuations, strong dividends and structural market support

We remain positive on Singapore equities, supported by attractive valuations, strong dividend yields, and ongoing market development initiatives. Despite geopolitical tensions and inflation concerns linked to higher oil prices, Singapore continues to attract safe-haven inflows due to its strong governance, stable economy, and resilient Singapore dollar.

The Straits Times Index (STI) remains reasonably valued, trading at around 15.1x earnings while offering an attractive dividend yield of approximately 4.2%. Historically, the STI has delivered annualised returns of 6.2% over the past decade, rising to about 10.3% when dividends are included.

A key catalyst is the Equity Market Development Programme (EQDP), which has significantly improved market liquidity and investor participation since its launch in 2025. Trading activity has risen sharply; while growing interest in small- and mid-cap stocks has supported broader market re-rating. Additional support is expected as more asset managers join the programme and initiatives such as the SGX-Nasdaq dual-listing framework and Global Listing Board encourage new listings.

Sector-wise, banks remain attractive due to strong earnings, dividend payouts and share buybacks. Opportunities also exist in REITs and quality real estate companies, while Singapore's construction sector is benefiting from a robust pipeline of infrastructure projects, including Changi Airport Terminal 5.

Overall, Singapore offers investors a compelling combination of stability, income, and long-term growth potential.

Global Sectors – Constructive on structural investment themes

At the start of 2026, our preferred sectors were Information Technology, Communication Services, Materials and Utilities, while we maintained an Underweight position in Consumer Discretionary. This positioning has proven effective, with IT leading global sector performance year-to-date, while Consumer Discretionary has lagged amid softer consumer spending trends.

Looking ahead, we remain constructive on sectors that benefit from structural investment themes, including technological sovereignty, supply-chain localisation and infrastructure modernisation. These trends continue to support earnings growth in IT, Communication Services, Materials and Utilities through sustained capital expenditure across the global economy.

While Energy has performed strongly and remains an effective geopolitical hedge, easing tensions suggest near-term upside may be more limited. We also see improving opportunities in selected Healthcare segments, particularly Life Sciences and Medical Equipment, where investor interest is increasing.

From an investment style perspective, we favour a barbell strategy combining Quality Growth and Low Volatility stocks. Quality Growth companies, particularly those linked to AI, continue to benefit from strong earnings growth, healthy balance sheets and attractive shareholder returns. Low Volatility stocks, meanwhile, provide attractive diversification and portfolio protection at reasonable valuations.

Importantly, the AI investment cycle remains intact. Rising capital commitments from hyperscalers and increasing demand for AI computing capacity continue to support opportunities across semiconductors, internet platforms, storage and networking infrastructure. We remain positive on these areas, while maintaining a more selective view on software. Cybersecurity is also emerging as a beneficiary of broader AI adoption and digital transformation trends.

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