

Latest Market Focus

2026Q3 Asset allocation: AI trade dominates

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CIO Office and Investment Advisory

- **New framework:** Regime shift to higher rates, stickier inflation, and greater policy intervention. AI remains the core theme, with the narrative pivoting from “capex” to “deployment/monetisation”. Reduce concentration on single market and single sector, while adding low-correlated real assets exposure for resilience
- **US equities: expand beyond semis to broader AI supply chain and non-tech beneficiaries.** ~60% of AI capex flows to industrials, power/utilities, energy supply, and materials. In a higher-for-longer rates backdrop, prioritise earnings and cash flow; diversify into power grid upgrades, data centres, and industrial automation. We also favour cyclical recovery leaders such as small caps and biotech
- **Asia equities: Stabilised oil prices support inflows and creates room for monetary easing.** Beyond AI, commodities, financials, and property themes warrant attention. China A-shares and RMB offer diversification against global equity/FX volatility risk, backed by supply-chain strength, distinct AI build-out cycle, and advanced manufacturing policies
- **Bonds and alternatives:** Prefer short-to-medium duration IG and EM bonds for yield carry. Accumulate gold on dips. Add energy, copper, infrastructure real assets, and floating-rate securitised credit for downside protections

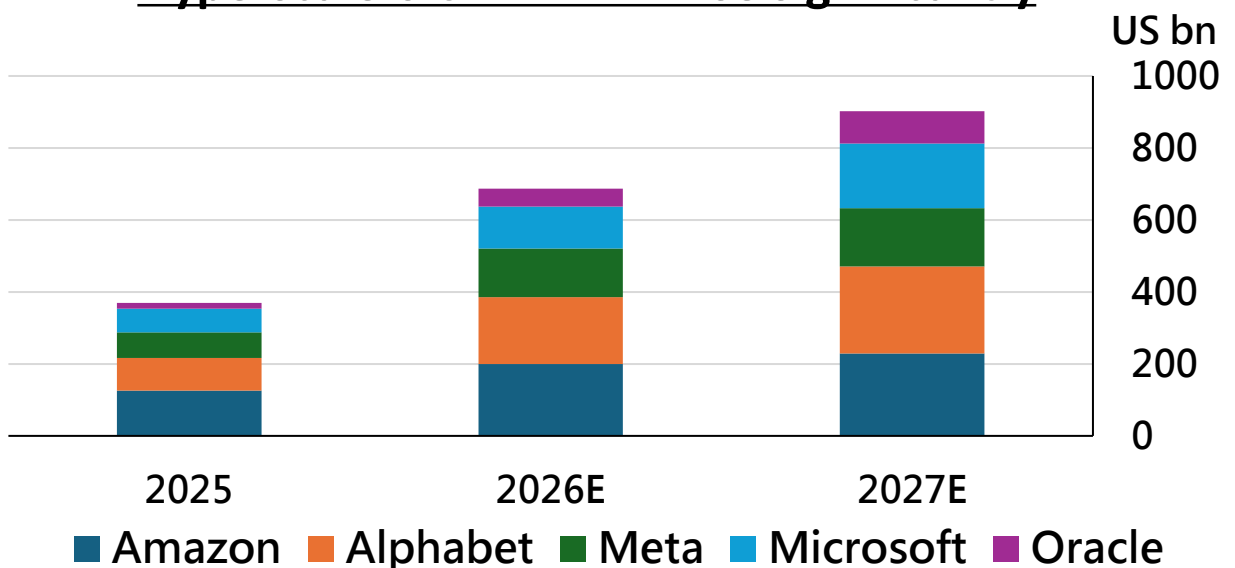
Q3 asset allocation: AI trade dominates

Global asset pricing is moving away from low-inflation, rate cuts, and PE multiple-expansion backdrop to a higher real rates, stickier inflation, greater policy intervention and persistent geopolitical risk regime. Investment returns will depend more on earnings growth and whether AI capex translates into measurable economic impact. Positioning should reflect this shift, as the old framework could misprice both risk and return.

We believe AI remains the clearest structural growth theme, with the narrative pivoting from “capex” to “deployment/monetisation”. Winners will be companies that turn AI spending into productivity gains and revenue growth. Investment in compute, data centres, power generation, and grid upgrades is still accelerating, and AI is broadening into resources, infrastructure, industrials, defence, and other real-economy sectors.

Geopolitics remains a key swing factor. If the Strait of Hormuz reopens and oil prices stabilise, markets can refocus on “earnings growth and corporate investment expansion”. However, if supply is disrupted again, equity and bond risk premium would rise and sector rotation should accelerate. For Q3 positioning, participate in AI’s real upside, while reducing single region and single sector concentration risk, and adding low-correlated real assets to strengthen portfolio resilience.

Hyperscalers CAPEX will rise significantly



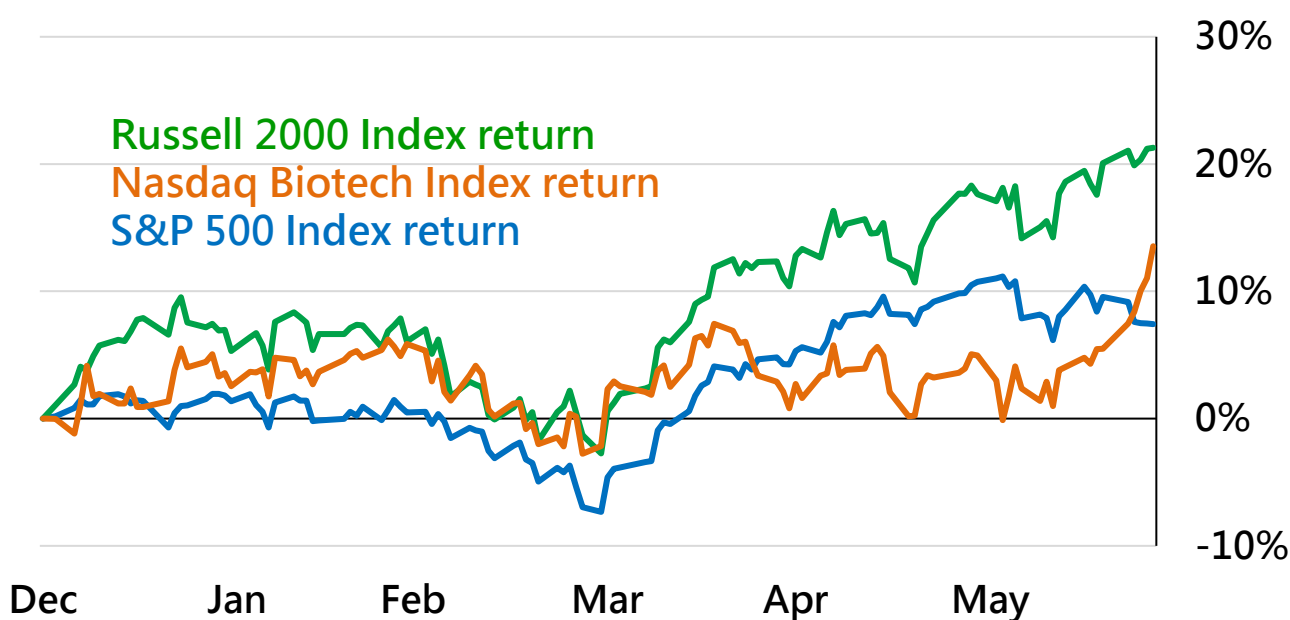
Source: Bloomberg, as of 28 Jun 2026

US equities: from semis to the broader AI capex ecosystem

In US equities, we advocate expanding beyond semis to the broader AI supply chain. Around 60% of AI capex is now flowing toward non-tech sectors, including industrials, power and utilities, energy supply chains, and related materials. Worth noting that the resilient US economy is supporting continued inflows into stock markets. Recent strength in small caps and biotech point to improving breadth and additional cyclical recovery leadership.

Under the higher-for-longer interest rates backdrop, investors should prioritise earnings quality and cash-flow strength. US equity positioning should therefore emphasize on stable cash generation and dividend durability, while keeping “AI capex beneficiaries” as the core allocation. Beyond chips, looking to diversify toward power equipment, grid upgrades, data-centre infrastructure, industrial automation, and energy supply chains.

Year to date US small caps and biotech outperformed



Source: Bloomberg, as of 28 Jun 2026

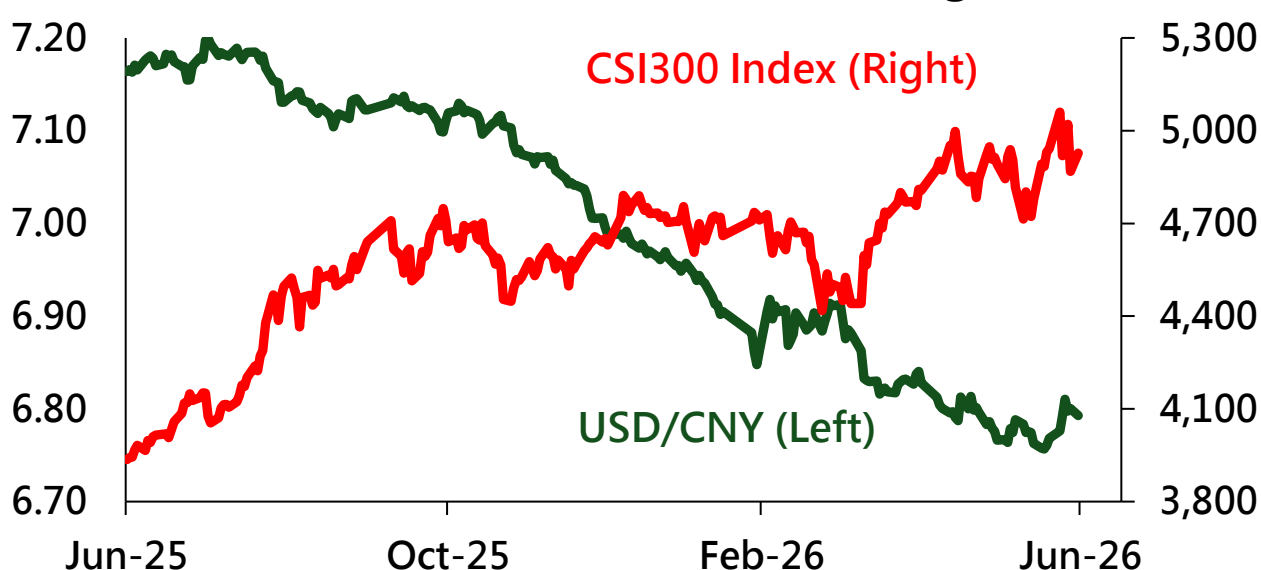
Asia / Emerging markets: diversified themes, more policy tools, and China A shares stand out

Global flows rotated back to the US during the recent energy shock. As Middle East tensions ease and oil prices stabilise, Asian equities could see renewed inflows. Asia offers valuation support, growth flexibility, and ample policy tools, alongside diversified themes such as commodities, materials, financials, and property related opportunities, in our view.

A US–Iran détente would be most supportive for Asia. China, Japan, Korea, and India rely heavily on energy shipments through the Strait of Hormuz. A reopening would lower energy costs and lift margins for export manufacturing such as autos, electronics, and petrochemicals. Lower crude prices will also ease inflation and give central banks more room for monetary easing.

We see China A-shares and the renminbi as meaningful diversifiers for global equity and FX risk. RMB has risen about 3% against the US dollar year-to-date. With geopolitical risks lifting shipping and energy costs, supply-chain resilience becomes crucial. China's integrated industrial base and mature logistics network underpin strong substitution and delivery capabilities. In the first five months of this year, exports grew 15.5% vs 2025 and the trade surplus reached USD 451.7bn, highlighting execution strength amid uncertainties.

CSI300 Index rose with RMB strength



Source: Bloomberg, as of 28 Jun 2026

China A-shares should benefit from its domestic AI build-out plan and supportive policy, including the “15th Five-Year Plan”, which should underpin earnings. Currently, about half of the CSI 300 Index’s weighting is linked to AI hardware and advanced manufacturing, offering exposure to China’s distinct AI cycle. We see its potential to move towards 5,200 this year.

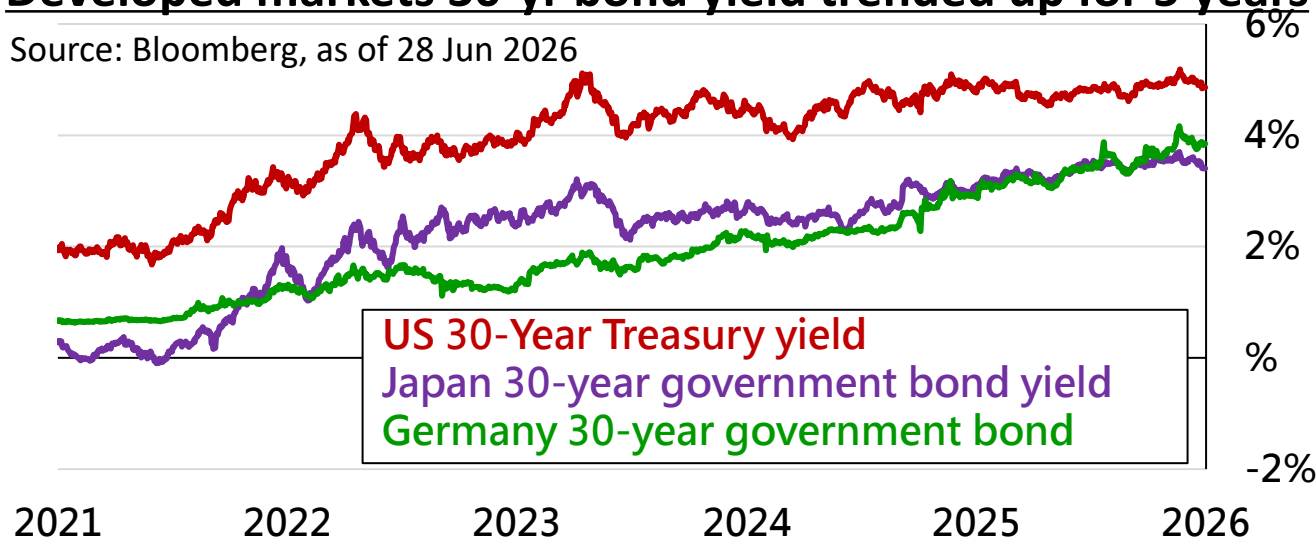
For Hong Kong equities, expectations of further US rate hikes have weighed on sentiment. We expect Fed’s rate hikes if any, would only be mild, and given Hang Seng Index is near the low end of its historical valuations, the downside should be limited. Sector-wise, we prefer AI hardware, mainland banks, and Hong Kong property developers with exposure to mid-to-high-end shopping malls.

Bonds: lower volatility, steady income

Core allocation focuses on short-to-medium duration IG and EM bonds, complemented by floating-rate securitised credit. The focuses are yield carry and stable income. Long-duration bonds are prone to volatility amid US inflation risks, fiscal concerns and rates movement. Globally, the gradually rise in 30-year government bond yields in Germany and Japan—from near zero to around 4%—highlights a material repricing of long-end rate structures in developed markets. We therefore prefer short-to-medium duration IG bonds, using spread strategies to enhance carry while managing default risk and sector concentration. Floating-rate securitised credit, priced off “base rate + spread”, remains attractive, and would help to lift income and further reduce sensitivity to rates volatility.

Developed markets 30-yr bond yield trended up for 5 years

Source: Bloomberg, as of 28 Jun 2026



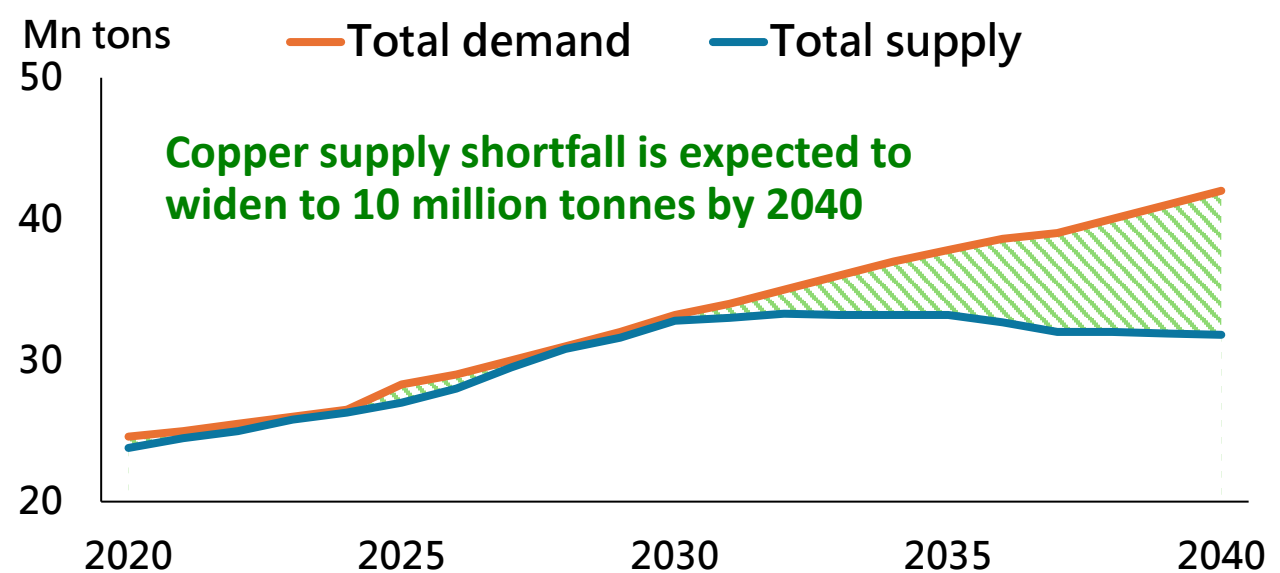
FX, commodities, and alternatives: further strengthening portfolio resilience

The US dollar remains an effective hedge in tail-risk scenarios, but may not warrant chasing higher in the base case. We treat USD exposure as a risk-management tool, raising hedge ratios when stress events emerge.

In commodities, we maintain a “buy on dips” stance on gold as a mid to long term hedge against uncertainty linked to US fiscal problems. For energy exposure, we prefer energy and new-energy equities and their related supply chains. For industrial metals, we see copper demand under structural support from electrification, grid investment, and AI infrastructure build-out.

With equity–bond correlations elevated in recent years, alternatives are no longer just an “enhancer” but an important stabiliser for portfolios. Adding real assets linked to data centres, power infrastructure, and supply-chain rebuilding—alongside commodities and raw materials can further diversify risk and improve the portfolio resilience.

Estimated copper resources to undersupply



Source: S&P Global, as of 8 Jan 2026

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