Global Exceptionalism and the 4Rs

Fullerton Investment Views - Quarterly report

Q1 2026

FULLERTON FUND MANAGEMENT
A member of Seviora Group

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Contents

- Investment Environment and Risk-Asset Outlook 2
- Equities 14
- Fixed Income 22

Executive summary

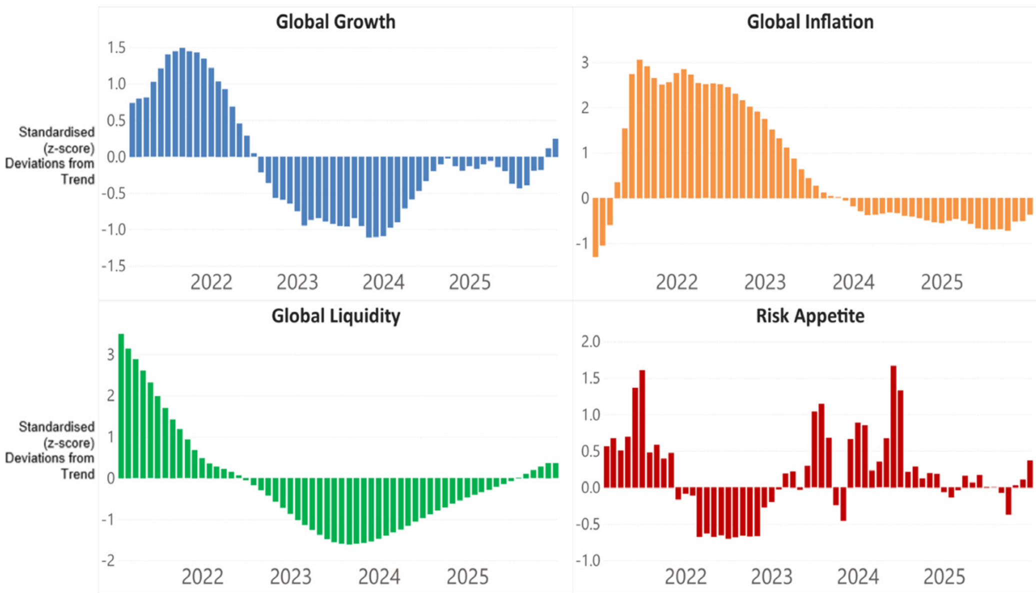
- **Goldilocks and global exceptionalism can continue in 2026**
  - One of the greatest threats to our bullish outlook is now fading as risk appetite is improving. We continue to believe that global GDP growth will hold above trend, and combined with supportive liquidity, and inflation falling back from its 2025 highs, key markets can sustain double-digit earnings growth.
  - Fuelled by on-going productivity gains, and with spending supported by wealth and stronger incomes, 'global exceptionalism' can continue with winning companies to be found across many sectors and countries.
- **The 4Rs - AI Revolution, Return of Capital, with better Risk Appetite, can create potentially strong Returns (on Capital) for investors**
  - Fullerton's Investment Regime Indicator is solidly in Goldilocks which is especially great for returns from growth-linked assets like equities and industrial metals. Combined with improving Risk Appetite, it creates the first of our '4Rs' thematic for this year where returns on capital can potentially be high as the AI-Revolution continues to boost earnings, and with the potential return of capital as significant amounts of cash can be 'put to work' in the US, Asia, Germany, and at home in Singapore.
  - Navigating geopolitical risks in a 'Realpolitik World' with high valuations across many risk assets makes active management critical for investors to defend gains. Fullerton remains vigilant as this new world order unfolds, with risk monitoring from the bottom-up, which includes signposts like changes in pricing power, market access, leverage, and forward guidance.
- **For the next 12 months, Fullerton is bullish on global risk assets, driven by Asia (i.e China, Singapore, South Korea, Taiwan) and Developed Market (i.e US, Germany, and Japan) equities, with a positive outlook for fixed income returns**

01 Investment Environment and Risk-Asset Outlook

Fullerton's global factors that drive investment returns are bullish

Global growth and liquidity, led by the US and China, remain the strongest above trend for this cycle (see Figure 1). At the same time, global inflation has increased but is still below trend. This goldilocks environment for investors can be sustained because risk appetite is recovering, which is a key positive shift from our Q4 2025 Investment Outlook[1].

Figure 1: Fullerton's global factors that drive investment returns are bullish



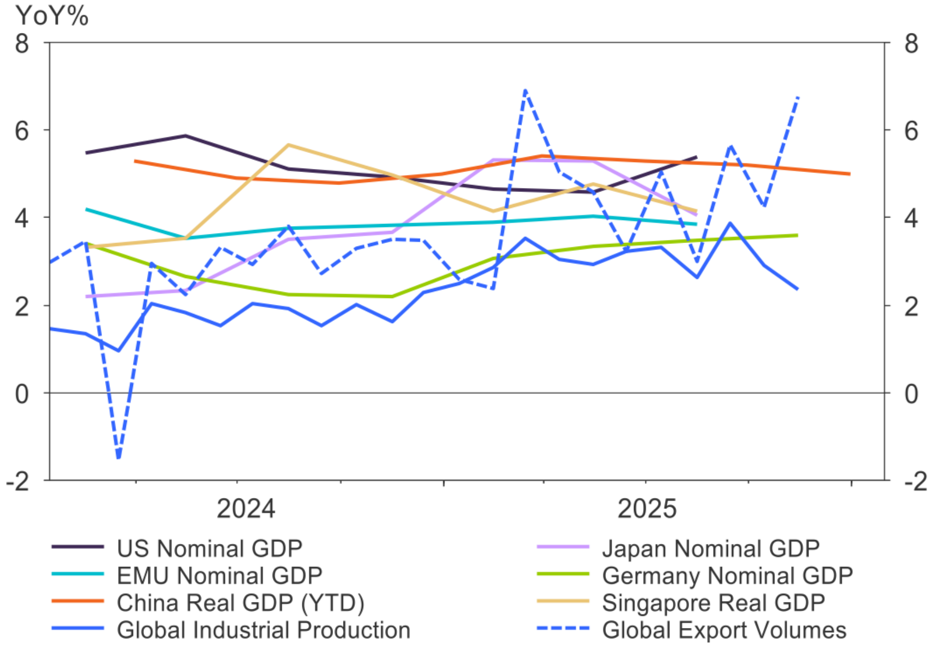
Source: Fullerton Fund Management, January 2026. These global macro factors of growth, inflation, liquidity, and risk appetite, are constructed by Fullerton and expressed as standardised z-score deviations from trend (or average). In turn, they impact the signal from our Investment Regime Model. The information presented in the graphs above are calculated based on Fullerton's internal methodology and subject to changes. Past performance is not indicative of future returns.

1. See [Goldilocks and the Risk Appetite Bear - Fullerton Fund Management]

Nominal GDP growth, which tends to have a solid correlation with corporate earnings performance, is tracking at least 4-5%p.a for most countries (see Figure 2). Growth in global manufacturing is holding around its trend, while global trade remains very strong as impacts from protectionism continue to be mitigated by market diversification, competitiveness, and robust demand for high-value added products[2] (see Figure 2). Money and liquidity growth remains consistent with strong economic activity and spending across key countries, and it should continue to be very supportive for risk taking (see Figure 3).

Figure 2: Strong trade, GDP growth, and steady manufacturing

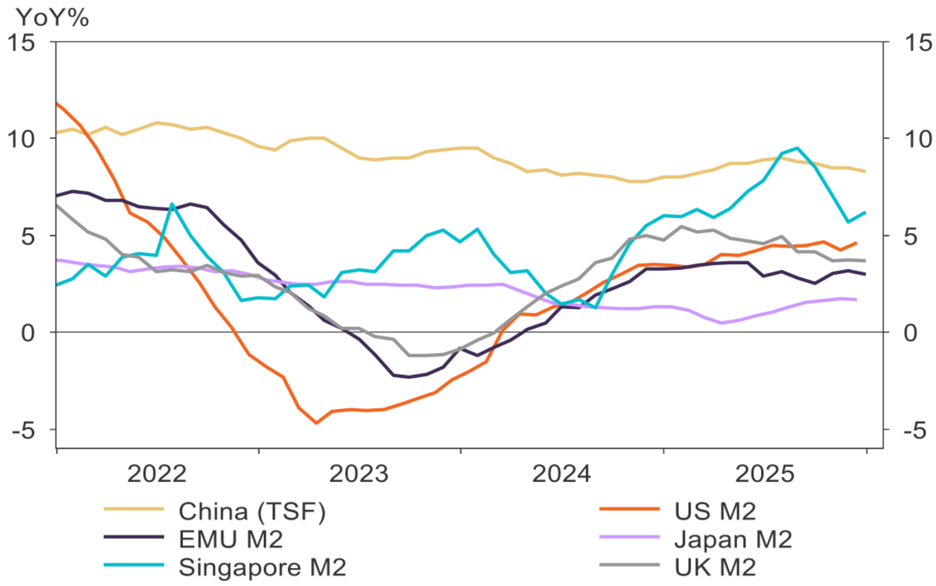
Key Activity Indicators



Source: LSEG Datastream, February 2026

Figure 3: Liquidity conditions are very supportive for risk taking

Liquidity Conditions



Source: LSEG Datastream, February 2026

2. For further discussion see Investing in a Realpolitik world - Fullerton Fund Management

When we put all the positive global macro factors together, Fullerton's Investment Regime Indicator is solidly in the Goldilocks zone which is especially bullish for returns from growth-linked risk assets like equities and industrial metals.

Figure 4: Fullerton's Investment Environment Indicator with Return Distributions

Source: Fullerton Fund Management, January 2026. The Investment Regime Model is calculated based on Fullerton's internal methodology and is subject to change. Past performance may not necessarily be indicative of future performance. The bottom bar chart of potential risk asset returns under 3 of the 5 regimes is the 6mth rolling return (%pts) based on the interquartile range of outcomes for US equities (S&P500), DM equities (MSCI World), US 10y Treasury bonds, the USD dollar (DXY Index), and Commodities (from the BCOM index).

For 2026, Fullerton is bullish on global risk assets, driven by Asia and Developed Market (DM) equities, with a positive outlook for fixed income returns

Summary of Fullerton's Views (12 months ahead)

	Bearish	Negative	Positive	Bullish
Risk Assets (overall)				✓
Developed Market Equity				✓
Asia ex-Japan Equity				✓
Singapore Equity				✓
Global Sovereign Bonds			✓	
Asia IG Credit			✓	

Source: Fullerton Fund Management, January 2026. Views may be subject to change without prior notice.

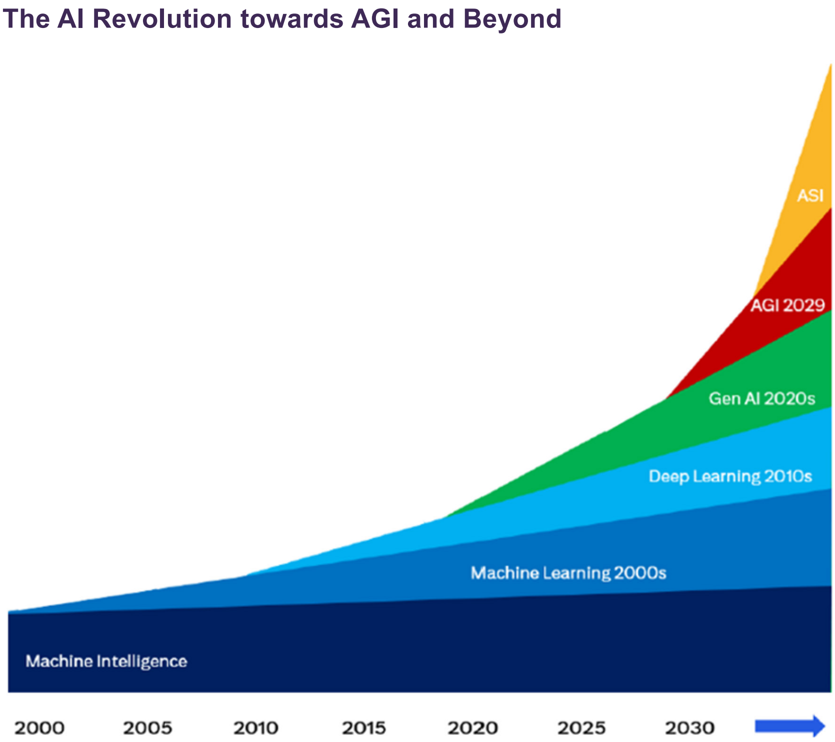
The first of the 4Rs – Fullerton believes that the AI Revolution will continue to support strong productivity and earnings growth

The impacts from AI and related technologies, along with demands across the metaverse, will have years to run (see Figure 5), and the transformational impacts could unfold faster than anticipated. Fullerton has done a deep-dive investment research paper into how new technology can feed through the macro economy to increase productivity, lower costs and inflation, and boost earnings[3].

China has very strong productivity growth, but from a low base, while the US has a very high level of productivity and is still growing the fastest in DM. The US is also the largest consumer market (with spending of $20tn p.a), and its households are the most affluent in the world, with the highest level of wealth (relative to GDP) [4]. Fullerton has always emphasised that global growth can remain strong because of robust productivity, rising investment, and large gains in wealth and incomes supporting spending.

3. See Fullerton Fund Management, Investment-Opportunities-in-the-Age-AI Oct 2023
4. Source: LSEG, 2 February 2026

Figure 5: The long runway of AI innovation and transformations



Source: Citibank May 2024 "Innovation towards AGI". Artificial General Intelligence (AGI) is an AI system with general cognitive abilities comparable to (or broader than) a typical human across most domains. Artificial Superintelligence (ASI) is an AI system that is decisively more intelligent than the best human minds in almost all economically relevant or cognitively demanding domains

The Return of Capital - Global policy stimulus remains very supportive

For more than a year now, we have emphasised that policy stimulus is having a massive positive impact on the returns for investors in China, Germany, the US, and most recently, Japan[5]. Government spending almost always boosts investor confidence and alpha across the sectors that benefit directly, and often pulls-in significant private sector capital more broadly. On-going stimulus spending is contributing to strong alpha returns for investors across Germany's Industrials and Utilities, China's Materials, Communications, and Healthcare, and the United States' IT and Industrials.

Government policy actions in Singapore are also boosting equity market returns – not from fiscal spending packages but rather from actions like the 2025 tax concessions for firms issuing new shares and listing, as well as the MAS' Equity Market Development Programme (EQDP). All these initiatives, combined with Singapore's master-plan to continue to enhance its global financial centre status[6], have made investors very excited about a deeper and more vibrant investment environment[7].

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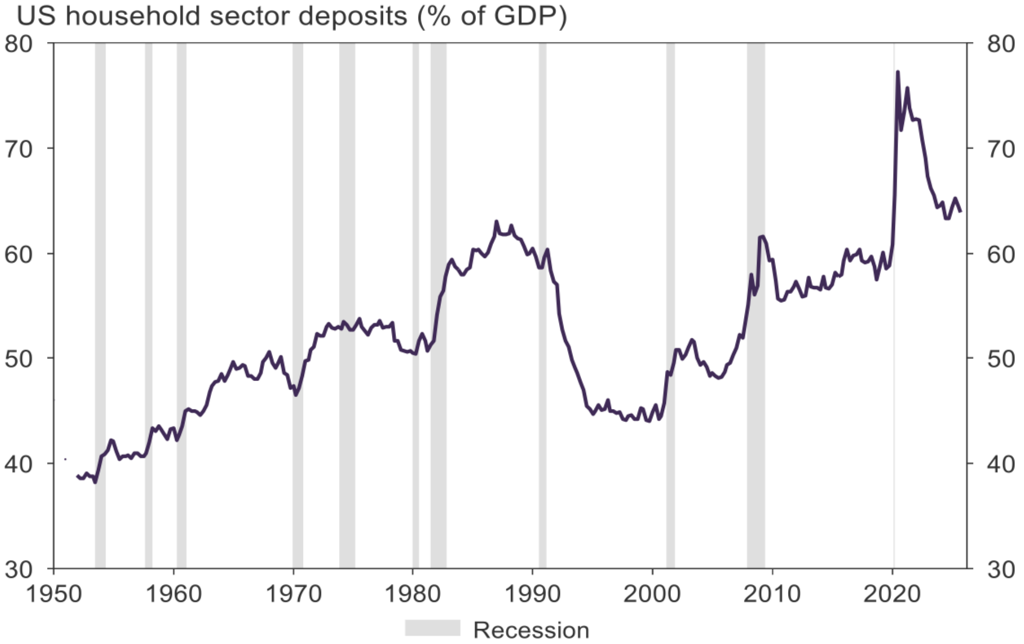
5. The bullish policy stimulus that we have called the '10% club' reflects: (1) US fiscal stimulus of around 10% of GDP (over 10 years) is contributing to the current investment boom, (2) Germany: €500bn infrastructure investment (12% of GDP over 12 years), (3) China's stimulus: 9% of GDP in total, with around half spent in 2025 and around 4.5%pts remaining, and (4) Japan's stimulus may be around 3%pts of GDP in 2026 driven by cuts to consumption taxes. Sources: see Investing in a Realpolitik world - Fullerton Fund Management and for US stimulus specifically see the One Big Beautiful Bill Act (OBBBA, 4 July 2025). Germany, Bundestag, 18 March 2025. China, NPC, 8 November 2024. Japan, Reuters News, 21 Nov 2025.
6. See the MAS Financial Services Transformation Map and Annual Report FY 2024/25
7. For further discussion see Fullerton Fund Management Q3 2025 Investment Views

The Return of Capital - there is a lot of cash that investors can 'put to work', especially in the US and Singapore markets

US household holdings of cash are still at (ex-COVID) record highs (i.e 64% of GDP which is almost $20tn, and $5tn of that is in Money Market Funds. See Figure 6). Some of these substantial financial resources are likely to continue to be used to buy equities, bonds, and real-estate, over time. In fact, in harmony with US corporate profitability exceptionalism, US household wealth has surged, to more than 6-times income, and is making it a struggle to 'put cash to work' (see Figure 7). At the same time, global fund manager surveys continue to suggest that allocations to US equities can have a lot more upside (i.e surveyed foreign investors are only a net 6% overweight US equities[8]).

Figure 6: US household holdings of cash that can still be invested are very high ($20tn)

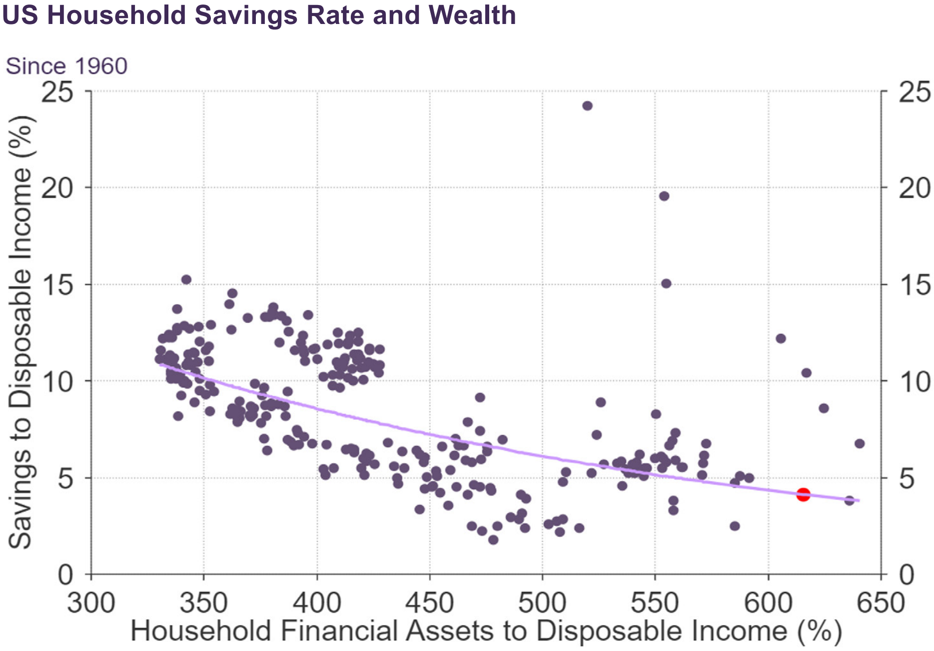
US Household Holdings of Cash



Source: LSEG Datastream, February 2026

8. Source: BoA GFMS 16 December 2025.

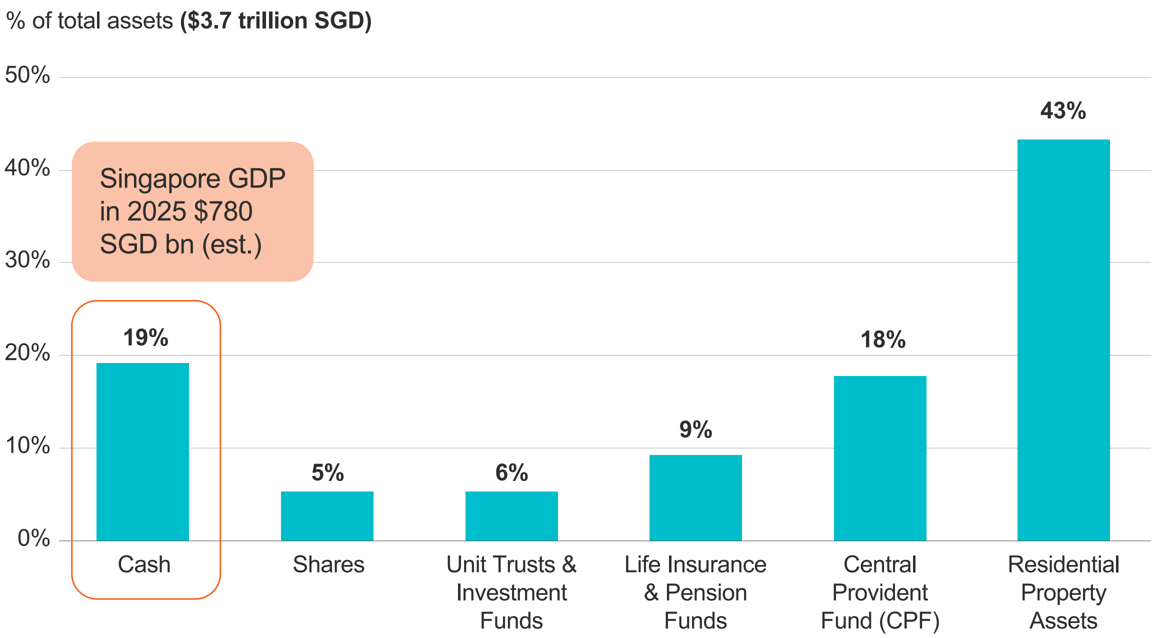
Figure 7: US household financial wealth has surged to more than 6x disposable income



Source: LSEG Datastream, February 2026

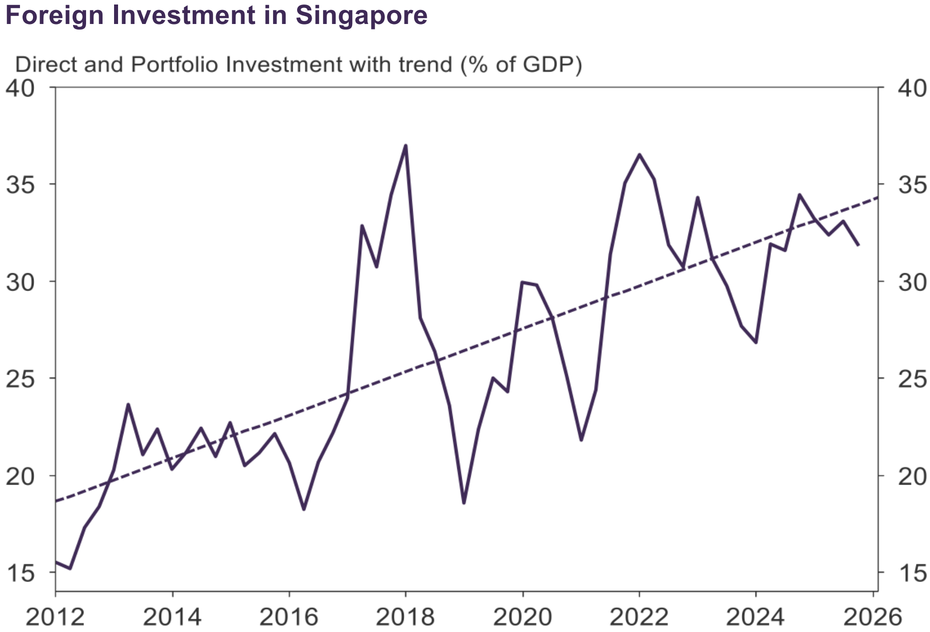
Singaporean investors also have vast holdings of cash, and some of that is likely to slowly flow into higher returning risk assets over time (see Figure 8). As these financial resources are deployed they can further boost investor optimism and the robust rally underway in equities. Singapore is also enjoying a positive trend in capital inflows from foreign investors (see Figure 9) as Singapore proves to be a valuable diversifier given its top credit rating and strong currency.

Figure 8: Singapore household's cash balances that can be put-to-work is much higher than their US counterparts (as a percent of GDP)



Source: FFMC GDP estimate. Singapore Statistics December 2025. Singapore total assets is now $3.7tn as at Q3 2025.

Figure 9: Foreign capital inflows to Singapore remain on a robust trend



Source: LSEG, January 2026. Since 2012 the share of investment that is equity related is around 80% while debt related is 20%.

Active management remains critical to defend gains

So far this year there have been shifting alliances across the new world order and some significant geopolitical shocks. Some of these developments have been disruptive to global investor confidence, but they have not derailed the goldilocks investment environment. Furthermore, many events may actually enhance global exceptionalism by building diversification beyond US risk assets and creating new investment opportunities.

Shifting alliances, defending resources, and securing supply-lines. Navigating a 'Realpolitik World' can strengthen global exceptionalism.

Asia – the massive RCEP

As we have emphasised for more than a year now, Asia is very well placed to continue to defend its global trade share and deepen its economic linkages beyond the US with supports from one of the largest free-trade blocks in the world[9].

Europe and India – 'the mother of all deals'

India and the European Union (EU) struck a new trade agreement that, as India cuts its tariffs, is expected to double EU exports to India by 2032. In turn, the EU will cut tariffs on almost all goods imported from India over the next seven years, with no tariffs on marine goods, leather and textiles, chemicals, rubber, industrial metals, and jewellery. India's Prime Minister Narendra Modi called it the 'mother of all deals' and declared that it will create major opportunities for the 1.4 billion people of India and the millions of people in Europe[10]. Further good news for India was that President Trump announced that he will slash tariffs on India's exports to the US (to 18%) after PM Modi agreed to halt India's purchases of Russian oil[11].

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9. That is the Regional Comprehensive Economic Partnership (RCEP). For a deeper discussion see FFMC Q3 2025 FIV Investing in a Realpolitik World
10. Reuters News, 27 January 2026
11. The Financial Times, 3 February 2026

Europe and the Americas

After 25 years of negotiation, Europe's largest ever trade deal was signed with South America. The move reflects the trend of countries strengthening ties with Europe and China, rather than relying solely on links to the US[12].

Canada – urged the 'middle powers' of the world to unite

Canada's Prime Minister Mark Carney made an impassioned speech at the World Economic Forum meeting in Davos (19-23 Jan 2026) urging the 'middle powers' of the world to work better together. Canada is seeking a new trade deal with India (in particular across energy and minerals) and has agreed with China to forge new strategic ties and remove respective tariffs on electric vehicles and canola[13].

The UK and China – the first UK PM visit to China in almost 10 years

UK Prime Minister Sir Keir Starmer declared a positive meeting with Chinese President Xi Jinping, regarding plans to strengthen trade and investment flows, and to improve market access. It was the first time since 2018 that a UK PM has visited China, and PM Starmer told reporters that his UK government can foster stronger ties with China while preserving the deep friendship with the US[14]. In that regard, Starmer highlighted the success of his meeting with President Trump just a few months ago where a $203bn USD investment in the UK was signed-off[15].

Geopolitical shocks are always concerning, but so far global investors are taking developments in stride

Fullerton has shown evidence before that when geopolitical shocks hit, any adverse impacts can be limited, or in the worst case 'temporary disruptions', before markets return to underlying trends[16]. The optimal way to navigate geopolitical stresses remains with active management of a diversified portfolio and to seek downside protection when risks hit.

- **Iran:** the concern for investors remains the risk that the Middle East could ignite into a major stress-point for markets. Pressure has increased as European foreign ministers have added more sanctions against Iran for human rights violations and providing military assistance to Russia[17]. The US appears to want a 'regime change' in Iran and commentators have suggested that President Trump could consider targeted strikes on leaders to inspire the local protesters seeking reforms[18]. Iran's leadership has labelled EU armies as "terrorist groups" and warned of a regional conflict if the US were to attack it, further stoking tensions. That said, the situation is fluid and despite the standoff both sides have signalled they are ready to resume talks, and regional allies such as Türkiye have sought de-escalation[19].

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12. Source: The deal is the EU's largest ever trade pact, signed with the Southern Common Market (Mercosur) which encompasses Argentina, Brazil, Paraguay and Uruguay (Reuters News 22 Jan 2026).
13. Source: Reuters News, 16 January 2026.
14. Source: Reuters News, 30 January 2026.
15. Source: The Straits Times, 19 Sep 2025.
16. See Fullerton Investment Views Q4 2023 'Speedbumps in a Goldilocks Environment' pp4
17. Source: The Financial Times, 29 January 2026.
18. Source: Reuters News, 1 February and 29 January 2026.
19. Source: Reuters News, 1 February 2026.

- **Greenland:** President Trump secured the deal he wanted in acquiring 'total and permanent US access' to Greenland[20]. This certainly added to perceptions that the US remains a globally dominant political power. US credibility was further extended when NATO's own Secretary-General Mark Rutte declared that Europe is incapable of defending itself without US military support[21].

- **Venezuela:** the US capturing Venezuela's President Maduro and declaring that the US will 'run' Venezuela for now. The overarching motivation was the US' desire to constrain China in the Americas – Venezuela has vast oil reserves, while China is the largest oil importer in the world, and the US sees that as a weakness to leverage upon[22].

- **Japan:** Japan's bond and currency investors seem to hate the prospect of further fiscal stimulus[23] largely because growth is already robust and fiscal conditions are stretched. As a result, Japan's bond prices have fallen sharply with the 10y yield rising from 1.6%p.a in Nov 2025 to 2.3%p.a (as at 31 Jan 2026) while the yen remains weak. Greater stability may return after the 8 February general election where polls suggest that the Liberal Democratic Party led by PM Sanae Takaichi may increase its majority. What is bullish for investors is that Japan's fundamentals remain very positive with strong productivity and competitiveness, robust earnings, and CPI inflation finally falling back to the Bank of Japan's (BoJ) target in end-December 2025 (2.1% YoY). Most importantly, Japan's equity market returns, in US dollar terms, continue to track stronger than the US S&P500 (since Jan 2025).

- **US domestic backlash:** Terrible political voter polling by the Trump administration seems to be most linked to the acute social anger on immigration (i.e ICE actions) and dissatisfaction with the distractions from foreign policy[24]. With the US economy doing very well, President Trump must win back better social harmony or the Democrats will likely win the House of Representative at the November elections

- **A 4-day US government shutdown:** from 31 Jan 2026 the US Federal Government was once again in partial shutdown. However, there were no significant adverse impacts with normality restored on 3 Feb[25].

From Figure 10 we can see that global geopolitical shocks have been higher on average since 2022, but importantly the shocks into 2026 (i.e top panel, index sub 200) are still well below the stress level of the Iran-Israel conflict back in mid-2025[26] (i.e top panel, index almost 600) and remain much lower than many stress events since the 1980s (middle panel).

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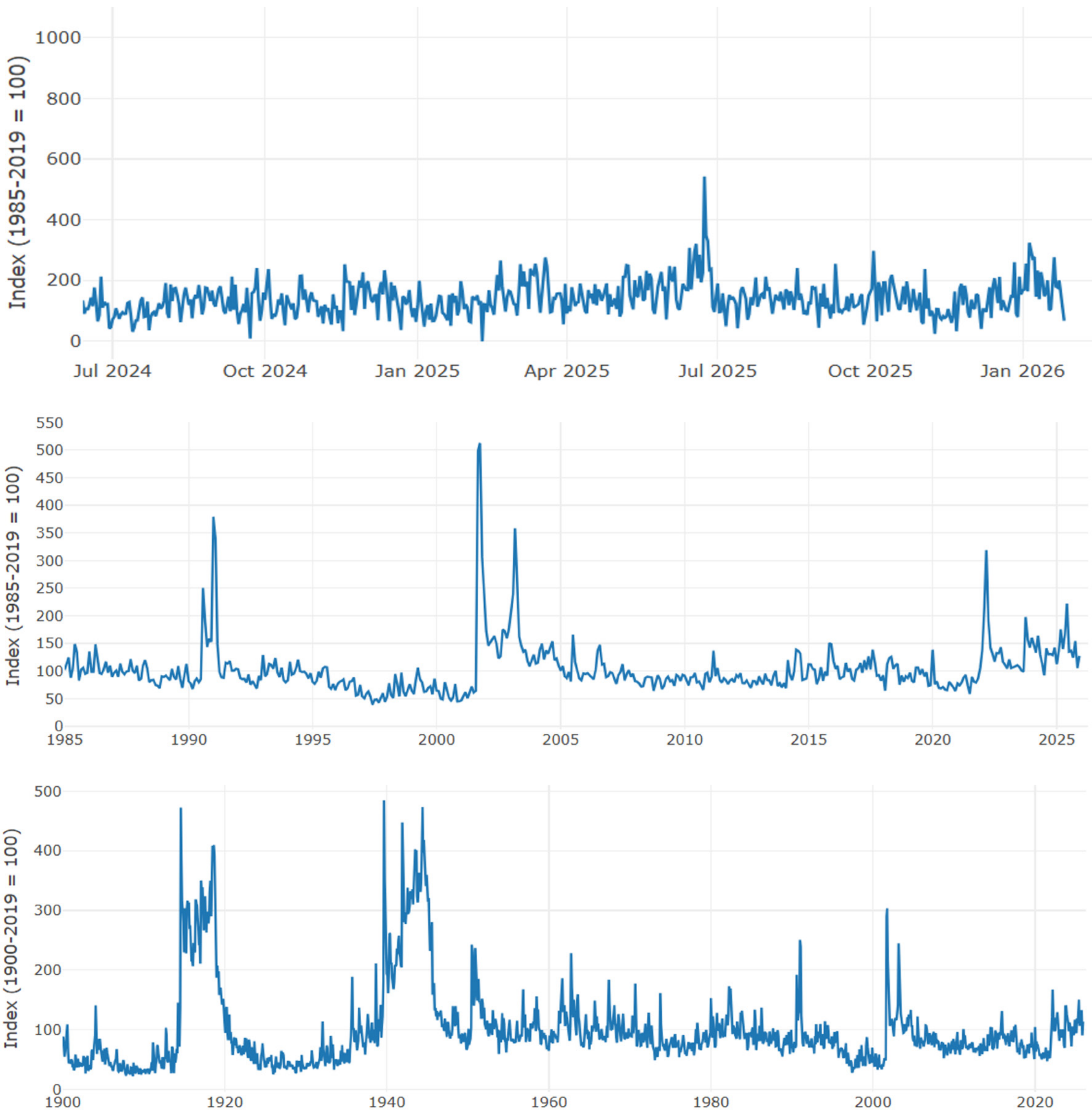
20. Source: Reuters News, 23 January 2026.
21. Source: Associated Press, 27 January 2026.
22. For more details see: FFMC (January 2026) US captures Venezuelan President
23. At around 3%pts of GDP, and dominated by cuts to consumption taxes (Reuters News, 21 Nov 2025).
24. Thousands have protested in Minneapolis, while students and teachers abandoned classes from California to New York for a national day of protest following the fatal shootings of two US citizens during the nationwide immigration crackdown (Reuters News, 30 Jan 2026).
25. Source: CBS 31 Jan and Reuters News 3 Feb 2026. This 4-day partial shutdown was nothing like the prolonged one in Oct 2025 (see FFMC US Government Shutdown October 2025).
26. See Middle East conflict – contained for now - Fullerton Fund Management

Figure 10: Global geopolitical shocks in 2026 are so far lower than in mid-2025

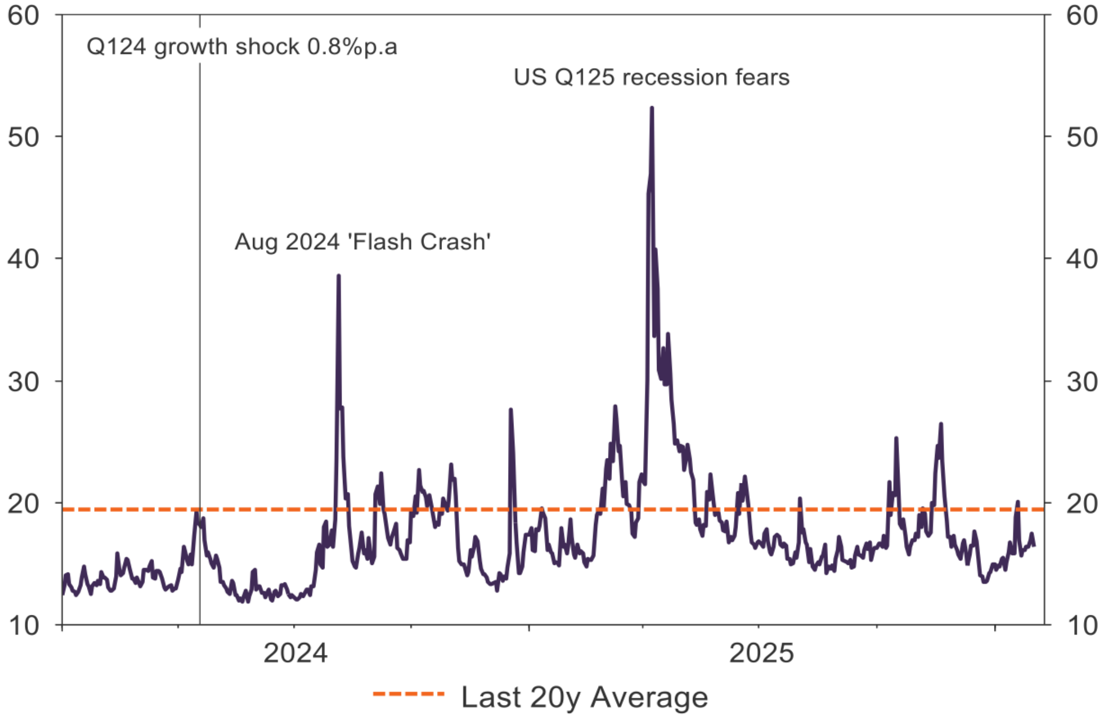


Source: The three panel chart shows index data at different horizons since 1900. Data tracks daily geopolitical stress events since 1985 (The Caldara and Iacoviello global geopolitical risk index, as at 26 January 2026).

Most importantly investors continue to navigate this Realpolitik World very well. Volatility remains very low across most asset classes and the US fear index is sanguine (see Figure 11).

Figure 11: The investor fear index is also very low

The US Investor 'Fear Index' (the VIX)



Source: LSEG Datastream, February 2026

02 Equities

Dennis Lee
Head of Equities
Fullerton Fund Management

Building from our regular global investment themes[27] (see Figure 12), it is critical for investors to appreciate that finding alpha across a Realpolitik World will not be solely about US 'exceptionalism'. Firms rising to the top of their peer group will be driven by productivity-enhanced earnings, rising investment, and sustained demand. These creative leaders will be found across many different sectors and countries.

In our Q4 2025 Investment Views we highlighted the leading sources of alpha by sector and a key takeaway was that many sources of excess returns have aligned very well with many of Fullerton's investment themes[28]. That is why it is vital for investors to harmonise their top-down strategies with active management and stock selection.

Figure 12: Fullerton's global investment themes

Source: Fullerton Fund Management, Jan 2026. Investment themes are developed from our internal methodology and are subject to change.

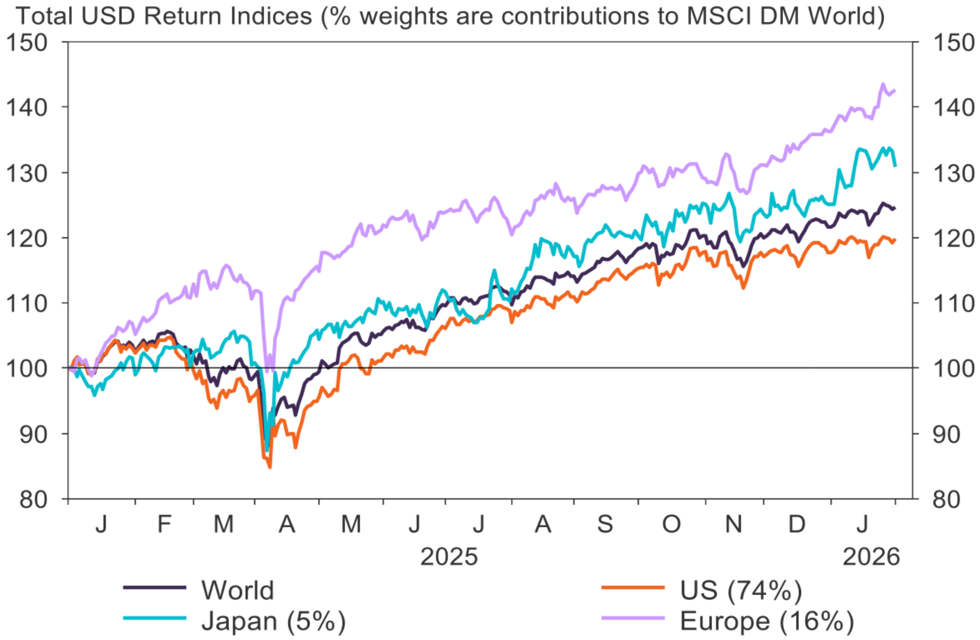
27. Some background discussion can be found here FFMC Q3 2025 Investment Views
28. That is where sector returns have been above the market aggregate return. See pp14 in Goldilocks and the Risk Appetite Bear - Fullerton Fund Management

Our bullish outlook for Developed Market (DM) equity returns reflects 'global exceptionalism' with double-digit earnings growth likely across the US, Germany, and Japan

We continue to expect that DM equities will benefit further from robust earnings growth, as forward expectations are solid double digits (see Figure 13) – except for Japan, where we are more optimistic than the Consensus. We believe Japan's market can become an even stronger source of alpha for investors, as the corporate sector continues to defend profitability with productivity gains. We are bullish on Germany's Industrials, Financials, and Utilities, as they are all key beneficiaries of the positive sentiment on Germany's very large infrastructure stimulus and productivity rebuild.

Figure 13: Returns and earnings expectations for MSCI World markets

MSCI World Equity Returns



Source: LSEG Datastream, February 2026

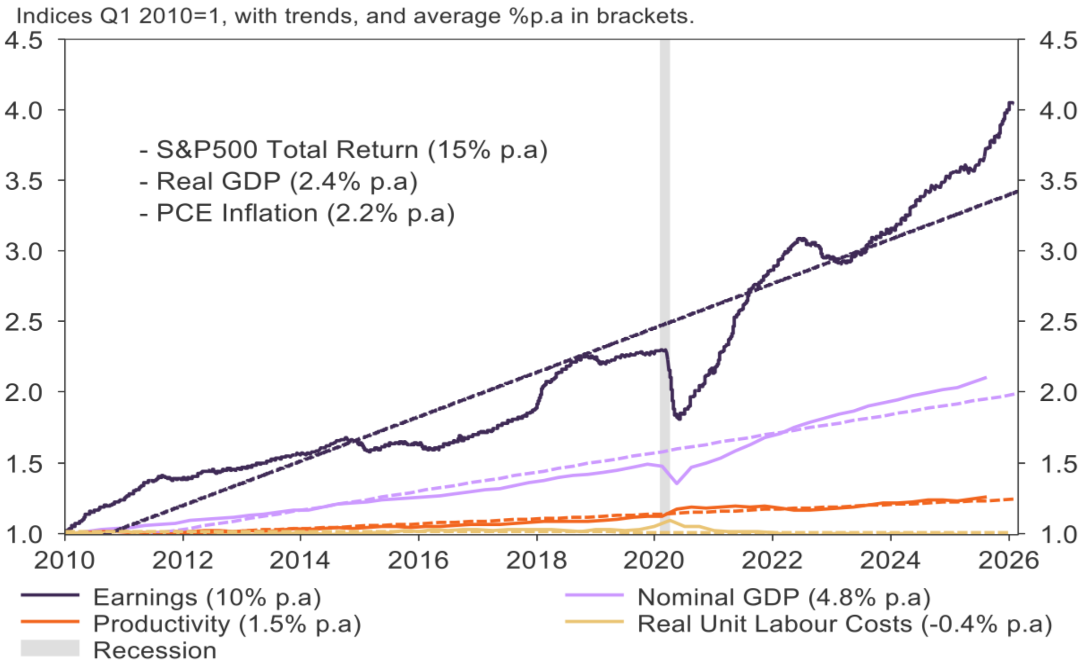
Calendar Year (Blended) Actual/Expected EPS Growth (%p.a)	2024	2025	2026	2027
US S&P500	9	13	**15**	16
Japan Topix	18	10	**7**	12
EuroStoxx50	-9	4	**11**	13
MSCI EMU	0	-2	**14**	13
MSCI Germany	-2	2	**14**	15
MSCI France	-6	-7	**18**	11
MSCI Italy	-13	-5	**15**	12
MSCI Spain	22	3	**8**	10

Source: LSEG, as at February 2026

The US maintains one of the strongest productivity performances in the world[29], and its real unit production costs are falling, which has pushed corporate profits to record-highs. Alpha remains the most robust across Communications, Industrials and IT. Such resilient fundamentals, combined with easy liquidity conditions, may facilitate some further modest re-rating of US equity returns this year.

Figure 14: US exceptionalism: a 15 year trend (and getting stronger) of robust productivity, earnings growth, and equity returns

US Earnings, GDP, Productivity, Labour Costs

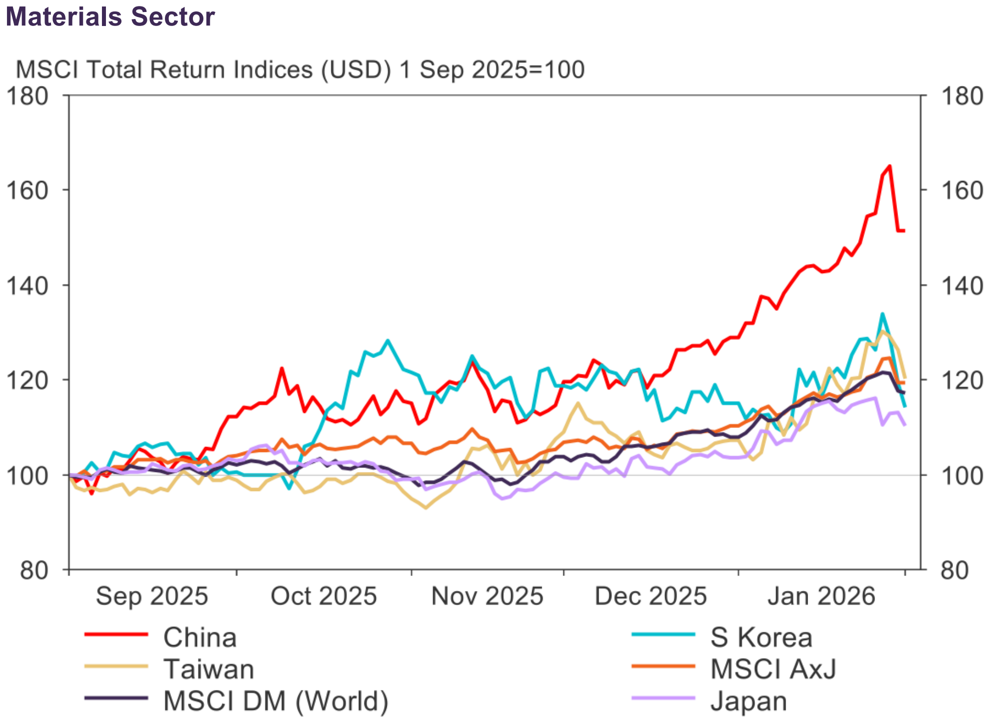


Source: LSEG Datastream, February 2026

As Fullerton's Investment Regime Indicator signals, this goldilocks environment can be great for returns from equities and commodities. Commodity-linked equities, especially across the Materials sector, have surged across Asia, China especially (see Figure 15). The DM Materials sector, led by Japan, has also benefited from robust global trade and manufacturing demands, but to a lesser extent.

29. Details on this discussion are in Fullerton Investment Views Q1 2025. Source quoted within: 'Investing in Productivity Growth' by McKinsey (March 2024).

Figure 15: Strong returns from commodity-linked equities

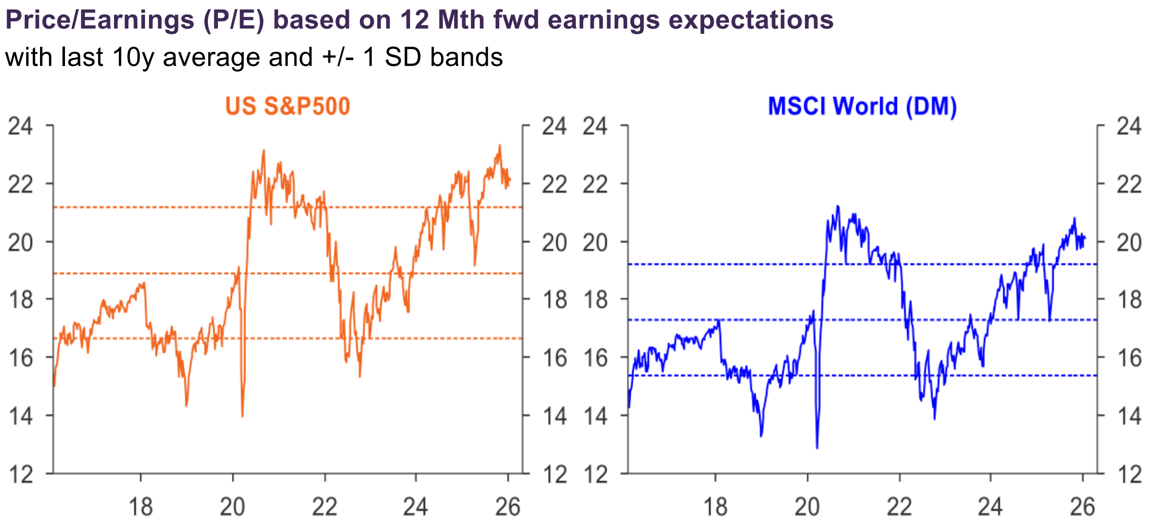


Source: LSEG Datastream, February 2026

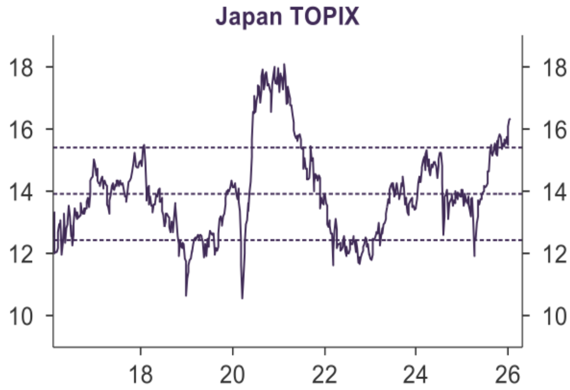
But goldilocks factors also increase bubble risks

As we emphasised in Q4 2025 a common cause of painful corrections is that greed pushes equity prices too far and realised profit disappoints[30]. Equity valuations are already very high across the US and most key DM markets (i.e at least 1 standard deviation rich, see Figure 16), and such headwinds can depress risk appetite and increase the likelihood of an eventual sharp sell-off.

Figure 16: Equity valuations across DM markets are stretched



30. See Goldilocks and the Risk Appetite Bear - Fullerton Fund Management



Source: LSEG Datastream, February 2026

Asia ex Japan equities are outperforming DM, with very strong contributions from most markets

Asia (ex-Japan) equity returns are very strong across the board (see Figure 17), and the region should continue to benefit from global demand, strong earnings growth expectations, solid export prices, and rising competitiveness. In addition, most markets across Asia are competitively valued versus the US (and against other Developed Markets. See Figure 18).

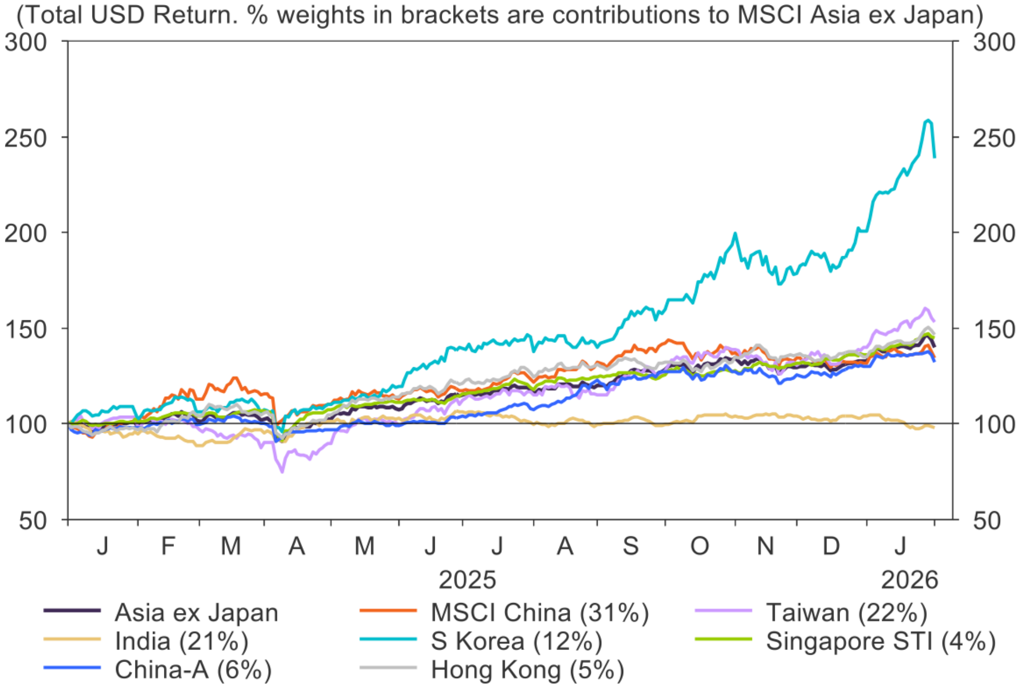
We first suggested back in Q4 2024 that China's stimulus could unfold as the 'whatever it takes moment' for investors because the supports are so large and they target key areas of deflation to help boost corporate profitability. Now into 2026 investors' need to keep in mind that China's policymakers have only spent half of the budgeted stimulus monies. Fullerton remains bullish that China's economic activity, with double-digit earnings growth, can likely remain just as strong this year. Returns from Taiwan are second only to South Korea and remain consistent with robust global demand for IT and capital goods.

South Korea's equities have surged back from the very poor performance of 2024[31], as companies have benefited significantly from many of the same positive re-rating drivers experienced across Asia - i.e competitiveness gains and rising external demand. India equities may continue to lag the region as they don't benefit to the same degree from the strong external demand for industrials. That said, active management can still find rewards because domestic-demand driven sector alpha has been significant (e.g across Financials, Consumerism, Communications, and Energy – with significant value-added from the refining sector).

31. See South Korea's political turmoil - Fullerton Fund Management

Figure 17: Equity returns and earnings expectations for Asia markets

MSCI Asia ex Japan Equity Returns

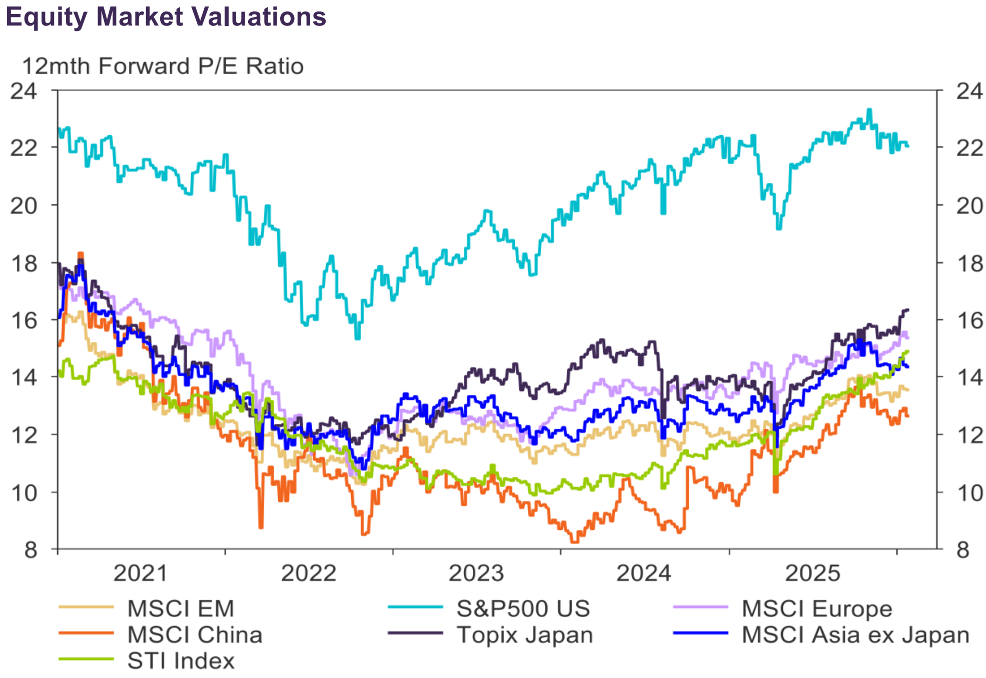


Source: LSEG Datastream, February 2026

Calendar Year (Blended) Actual/Expected EPS Growth (%p.a)	2024	2025	2026	2027
MSCI Asia ex Japan	23	12	**25**	14
MSCI China	15	2	**12**	15
MSCI China-A	-4	18	**17**	14
MSCI Taiwan	37	21	**26**	20
MSCI India	5	11	**18**	15
MSCI South Korea	89	39	**67**	11
STI Singapore	7	-4	**8**	8

Source: LSEG, as at February 2026

Figure 18: Equity market valuations across Asia



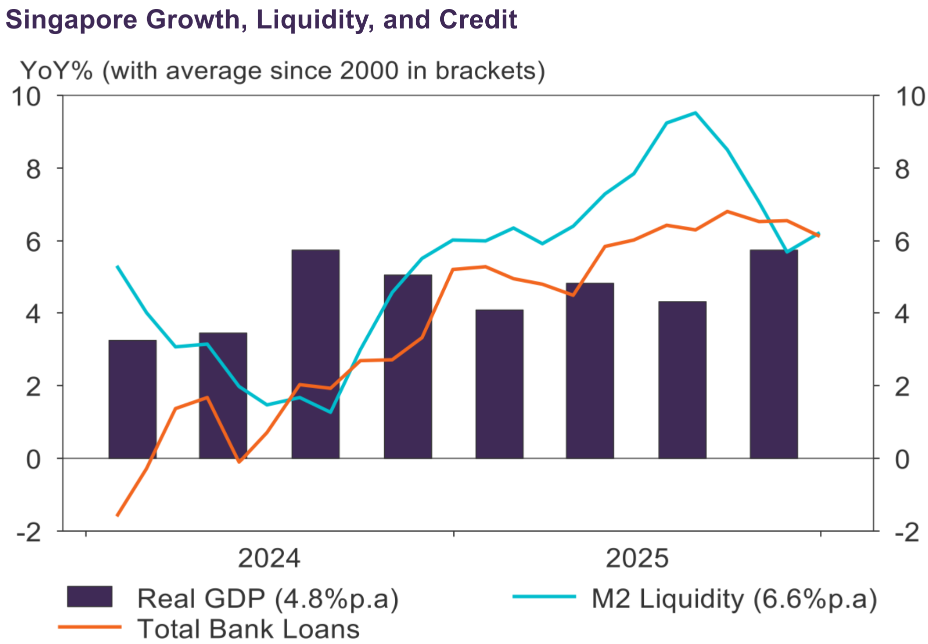
Source: LSEG Datastream, February 2026

We remain bullish on Singapore equities

We are bullish on Singapore equities as the key fundamentals remain very strong i.e growth, liquidity and credit (see Figure 19). We expect stronger earnings growth than the 8%p.a Consensus outlook (see Figure 17), because of very low cost pressures (reflecting Singapore's productivity gains and low inflation) and with higher revenues driven by the global demand boom for high-value added outputs.

As we anticipated, the Singapore equity market continues to 'price-in' a significant re-rating as expectations continue to adjust to strong economic growth and higher profitability (see Figure 20).

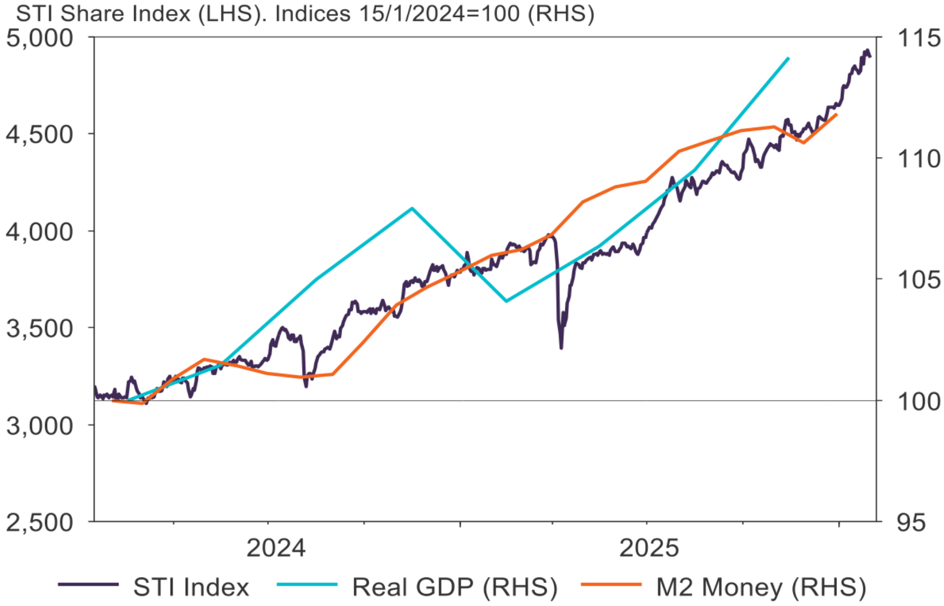
Figure 19: Singapore's very robust fundamentals



Source: LSEG Datastream, February 2026

Figure 20: Robust trends for Singapore GDP, Money, and Equities

STI Index, GDP, and Money

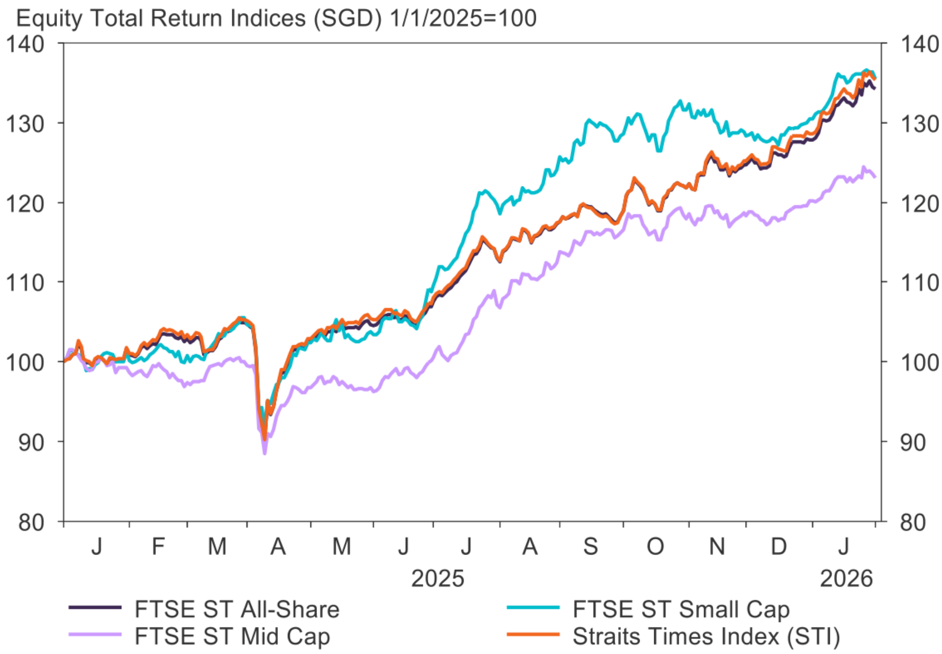


Source: LSEG Datastream, February 2026

Singapore's growth stocks have proved the dominant theme of this rally, and sector alpha has been significant from Communications and Industrials, while Financials have paced the market return. Alpha from the Financial sector may prove more significant this year given robust loan growth and rising non-interest incomes. What has also been very positive for investors in Singapore is market broadness as returns have converged across small and large caps (see Figure 21).

Figure 21: Returns from the Singapore market have been strong across all caps

SGX Singapore Equity Benchmarks



Source: LSEG Datastream, February 2026

03 Fixed Income

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Head of Fixed Income
Fullerton Fund Management

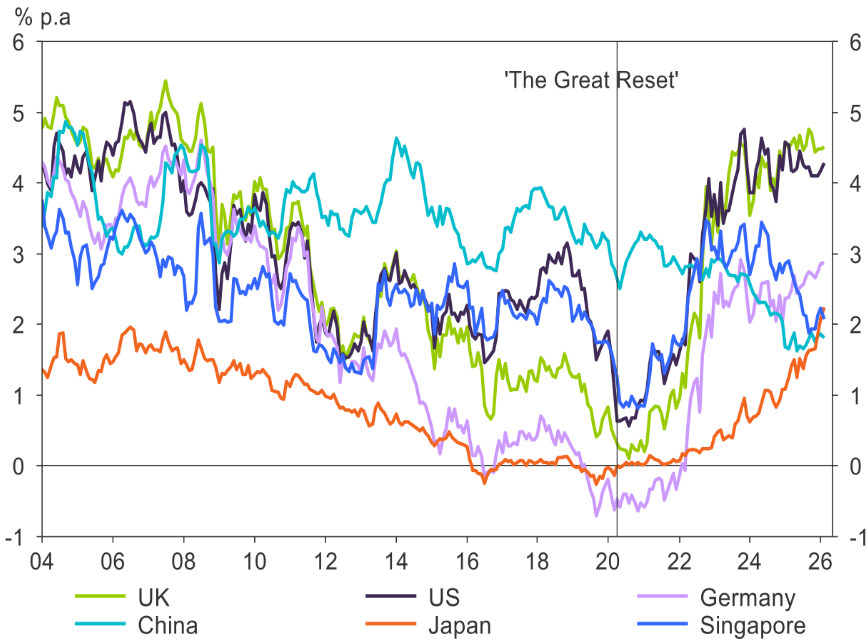
Higher yields (if sustained) can be positive for investors longer-term

Our core investment theme remains 'the Great Reset'[32] where this Realpolitik World results in the 'discount factor' for all risk asset returns – the bond yield – repricing across key markets to settle at levels not seen since before the GFC 2008/09 (see Figure 22). Such yields are higher than many investors are accustomed to, but they can be rewarding and may be a fairer refection of the risks associated with leverage and geopolitical uncertainties.

With China's significant monetary and fiscal stimulus unfolding it may have established a 'defendable floor' for its 10y yield, but any increase in yield over time may be gradual as policymakers do not want any headwinds for credit demand (as they seek to boost consumption and investment). Policymakers may also allow gradual RMB appreciation, consistent with strong capital inflows. As its liquidity growth has slowed (see Figure 19), Singapore is proving it can avoid its 10y yield falling too low.

Figure 22: Key bond yields are around highs not seen in 15 years

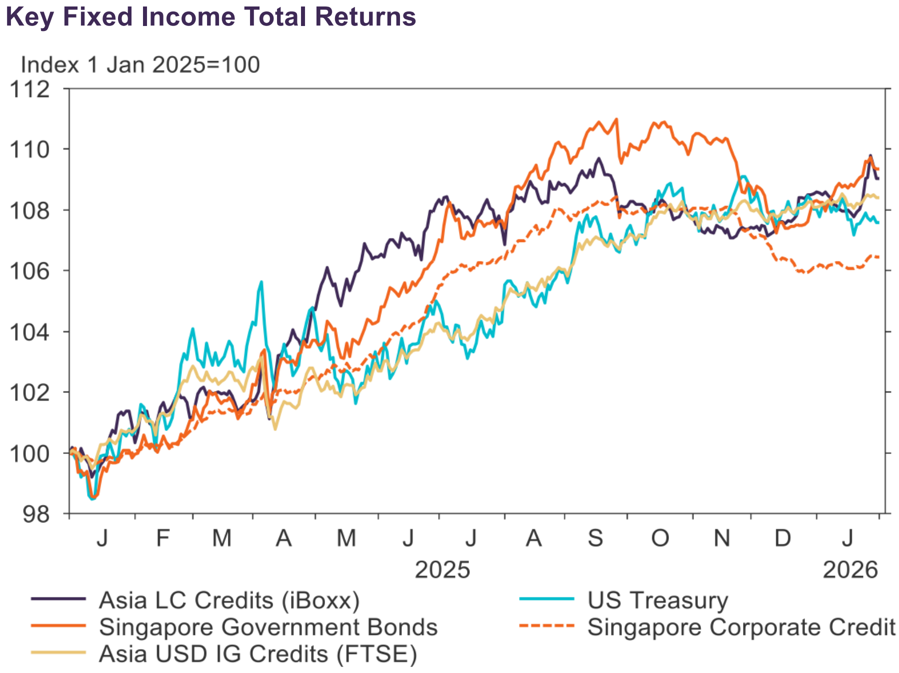
Global 10y Bond Yields



Source: LSEG Datastream, February 2026

32. See: Investing in a 3G environment - Fullerton Fund Management

Figure 23: Key fixed income returns – holding at high levels



Source: LSEG Datastream, February 2026

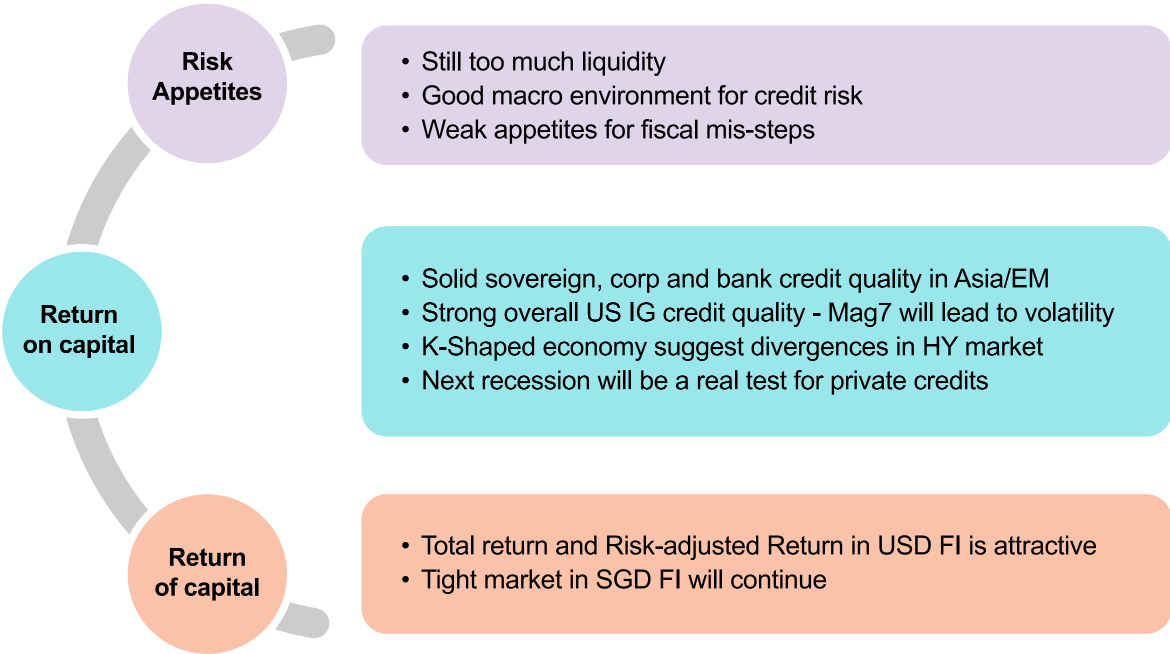
We remain Positive on Global Sovereign Bonds and Asia Credits

For US monetary conditions we expect the possibility of 25-50bps of Fed rate cuts in 2026, with limited scope for bearish yield curve steepening given the improving US fiscal and current account balances. China remains an anchor of stability for investors across Asia, and some modest RMB appreciation may be accommodated. On Emerging Market (EM) duration, we continue to seek opportunities across economies with continued disinflation, attractive real rates, with low political risk, and limited correlation to US macro (i.e Brazil, South Africa, Türkiye, and Egypt).

Macro and bottom-up fundamentals across the region remain supportive to Asian credits. We expect the Asia Investment Grade (IG) credit spread to remain broadly stable, while High Yield (HY) has further scope to tighten, before a potential mid-year re-widening returns as net supply will likely rise. Sectors we continue to favour are Financials, some select China (IG) credits, Hong Kong corporates, and Macau gaming.

We expect Singapore rates to remain resilient as the slowdown in its liquidity growth has helped ease some pressures (see Figure 19). For Singapore credits we anticipate manageable supply-side issuance amidst some significant maturities over the second-half of the year. What also remains an important driver is the on-going safe haven inflows given Singapore's strong currency and very low default risks.

Figure 24: Mapping our thematic 'Rs' to fixed income strategy



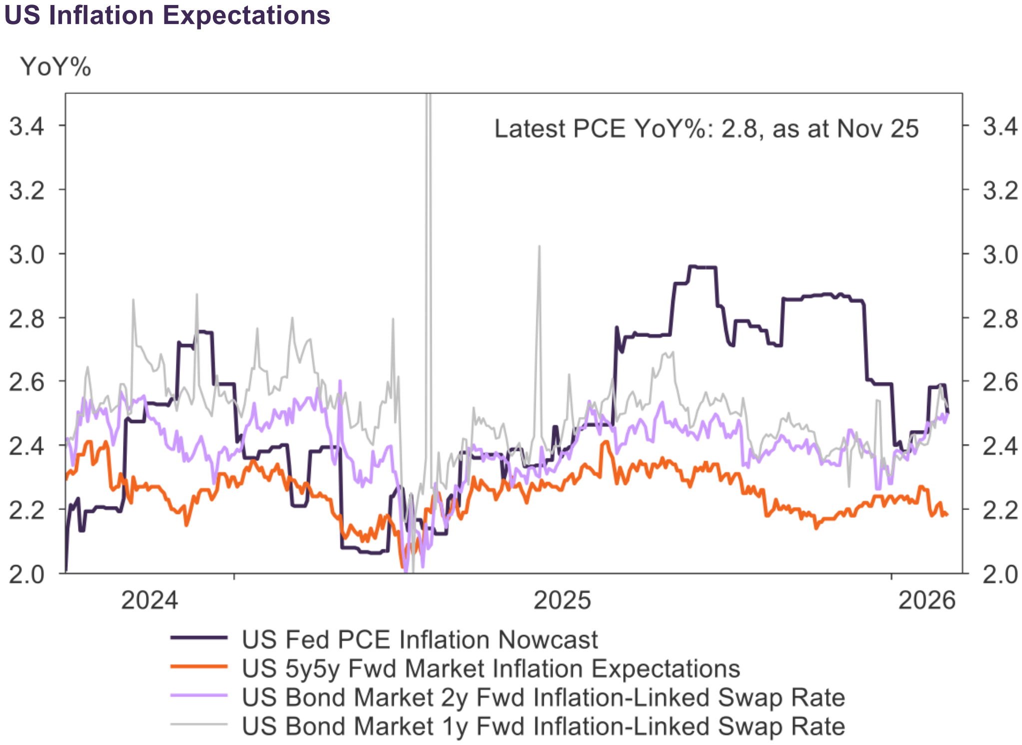
Source: Fullerton Fund Management, January 2026. Investment themes and strategies are developed from our internal methodology and are subject to change.

US inflation should have peaked in 2025

Strong US productivity growth, coupled with investment in AI and technologies, continues to push down real unit production costs. This may continue to give significant cushion against any renewed inflation pressures, especially if driven by excess demand. We continue to believe the Fed can follow its December 2025 forward-guidance and 'data dependent' rate cuts can gradually unfold.

The latest US data shows US services inflation at 3.4%p.a, goods at 1.4%p.a, PCE inflation of 2.8%p.a (with a nowcast of 2.5%p.a – see Figure 25). Any inflation 'stickiness' is now most on the goods side, because goods prices have jumped the most (over its average) with the tariff impacts. Tariff driven inflation should continue to wash-out this year. What also remains encouraging is that forward-market inflation expectations this year (and beyond) are still clustering around 2.5%p.a or less (see Figure 25).

Figure 25: The Fed's nowcast of PCE inflation with forward-market inflation expectations



Source: LSEG Datastream, February 2026

The Fed under Chairman Kevin Warsh may be a significant regime shift[33]

Driven by productivity, Kevin Warsh believes US trend growth is much higher than common assumptions, and that the enhanced supply-side, especially with falling unit costs of production, means that inflation can be easier to control than otherwise[34]. As such, the Fed's policy rate can be lower than otherwise assumed, and productivity-competitiveness gains can support a gradual trend appreciation in the US dollar – i.e Kevin Warsh's US dollar view is the same as that of Secretary of the Treasury Scott Bessent.

Kevin Warsh could push for a set of Fed forward-guidance projections where US growth is much stronger, with PCE inflation continuing to fall back to target, and with a lower neutral policy rate. With such forecasts the forward-looking Warsh Fed would cut the policy rate by more than otherwise.

It is possible that with Kevin Warsh's 'regime change' the environment can be bullish equities, bullish bonds, positive liquidity, and dollar supportive.

What is more uncertain is how Kevin Warsh would think about the optimal size of the Fed's balance sheet. Just before Covid hit, the Fed's balance sheet was materially smaller in dollar terms and US bank reserves were as low as $1.4tn (an amount very low, as a share of GDP, compared with all other major DM central banks). At today's juncture, with bank reserves close to $3tn, with a strong US economy, firm loan demand (with low defaults), and the prospect of further financial sector

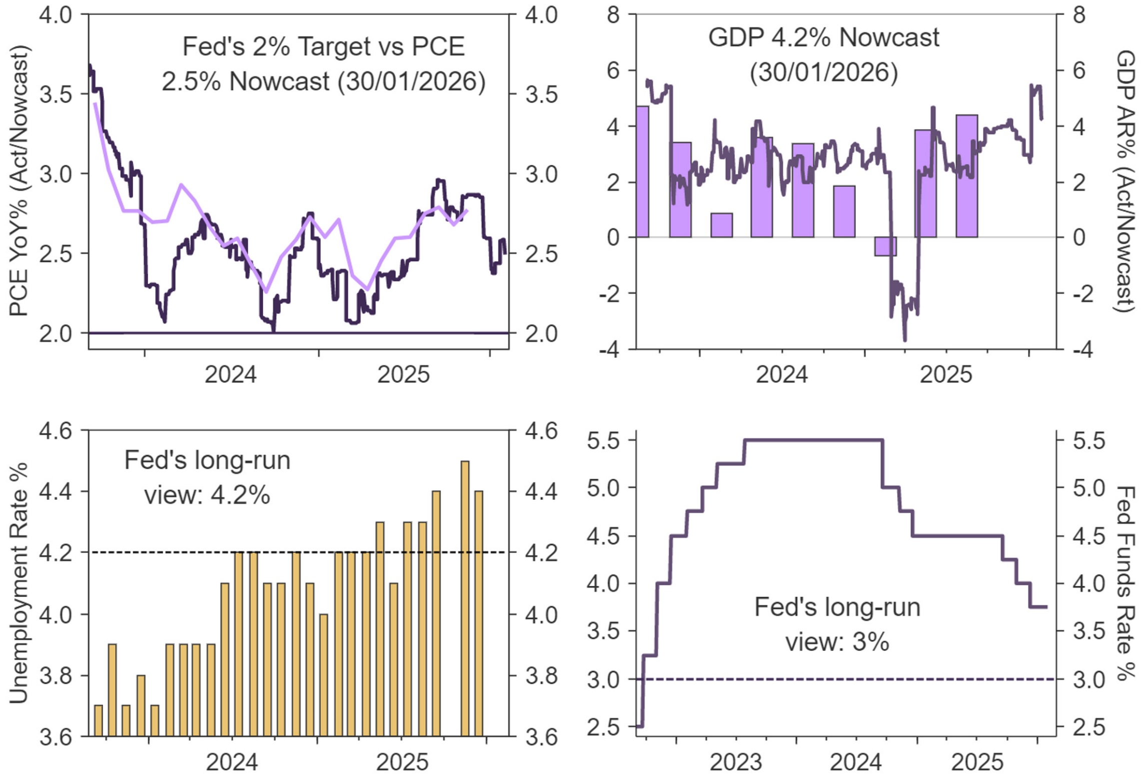
33. If Kevin Warsh's nomination is confirmed by the US Senate he will take over as Fed chair in May 2026.

34. Warsh "has criticised the [Powell] Fed for underestimating the inflation-busting potential of productivity growth", Source: Reuters News, 30 Jan 2026. Furthermore, because the US is the most productive economy in the world inflation control may not be harder than it was in the past where the Fed assumed a neutral policy rate of 2.5%p.a (that only increased to 3%p.a in Dec 2024 under Chairman Powell).

deregulation (that Warsh has been open to in the past), there is a plausible path to a regime that tolerates lower reserves and a smaller Fed footprint (than the current so-called ‘ample reserves’ framework implies[35]).

Figure 26: Key indicators the Fed is watching: very strong growth and lower inflation

US PCE Inflation, Growth, Unemployment, and Fed Policy Rate



Source: LSEG Datastream, February 2026

Any further US dollar depreciation may be modest and slow

Some of the key fundamental drivers of the US dollar, i.e the yield differential (see Figure 27), suggest that the downside may be all ‘priced-in’ for now. The latest percentage valuation metrics show that the US DXY index is fair (see Figure 28). In contrast, stronger oil prices suggest that the US dollar may be a bit weak (see Figure 29). Furthermore, with Fed rate cuts likely to continue in 2026 there could be more US dollar downside from liquidity growth, and from the US yield differential that is not factored yet.

Secretary of the Treasury Scott Bessent reminded investors that the US maintains a strong dollar policy[36]. Firstly, he expressed confidence that the improved fiscal and current account deficit, along with President Trump’s tax and deregulation policies, were making the US attractive for investors and “bringing in trillions of dollars”. Second, Bessent repeated his forecast that the US economy would perform well this year and that inflation would not be a threat.

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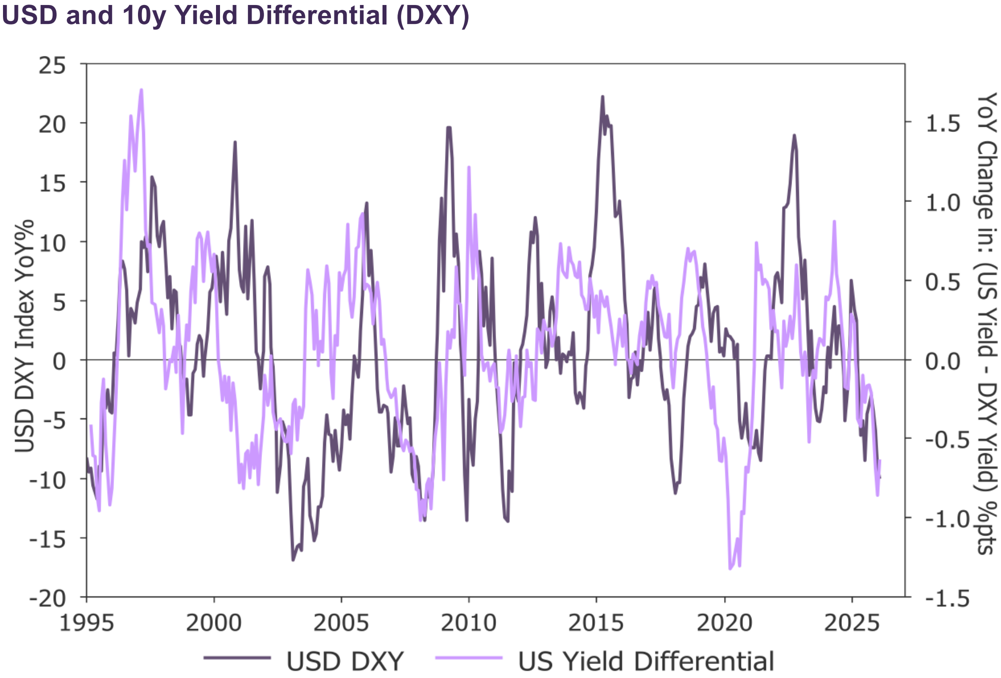
35. All that said, we may know that the ‘floor’ for bank reserves held at the Fed is around pre-Covid levels (not pre-2008 GFC levels) because the Fed concluded, after the infamous 16-17 Sep 2019 repo spike in the money market, that US bank reserves under $1.4tn were likely close to “scarce”. Source: Fed Board Note “What Happened in Money Markets in September 2019?” (Anbil, Anderson, Senyuz, February 2020)

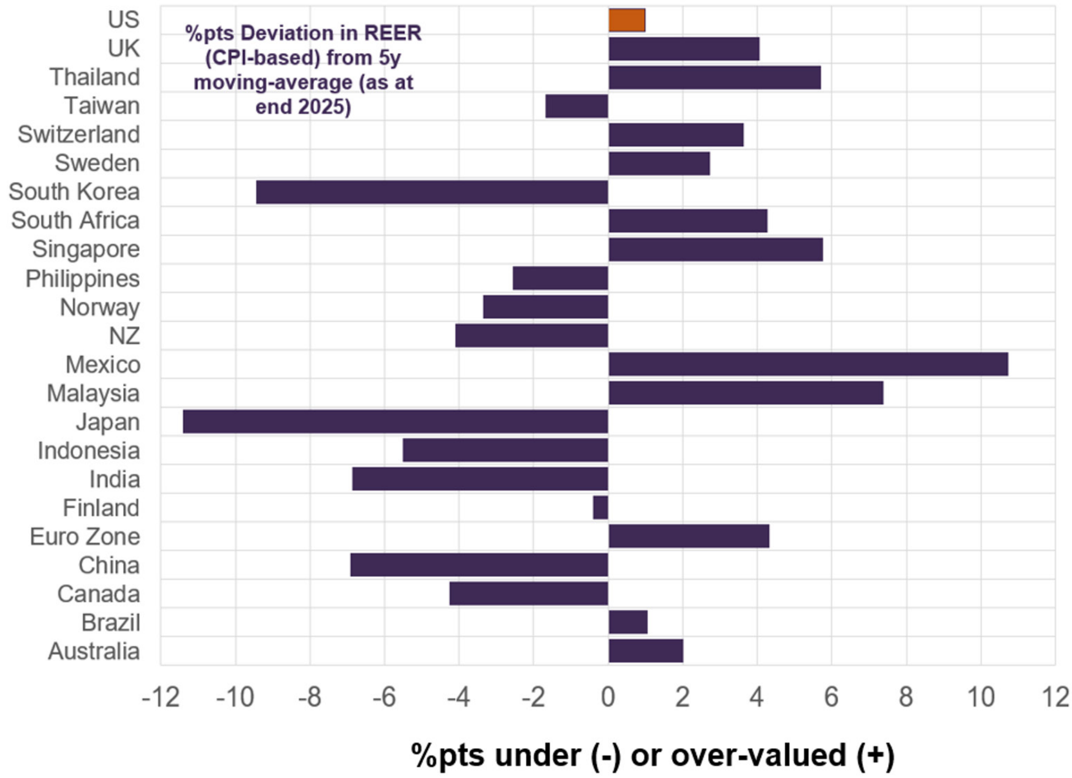
36. Source: Reuters News, 28 January 2026.

Figure 27: The unsupportive US yield differential has been all 'priced-in' to the US dollar so far (as the lines track so closely)



Source: LSEG Datastream, February 2026

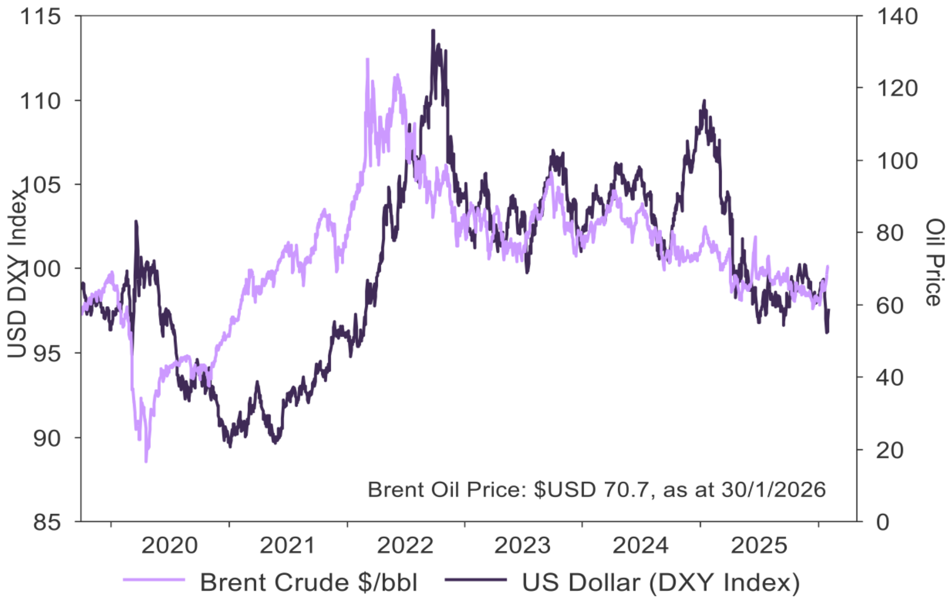
Figure 28: The US dollar is no longer overvalued



Source: FFMC calculations. LSEG, BIS, 3 February 2026. This is the %pts deviation in the real exchange rate (REER, CPI-based) from its trend (a 5y moving-average)

Figure 29: Oil prices and the US terms of trade now suggest the dollar is too weak

USD DXY and Oil Prices



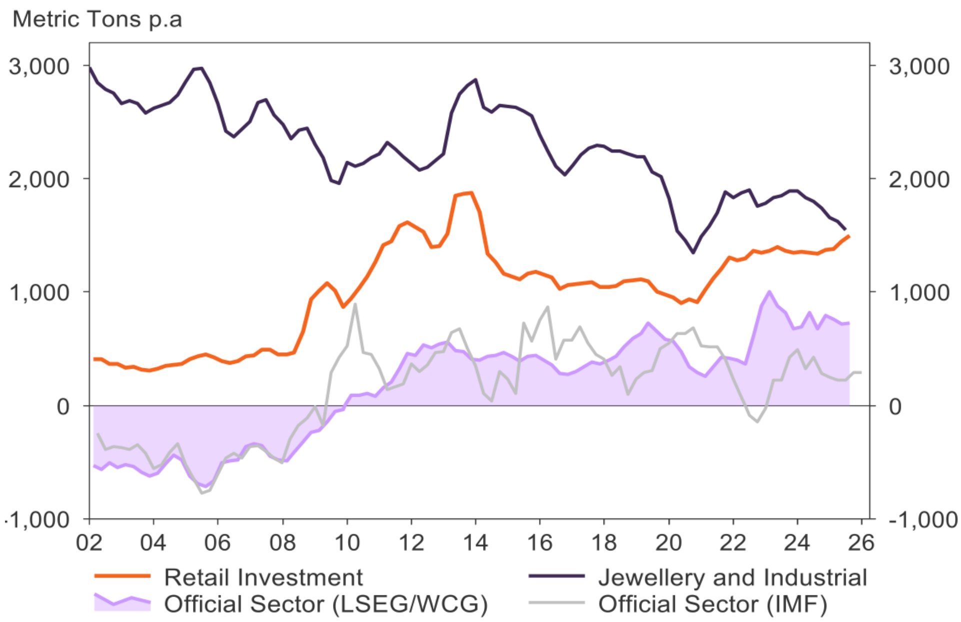
Source: LSEG Datastream, February 2026

Gold prices have proved a good hedge for geopolitical shocks

Continuing its trend, gold has proved a very useful hedge in a balanced portfolio, especially against geopolitical fears. The dominant driver of gold demand that is still rising remains retail investors. Despite being very high in real terms gold prices do not seem 'excessive' as they have tracked the weaker US dollar very well[37].

Figure 30: Global gold demand

Global Gold Demand



Source: LSEG Datastream, February 2026

37. See Goldilocks and the Risk Appetite Bear - Fullerton Fund Management

US imbalances are improving as expected

While President Trump's 'Big Beautiful' Bill (4 July 2025) is a significant net stimulus the US fiscal deficit can still fall over time if improved corporate profitability increases fiscal revenue sufficiently. So far this is unfolding as we expected as the Federal budget deficit ended 2025 $351bn lower at $1.7tn[38]. As a percent of GDP it is sub 6%pts for the first time in three years. President Trump now has three calendar years left and he will comfortably hit a 3% of GDP target[39] if he can cut the federal budget deficit to $1tn (or by $230bn each year on average to the end of his term). This prospect may help contain the US treasury risk premium and the 10y yield.

38. Source: LSEG, 3 February 2026.

39. See The 3-3-3 plan - what to know