Keep Calm and Carry On – with Discipline

Fullerton Investment Views - Quarterly report

Q3 2026

FULLERTON FUND MANAGEMENT
A member of Seviora Group

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Contents

Executive summary

For the next 12 months, Fullerton is positive on global risk assets, driven by equities across Asia (i.e Singapore, South Korea, Taiwan, and China) and Developed Markets (i.e US, Japan and Germany), with a positive outlook for fixed income returns.

Investors across global risk assets have been rewarded with very strong returns for a few years running, and many equity markets are now experiencing some de-rating forces as returns are tracking much lower than earnings performance. Not surprisingly, as the cycle matures and given the stellar performance this year, expectations for earnings growth in 2027 is generally weaker than 2026, especially across Asia.

Against this backdrop where risk asset returns may be slowing and normalising, investment uncertainty has also increased with:

- 'Bubble-and-crash' fears rising, especially surrounding IT-linked investments. While equity returns remain positive (YTD[1]) from most global IT sectors, the correction from the high around June was painful and drove a significant fall in risk appetite.
- Inflation worries returning, given the on-going pressure on energy prices from the war in the Middle East. Investors still have no clarity on when the war will end, and bouts of volatility could strike back at any time.
- 'Excess liquidity' for investment purposes has become tighter than otherwise because strong economic activity is sucking-up funding, while global real yields are higher, monetary conditions are tighter across Asia, and the US dollar is supported.

Given all these factors, the danger is that investors' risk appetite may collapse and drive a sharp fall in investment returns over the year ahead. In this Q3 Fullerton Investment View, we are downgrading our year ahead outlook from bullish to positive for equities, but we remain confident on the prospect of a 'soft-landing' unfolding for investment returns.

This is because 'global exceptionalism' remains supported by the robust fundamentals of strong growth, productivity, consumption, investment, and trade. Driven by sustained investment and productivity gains, disinflation should return as oil prices eventually correct, and inflation can be sufficiently contained for a favourable investment environment. It is also especially constructive that the excess liquidity available for investing may be holding-up as the change in US money growth (i.e the delta) has improved. This is at the same time as G4 government stimulus remains supportive and there is still significant cash on the global sidelines yet to be invested. In addition, Fullerton's Investment Regime indicator signal remains in 'Goldilocks', and while it may be slowly evolving toward 'Late Cycle', both investment environments can potentially sustain positive returns.

1. Refers to MSCI World, as of 31 July 2026.

01 Investment Environment and Risk-Asset Outlook

With our expected return outlook slowing from bullish to positive we believe a 'soft-landing' can be achieved for investors

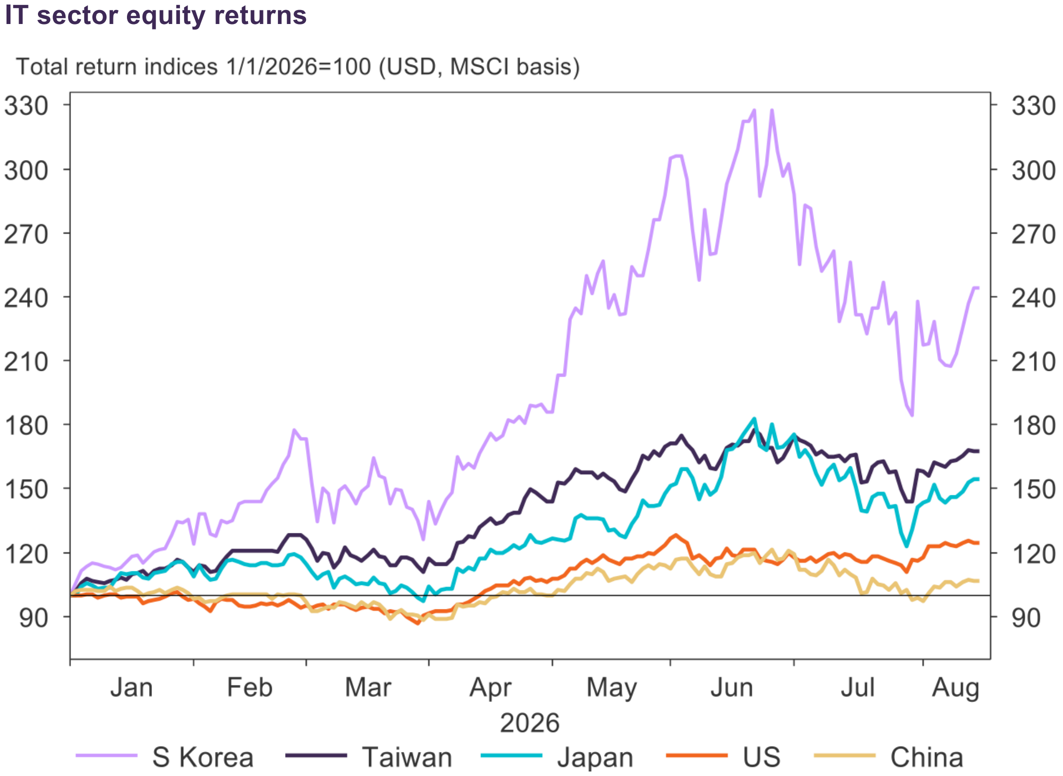
Global equity investors have been rewarded with very strong returns for a few years running, and many equity markets are now experiencing de-rating forces as returns are tracking much lower than earnings performance. For example, the MSCI Asia ex Japan returned 30%p.a in 2025 with just 6%p.a earnings growth, but this has reversed in 2026 YTD where returns are tracking 25% with expected earnings growth a whopping 76%p.a[2]. Across Developed Markets (DM), the build-up in derating pressure has been less intense, where MSCI World (DM) equities returned 22%p.a in 2025 with 9%p.a earnings growth versus returns of 15% YTD with an expected earnings growth for 2026 of 25%p.a[3].

Forces impacting investors' risk appetite have certainly been mixed, and especially since June. Debt issuance by global IT firms has increased significantly, and credit markets are likely to become more selective across future tech-related issuance, rewarding issuers with a clearer supply cadence and potentially constraining those without it. Global investors have become more concerned that IT-sector investment spending may not monetise sufficiently with large gains in future (discounted) earnings. As a result, there have been some large and painful corrections across IT and AI-dependent equity markets this year e.g

- South Korea's IT-dominant equity market (MSCI-USD basis) reached a peak YTD gain of 140% in June before slumping to 50% in late July, and now having recovered back to 90% YTD[4]. Returns from the IT sector are down 85% from the YTD peak (see Figure 1).
- US IT-sector shares in the S&P500 fell in June and July, and the alpha return for investors from the sector has faded this year[5].
- IT-sector returns from China and Japan are still below the YTD peak (see Figure 1).
- Returns from the Taiwan share market (MSCI-USD basis) slumped to 40% YTD in late July before rebounding to 62% YTD[6]. Taiwan's IT-sector performance has also recovered back to around the neighbourhood of the high this year (see Figure 1).

2, 3, 4, 5, 6. Source: LSEG, 16 Aug 2026

Figure 1: IT-sector equity returns (YTD) across key global markets



Source: LSEG Datastream, August 2026

Nevertheless, AI-related stocks remain the backbone of global equity market performance with significant alpha flowing to investors across many markets for several years. The best outcome for investors will be if IT-linked investment returns can slow gradually over time and achieve a soft landing. This is possible because the fundamental factors driving the investment environment remain robust, especially growth, productivity, and liquidity.

What has also recovered favourably is the ‘fear of missing out’ (FOMO) which has again helped drive rebounds on Wall Street, along with multiple indicators flashing some of the most bullish signals in years[7]. Evidence-driven optimism reflects very strong earnings, productivity, investment, and spending, with the belief that the war in the Middle East will eventually resolve sufficiently to ease and normalise energy prices. The late July sell-off in IT-related equities was certainly painful, but investors have again been rewarded for buying market dips.

From the ‘value-to-growth’ perspective, as equity valuations have generally fallen back significantly, the outlook could return to bullish and much depends on how risk appetite unfolds.

It is still much higher than last year, but may not be sufficient to avoid the transition to a ‘Late Cycle’ Investment Regime (under Fullerton’s internal classification methodology) in 2027.

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7. Tangible signs of US equity market strength are the Bullish Percent Index, suggesting 70% of S&P500 stocks are now trading with bullish technical patterns and with favourable market-breadth. Source: “FOMO fuels Wall Street’s breakout rally as traders pile in”, 10 August 2026, Reuters News. In addition, the very low investor ‘fear index’ (the VIX) is supportive for sentiment.

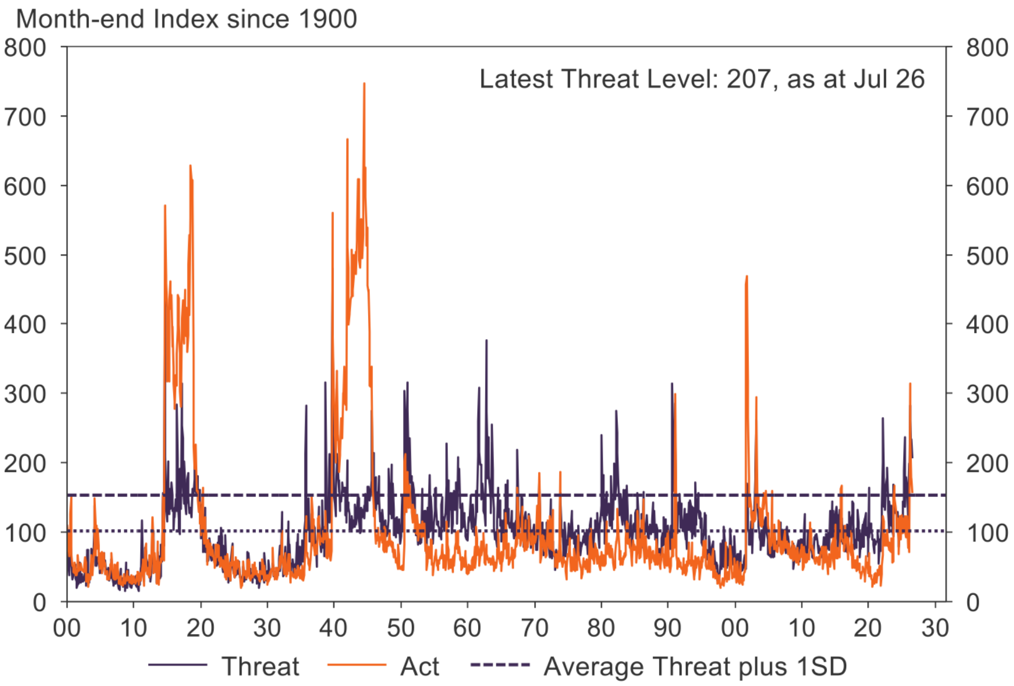
Significant concerns surrounding the war in the Middle East continue to hang over financial markets, but investors seem to be adapting as the ‘fear index’ and inflation expectations remain low

Around two weeks after the 9 July 2026 interim truce, the war in the Middle East intensified. The US military launched another round of air strikes, prompting Iran to attack neighbouring Arab countries that host US military installations. On 26 July, Yemen’s Iran-aligned Houthis attacked Saudi oil infrastructure along the Red Sea coast, while the US again attacked multiple targets in Iran, including command centres and drone facilities. By 10 August, Iran declared it was nearing a final agreement with Oman to open the Strait of Hormuz, but Iran also declared that the US must provide compensation and end all sanctions. US President Trump rebutted that Iran instead must pay compensation for people killed “across all wars, attacks and protests”. As of 16 August, Iran and the US remain at loggerheads over efforts to agree to a permanent end to the war in the Gulf, and the US reiterated that it could maintain a naval blockade of Iran indefinitely creating significant economic pressure on Tehran[8].

After 125 years of geopolitical stress events the risks today are significantly above average (Figure 2), but Fullerton remains optimistic - as we explained in detail in our Q2 Investment View[9] - because markets and investors are adapting, and surges in fear, and disruptions to risk asset returns, may not prove painful nor long lasting (the investor ‘fear index’ remains very low. See Figure 3). Fullerton has shown evidence before that when geopolitical shocks hit, any adverse impacts can be limited and then markets often return to underlying trends[10]. The optimal way to navigate all potential stresses remains active management of a well-diversified portfolio and to seek downside protection when risks hit.

Figure 2: Global geopolitical threats and acts since 1900: the index at 207 (July 2026) is significantly above the average degree of geopolitical threats

Global geopolitical risk



Source: LSEG Datastream, August 2026

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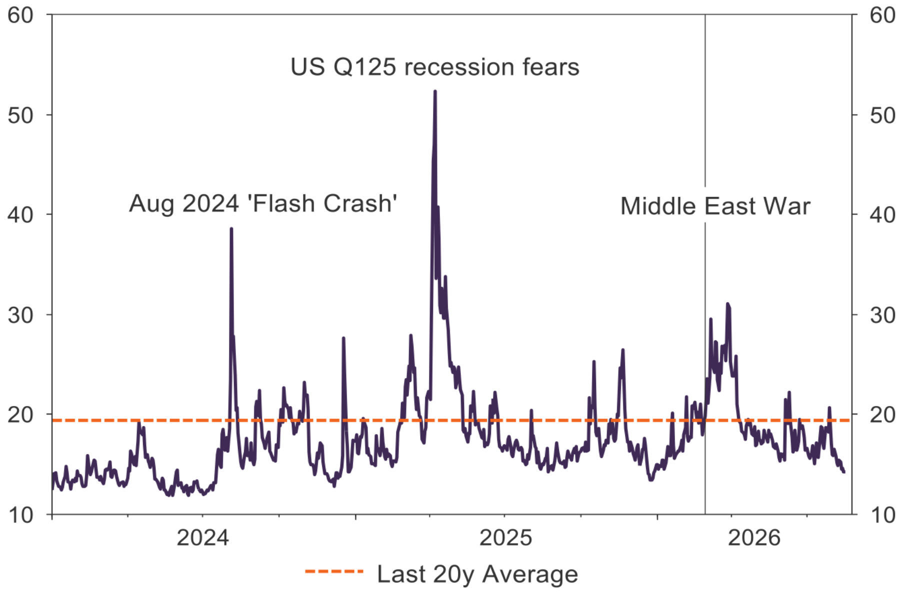
8. Source: Reuters News, 27 July, and 10-16 Aug 2026
9. See pp 2-9 of Q2 Fullerton Investment View for further discussion- [“Keep Calm and Carry On”: Our Bullish Outlook under the 4Rs - Fullerton Fund Management]
10. See [Fullerton Investment Views Q4 2023 ‘Speedbumps in a Goldilocks Environment’ pp4]

Figure 3: The investor fear index remains very low

The US investor 'Fear Index' (the VIX)

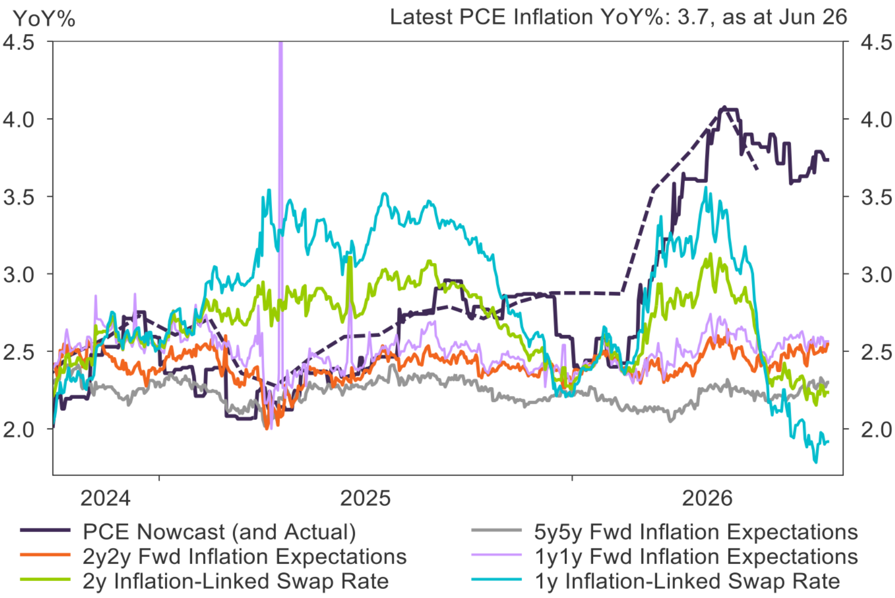


Source: LSEG Datastream, August 2026

What remains very positive and important is that generalised inflation, especially across services, is stable and bond market inflation expectations remain low (see Figure 4). In addition, the threat of any significant and sustained spillover effects into generalised inflation remains much less than the past because money growth is much weaker[11].

Figure 4: US bond market inflation expectations (across all forward-looking horizons) remain around 2.5%p.a or less

The US inflation expectations



Source: LSEG Datastream, August 2026

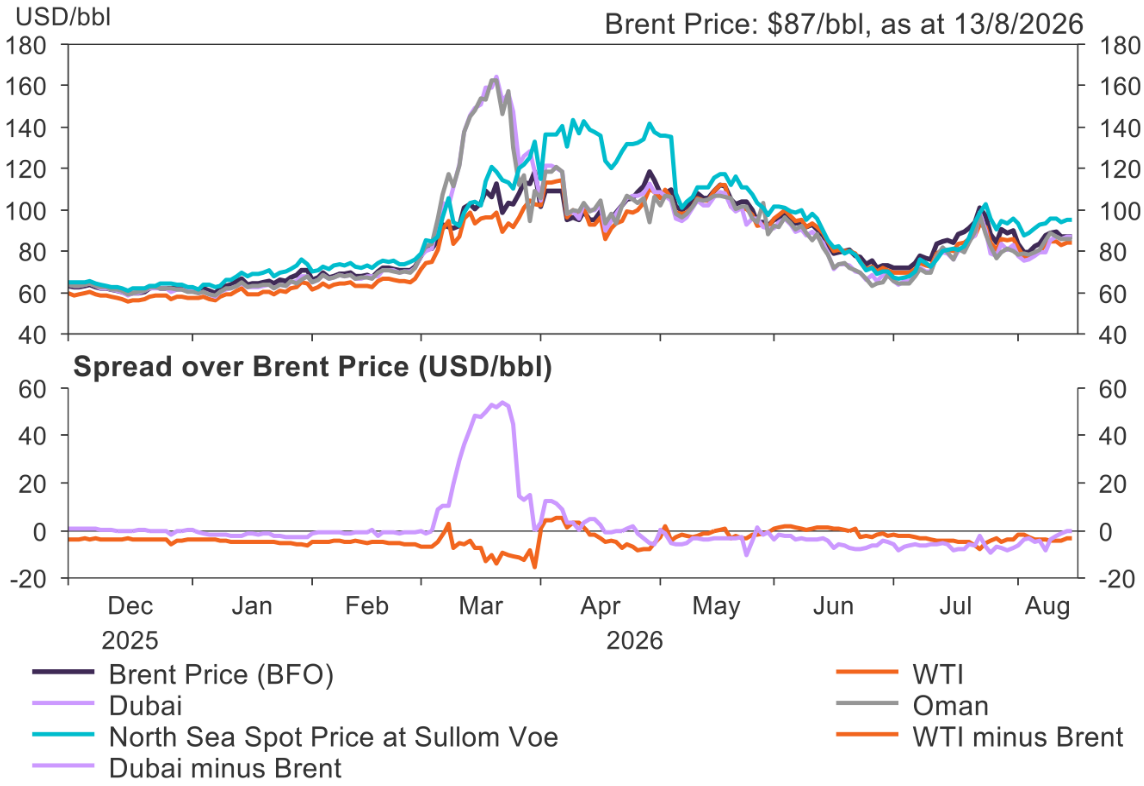
11. In 2022, with the 'hang-over' from COVID-related policy stimulus, there was far too much money driving massive excess demand chasing goods and services. For the US, M2 money growth had peaked at almost 30%p.a whereas today it is just 5.5%p.a (Source: LSEG as at 16 Aug 2026).

Even as the war in the Middle East is now more intense, the oil price risk premium is still much lower than over Mar/Apr

Throughout the war in the Middle East the market has always expected oil prices to fall back over time, and the downward-sloping futures curve remains a very positive belief that the global economy can avoid any painful collapse in demand. Even as the war is proving prolonged and more intense, the rise in oil prices this time remains very different from the Mar/Apr 2026 shock because there is no extra risk premium on oil from the Middle East - nor any large premium for immediate/cash delivery (i.e the brent Sullom Voe price is contained).

Figure 5: Key global oil prices and spreads

Oil price benchmarks and spread over brent price



Source: LSEG Datastream, August 2026

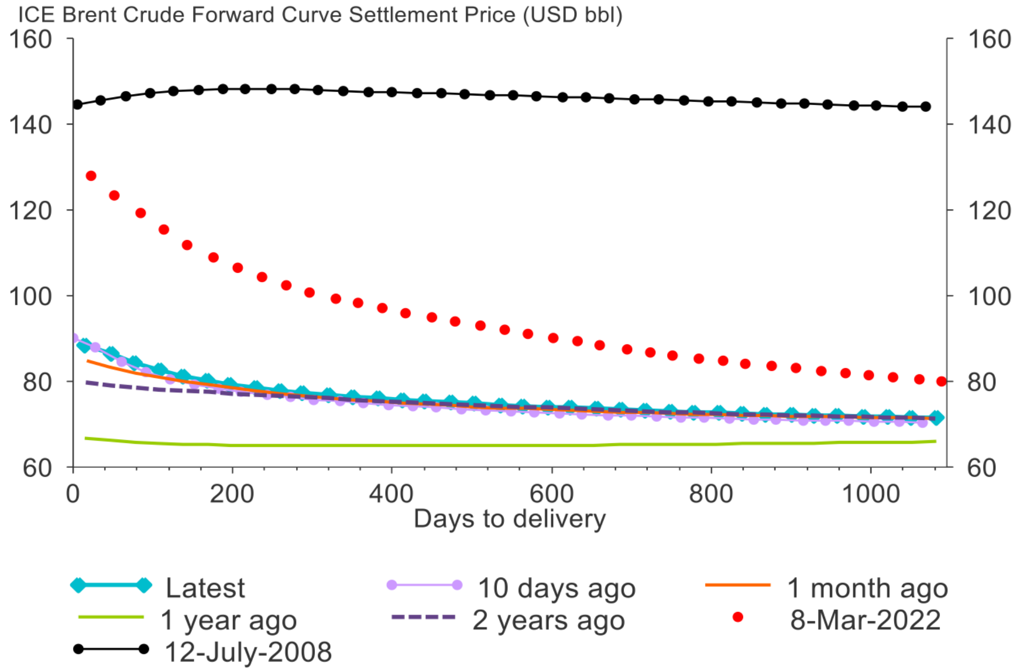
The lack of any extra risk premium on energy from the Middle East is very positive and suggests that traders still foresee oil flowing well-enough across all major routes to meet global demand[12]. What is unfolding so far is a rising 'generic-shock' risk premium pushing all oil prices up toward $100/bbl and forward-looking financial markets continue to expect the forward oil price curve to eventually normalise (to become similar to the forward-pricing curve of two years ago. See Figure 6).

The most productive countries, and those with adaptable energy supply-chains, can continue to navigate this war-driven adverse supply-shock very well. The US, Germany, Japan, South Korea, China, Taiwan, and Singapore all have fundamental strengths that can help them defend growth and contain inflation.

12. Key reasons to remain optimistic are that 80% of global seaborne energy supply flows remain robust outside of the Strait of Hormuz and there is much greater efficiencies in the use of global energy along with the rising importance of cleaner energy demand (source: LSEG, July 2026. See also our Q2 Fullerton Investment View for further discussion- "Keep Calm and Carry On": Our Bullish Outlook under the 4Rs - Fullerton Fund Management).

Figure 6: Expected future brent oil prices: unchanged in the last 10 days and eventually aligned with the forward pricing experienced across normal times back in 2024

Oil prices in the forward market



Source: LSEG Datastream, August 2026

Fullerton also remains sanguine on the potential impacts of new tariffs

On Friday 24 July 2026 President Trump imposed new tariffs of 10% and 12.5% on goods from 60 trading partners (just as the temporary 10% global tariffs expired[13]). The new tariffs cover 99.4% of US imports, but include numerous product exemptions, such as oil and gas, fertiliser and certain food items. Fullerton's view remains unchanged that such tariffs will not derail global trade, growth, nor equity market performance[14]. Because the aggregate average US tariff rate remains single digits after this action (and well below the double-digit peak associated with 'Liberation Day' in 2025) inflation impacts should not be significant, but there may be some modest support for US fiscal revenues.

Fullerton's global factors that drive investment returns remain in Goldilocks

Global growth and liquidity, led by the US and China, remain the strongest above trend for this cycle (see Figure 7). Global growth is very strong, and at two standard deviations above average it is a 20-year high, driven by the surge in global trade, along with robust consumption and investment spending. At the same time, global generalised inflation is contained and not a significant threat to the investment environment. The outlook can remain positive for investors as long as global growth remains strong and with risk appetite holding-up.

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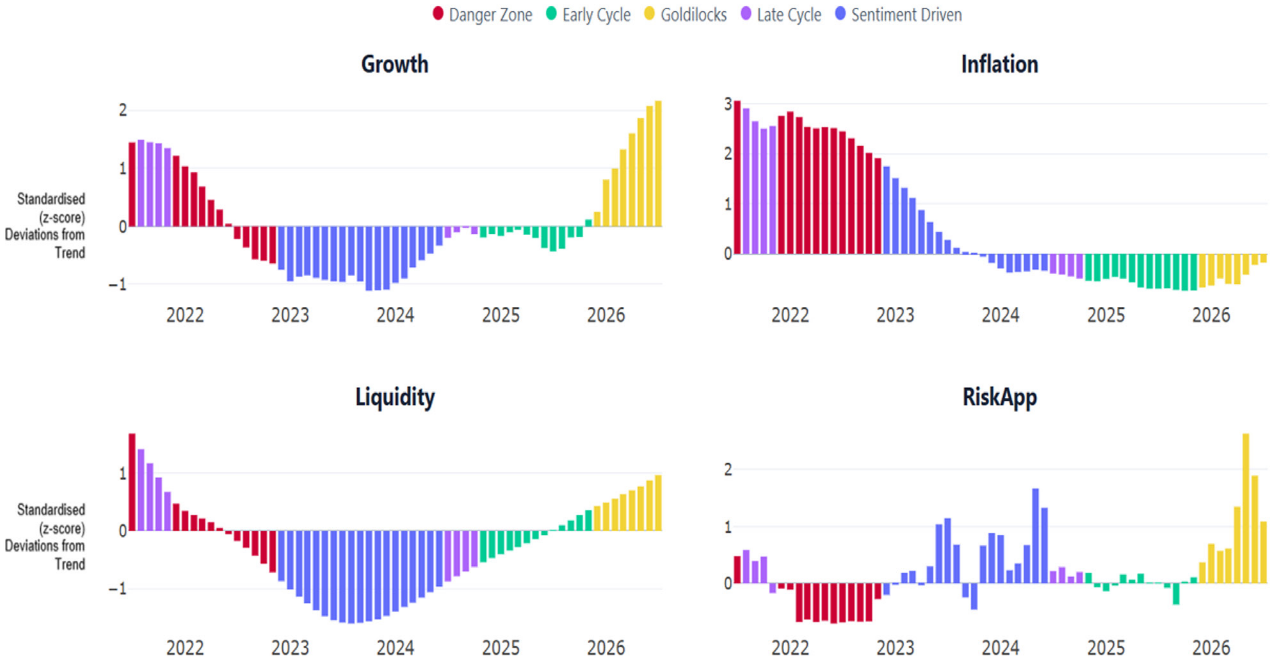
13. After the Supreme Court rejected President Trump's original tariffs he began a two-step plan to replace them. First was the imposition of a temporary 10% universal tariff rate through Section 122 which expired in July 2026. Now potentially long-lasting Section 301 tariffs have been launched. Source: 24 July 2026, Reuters News.

14. Tariffs are not a threat because of because of on-going competitiveness gains, sustained demand for high-value added products, and expenditure switching. For detailed background discussion see Fullerton Investment View Q3 2025 "Investing in a Realpolitik World".

Figure 7: Fullerton's global factors that drive investment returns are 'Goldilocks Positive'

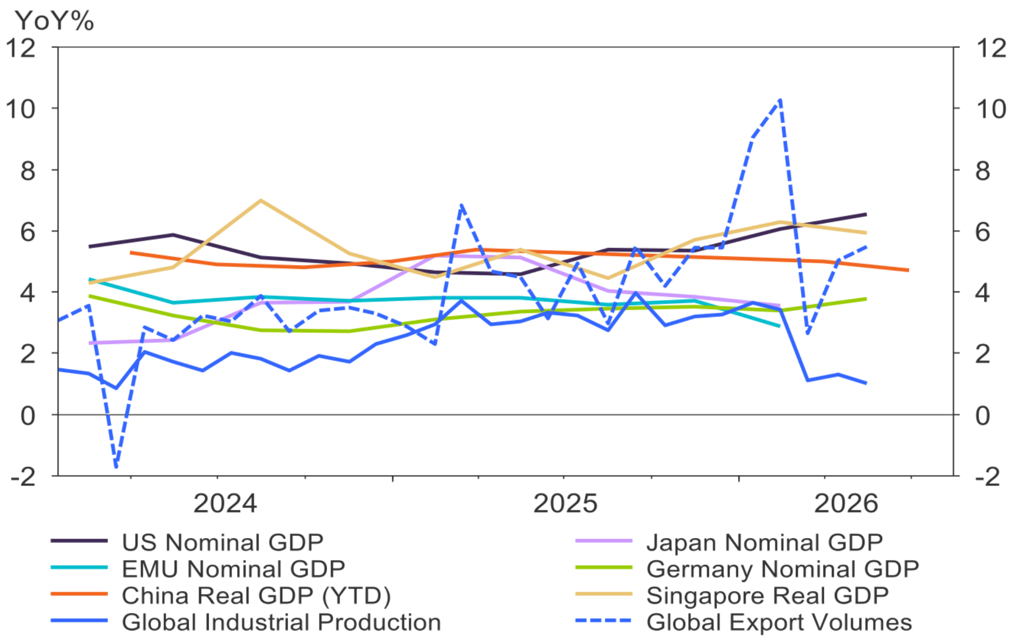


Source: Fullerton Fund Management, August 2026. These global macro factors of growth, inflation, liquidity, and risk appetite, are constructed by Fullerton and expressed as standardised z-score deviations from trend (or average). In turn, they impact the signal from our Investment Regime Model.

Nominal GDP growth, which tends to have a solid correlation with corporate earnings performance, is tracking at least 4-6%p.a for most countries (see Figure 8). Very strong global trade growth has fallen back to trend as we expected, while industrial production should rebound soon.

Figure 8: Robust trade and global GDP growth

Key activity indicators

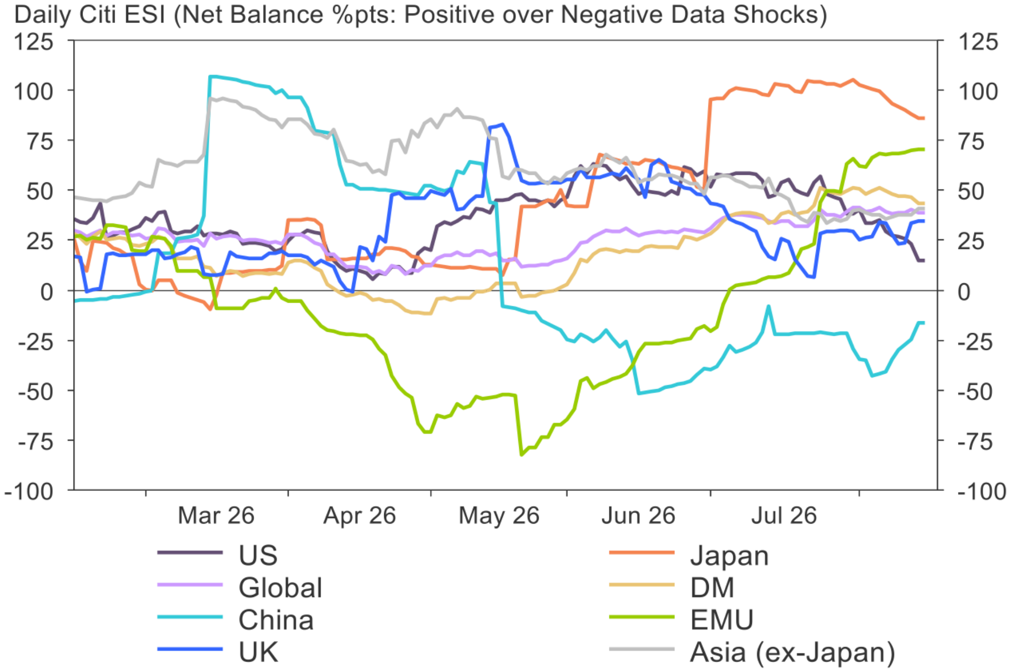


Source: LSEG Datastream, August 2026

Even with the prolonged war in the Middle East, downward pressures on global growth have not emerged and economic activity data have persistently surprised the Consensus on the upside (ex-China; see Figure 9). The overall macro environment should continue to provide a solid backstop even as earnings growth is expected to slow across key markets into 2027.

Figure 9: Positive economic activity has continued to surprise the Consensus

Daily economic surprise index



Source: LSEG Datastream, August 2026

Money and liquidity growth, along with bank loans (in the US), remains consistent with strong economic activity and spending across key countries (see Figure 10). However, as we have emphasised for a while, because of possible 'crowding-out' from the strength of the 'Main Street' economy, there may be less than otherwise 'excess liquidity' for investment purposes.

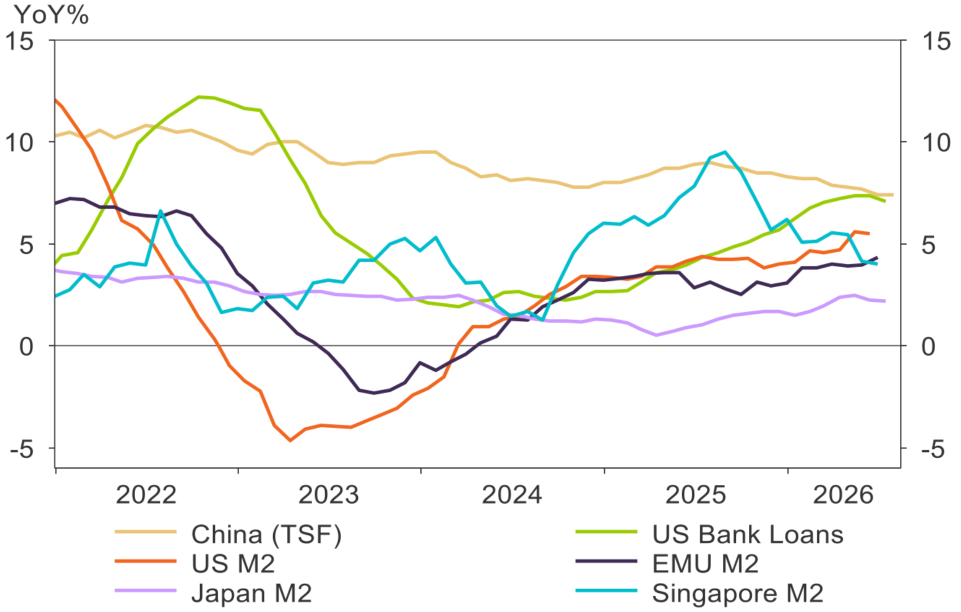
Monetary conditions are generally tighter across Europe and Asia, and the demand for foreign funding by the US has fallen significantly which has helped support the US dollar (i.e the US current account deficit is now a 6-year low[15]). Simply put, global economic activity is running two standard deviations above its trend growth while liquidity growth is just one standard deviation above trend (see Figure 7). As a result, economic growth is sucking-up significant liquidity and raising the marginal cost of an extra dollar for investing purposes[16].

15. Source: LSEG, 13 July 2026.

16. Such a relationship is often formalised in the Quantity Theory of Money from Irving Fisher (1911): if economic activity is strong then the stock of money needs to be larger than otherwise.

Figure 10: Liquidity conditions are very supportive for economic activity but as a result there may be less 'spare' liquidity for investing

Liquidity conditions

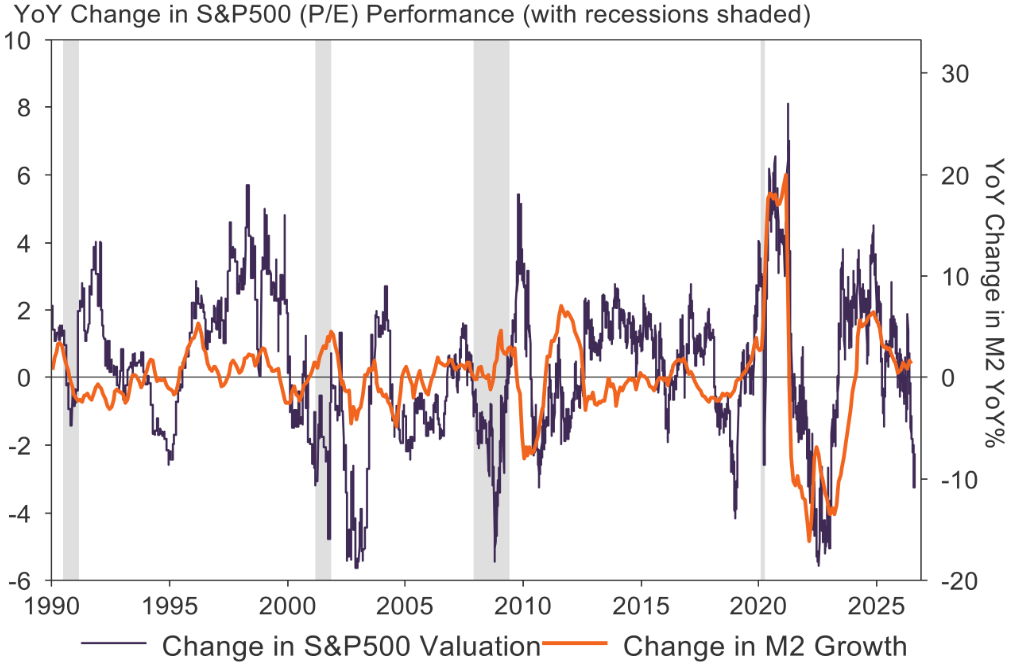


Source: LSEG Datastream, August 2026

All that said, it is especially constructive that the excess liquidity available for investing may be holding-up as the change in US money growth (i.e the delta) has improved. Gain in the 'acceleration churn' of US monetary support correlates well with valuation changes across US equities (see Figure 11) and it is a very positive signal that a positive return outlook can be sustained.

Figure 11: A key positive development: the change in US money growth has become more supportive for equity market returns ahead

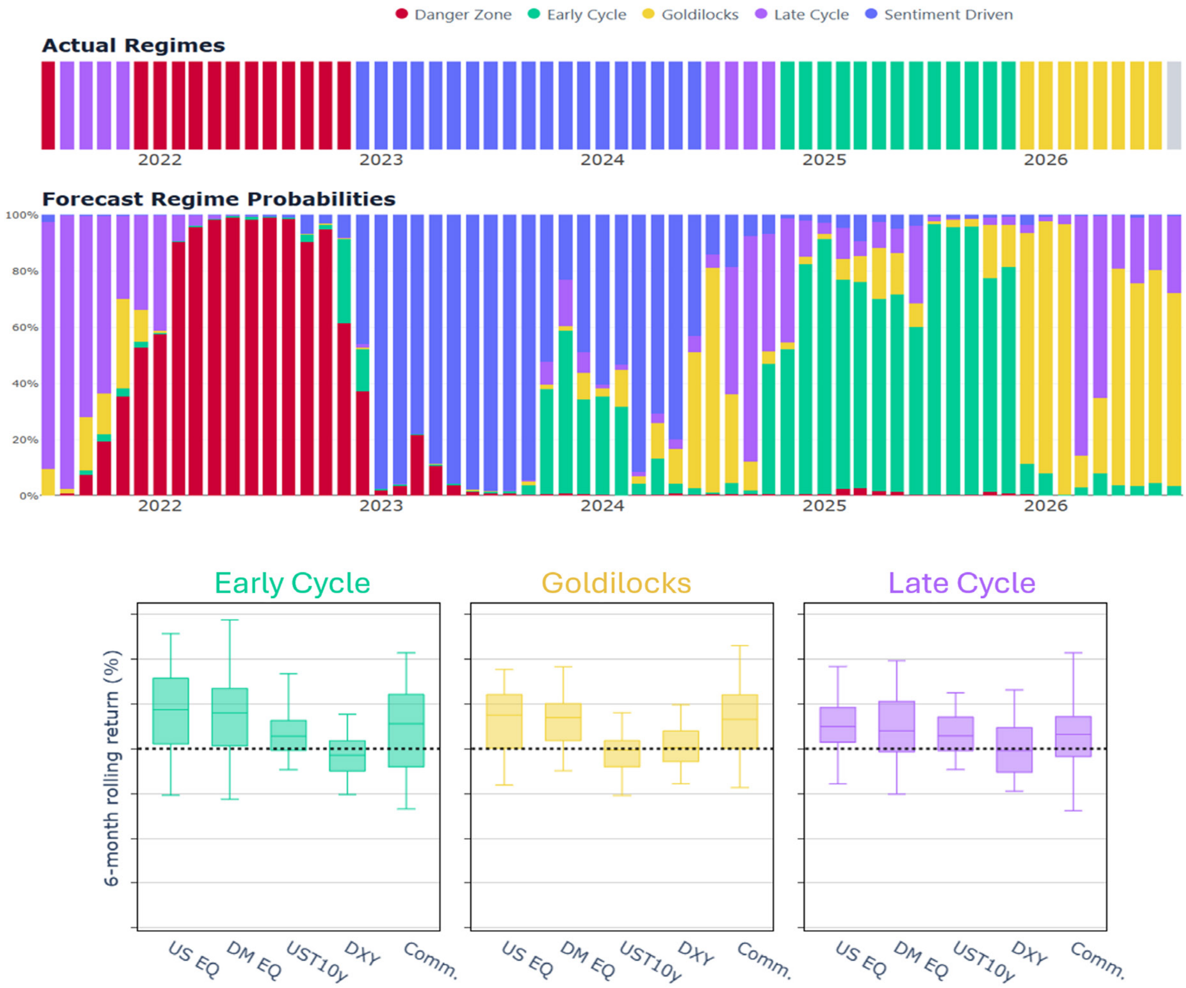
US change in valuation with change in money growth



Source: LSEG Datastream, August 2026

At the same time, there is still significant supports from additional 'dry-powder' for investing given very strong balance sheets across households and firms, and from on-going policy stimulus across the G4 countries[17]. When we combine our four global macro factors together (i.e global growth, liquidity, inflation, and risk appetite), Fullerton's Investment Regime Indicator is in 'Goldilocks' (with a 69% probability signal) and seems to be slowly evolving toward 'Late Cycle' (a 28% probability signal). As we have emphasised previously, this can be a 'win-win' for investors because returns can be very favourable under either regime (see Figure 12).

Figure 12: Fullerton's Investment Environment Indicator with Return Distributions – Goldilocks and Late Cycle can potentially sustain positive returns for investors



Source: Fullerton Fund Management, August 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).

17. See our detailed discussion "The Return of Capital: global policy stimulus remains very supportive" within our Q1 2026 Fullerton Investment Views - Global Exceptionalism with the 4Rs - Fullerton Fund Management.

For the next 12 months, Fullerton is positive on global risk assets, driven by equities across Asia (i.e Singapore, South Korea, Taiwan, and China) and Developed Markets (i.e US, Japan and Germany), 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, August 2026. Views may be subject to change without prior notice.

02 Equities

Dennis Lee
Head of Equities
Fullerton Fund Management

The key reasons we have a positive outlook for equity returns is strong earnings growth, supportive liquidity, and risk appetite holding.

For the next 12 months, Fullerton is positive on equities across Developed Markets (i.e US, Japan and Germany) and Asia (i.e Singapore, South Korea, Taiwan, and China).

Even as many equity markets continue to adjust to de-rating forces this year, as returns track below earnings growth, we believe a 'soft-landing' for investment returns can still unfold largely because global GDP and earnings growth could remain strong. Real yields and the cost of capital is higher, but this should not derail corporate performance because debt servicing costs remain very low.

We believe that the US can lead Developed Markets (DM) with earnings growth reaching around 20%p.a in 2027, while Asia (ex-Japan) is likely to track around 25%p.a earnings growth in 2027, driven by significant contributions from South Korea, Taiwan, and China.

The US is sustaining one of the strongest productivity performances in the world[18], while its real unit production costs are falling, and corporate profits (as a share of GDP) have reached the highest level ever recorded in US history (and the highest share of GDP in the world[19]). Japan's productivity growth performance is second only to the US, and Japan's equity market can remain a strong source of alpha for investors. The weak yen exchange rate is only a significant headwind for equity market performance if it creates much higher inflation (above Japan's trading partners) – and that has never happened in Japan because productivity gains are so dominant. We are also positive on Germany's Utilities, Industrials, and Financials, as they remain benefactors of the infrastructure stimulus and productivity rebuild.

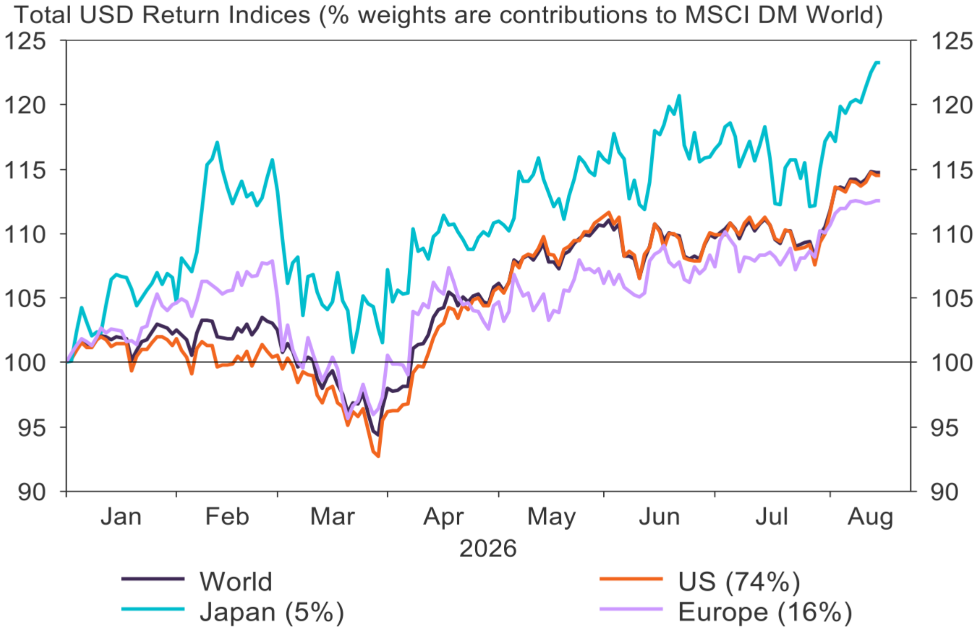
Across Asia, we continue to like Singapore, South Korea, Taiwan, and China, as each market should continue to benefit from robust global demand (especially for IT and higher value-added manufacturing), strong earnings, solid export prices, and rising competitiveness. South Korea's equity market is evolving through an unprecedented normalisation process (i.e from extremely high returns since last year) which can be volatile, and painful, in particular for investors with stretched exposures. Equity returns must slow because South Korea's earnings growth expectations for 2027 are only 36% (see Figure 16) – which is almost ten times smaller than 2026 – but the underlying strength of corporate fundamentals, and policy reforms (e.g South Korea's Corporate Value-Up Programme), suggest a soft-landing remains feasible.

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

19. US profit is 14% of GDP. Source: LSEG as at 16 Aug 2026.

Figure 13: Returns for MSCI Developed Markets (YTD)

MSCI world equity returns



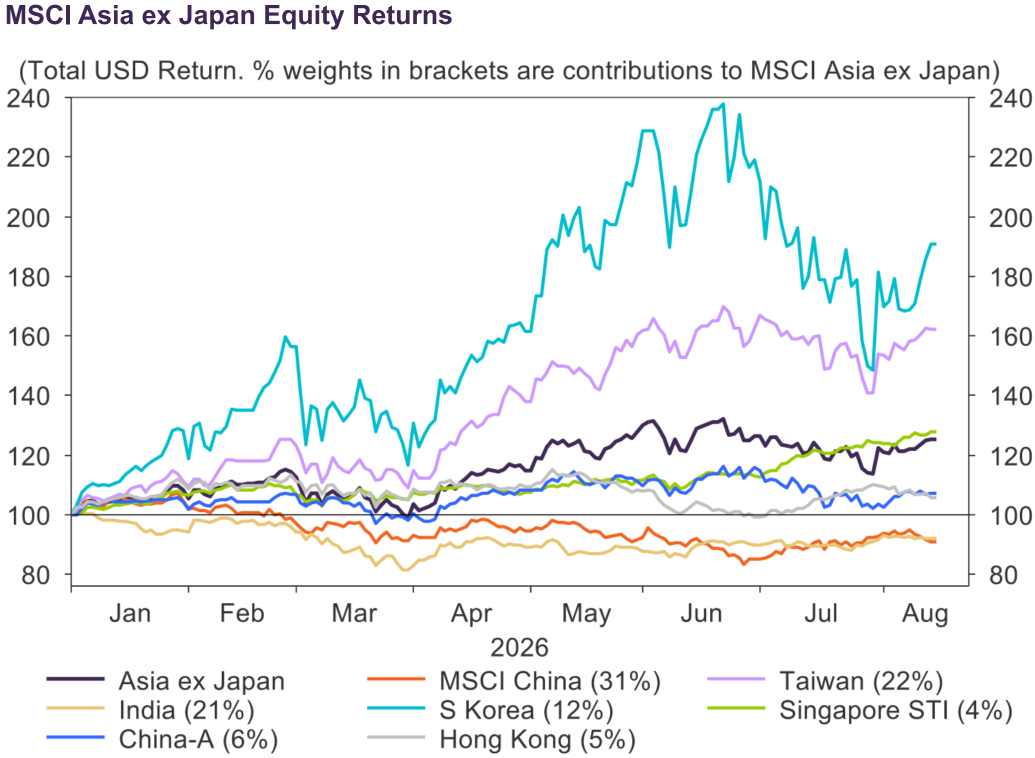
Source: LSEG Datastream, August 2026

Figure 14: DM Actual/Expected Earnings Growth (%p.a) out to 2027

	2024	2025	2026	2027
US S&P500	9	12	**29**	17
Japan Topix	18	11	**11**	14
EuroStoxx50	-9	9	**13**	13
MSCI EMU	0	-4	**21**	13
MSCI Germany	-2	3	**8**	16
MSCI France	-6	-6	**21**	9
MSCI Italy	-13	-37	**85**	11
MSCI Spain	22	4	**16**	10
MSCI World (DM)	10	9	**25**	15

Source: LSEG Datastream, August 2026

Figure 15: Returns for MSCI Asia (ex-Japan) markets (YTD)



Source: LSEG Datastream, August 2026

Figure 16: Asia Actual/Expected Earnings Growth (%p.a) out to 2027

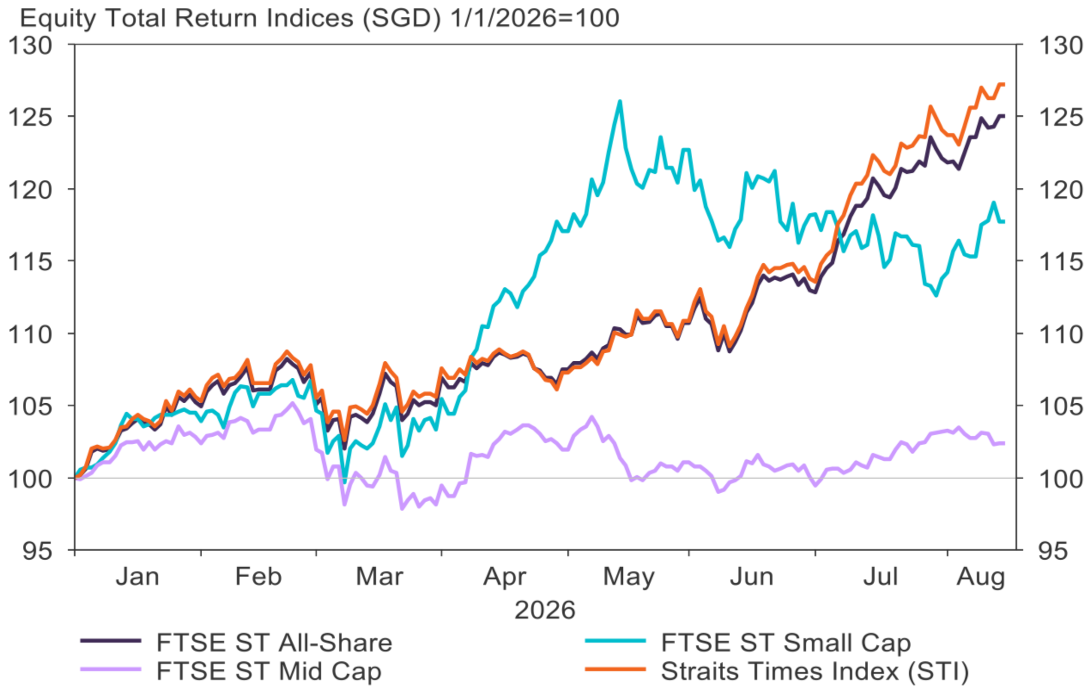
	2024	2025	2026	2027
MSCI China	15	-4	**14**	15
MSCI China-A	-4	-1	**33**	18
MSCI Taiwan	37	20	**53**	30
MSCI India	5	13	**10**	18
MSCI South Korea	89	35	**316**	36
STI Singapore	7	-3	**6**	10
MSCI Asia (ex-Japan)	23	6	**76**	26

Source: LSEG Datastream, August 2026

Singapore continues to navigate the stress created by the prolonged war in the Middle East very well. Singapore's real GDP growth remains very strong at 5.9%p.a in Q2 2026 while CPI inflation is very well contained at 1.9%p.a for June. Alpha from Singapore's financial sector has surged this year with strong supports from investment deals and solid loan growth. Small-cap returns have been very strong and have eased a bit into 2H26, while mid-caps lag but are stable. The Singapore equity market continues to re-rate higher with returns tracking 25%p.a (while earnings growth expectations remain single-digits. See Figure 16-17).

Figure 17: Returns for Singapore Equities (YTD)

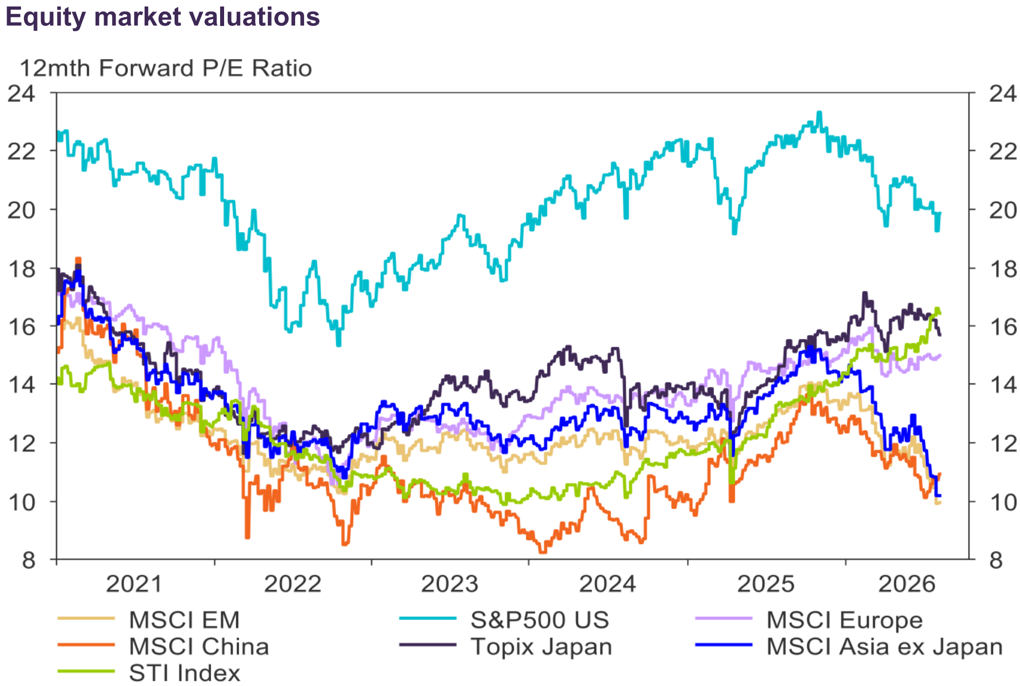
SGX Singapore equity benchmarks



Source: LSEG Datastream, August 2026

For most of 2026 valuations have never been a significant headwind to the performance of any equity market because earnings growth has been so strong. The concern for investors is not being sufficiently compensated for earnings, and then how that may drive rotations and further impact positioning over time.

Figure 18: Equity valuations have generally fallen

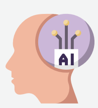


Source: LSEG Datastream, August 2026

It remains crucial for investors to appreciate that finding alpha remains a global search. Firms rising to the top of their peer group are driven by productivity-enhanced earnings, investment, and sustained demand. These creative leaders will continue to be found across many different sectors and countries.

Fullerton's view is that while equity returns may be normalising, the underlying earnings backdrop remains resilient, and several long-term alpha enablers are still firmly in place. We have identified five of such key alpha sources – as depicted in Figure 19 below.

Figure 19: Fullerton's investment themes and potential sources of alpha



AI Diffusion
AI transforming industries; frontier technologies; space and satellite; physical AI

Disruptions
Disruption beneficiaries; domestic manufacturing; energy transition

Winners Take All
Companies with strong moats; growing scale; share gains and pricing power

Policy Beneficiaries
Realpolitik and defence spending; regulation; "value up" initiatives

Lifestyle
Consumption shifting toward experiences, and emotional spending; changing healthcare

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

Most importantly, the leading sources of alpha by sector so far this year continue to align very well with many of Fullerton's investment themes (see Figure 20). That is why it is vital for investors to harmonise their top-down strategies with active management and stock selection.

The top sources of alpha (YTD) have been IT, Financials, Energy, Utilities, Industrials and Healthcare which is consistent with Fullerton's investment themes of AI-diffusion (to Financials and Healthcare, and beyond the US), Manufacturing Prowess (Industrials), 'Winners take all' and Policy Beneficiaries (Energy, Utilities)

Figure 20: The Leading Sector Sources of Equity Market Alpha in 2026

Percentage points above the market aggregate return (%pts YTD)	China	Germany	India	Japan	Singapore	South Korea	Taiwan	US
Comms								
Cons Disc			1					
Energy	29							22
Financials	14	4		19	16			
Healthcare	17	3	17					
Industrials	11	8	13					5
IT	17			28		31	3	8
Materials		1	8				23	1
Real Estate	18		9					2
Staples					9			
Utilities	9	25	14					

Source: Key sources of alpha (%pts) across equity sectors YTD. Blue shading is above the cross-country average MSCI Index basis, LSEG as at 23 July 2026

The AI Revolution moves into Diffusion and remains a 'balancing act' for seeking alpha

The impacts from AI and related technologies, along with demands across the metaverse, have years to run. 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[20].

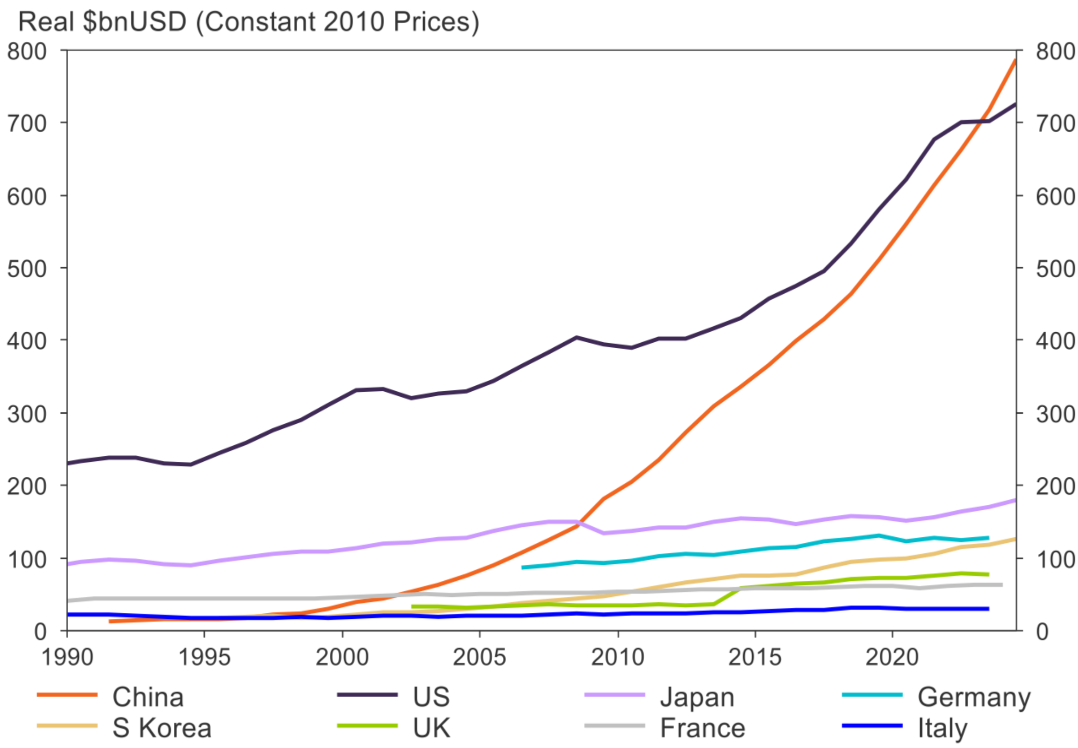
There is a very important 'balancing act' for seeking sustainable alpha, with positive forces from AI for sector productivity (especially across IT, Healthcare, and Financials) and earnings, but disruptive forces for some sectors that may experience demand destruction and job losses. That is precisely why active stock selection remains critical, because not everything associated with AI or technology will necessarily deliver sustainable returns.

Even with the painful correction over June for global IT-sector returns, alpha remains strong across key Asian markets like Japan, South Korea, and China. Alpha from the US IT sector has faded this year, in part because the cycle is maturing and a lot of good news has been 'priced-in'. Nevertheless, US-IT has recovered very well from the sharp sell-off in June, while across Asia IT sector performance is still lagging from the YTD peak (see Figure 1).

The IT sector has become much more competitive, globally interrelated, and interdependent, which has seen extremely high alpha slip and some price actions causing spillover effects across the board (regardless of whether it's warranted or not from the fundamental perspective). China is leading the US (and the world) in expenditure on research and development (see Figure 21), has significant global market share in key hi-tech industries (see Figure 22), as well as solid alpha performance from IT-sector stocks YTD (along with Japan, see Figure 20).

Figure 21: Global spending on Research and Development (R&D)

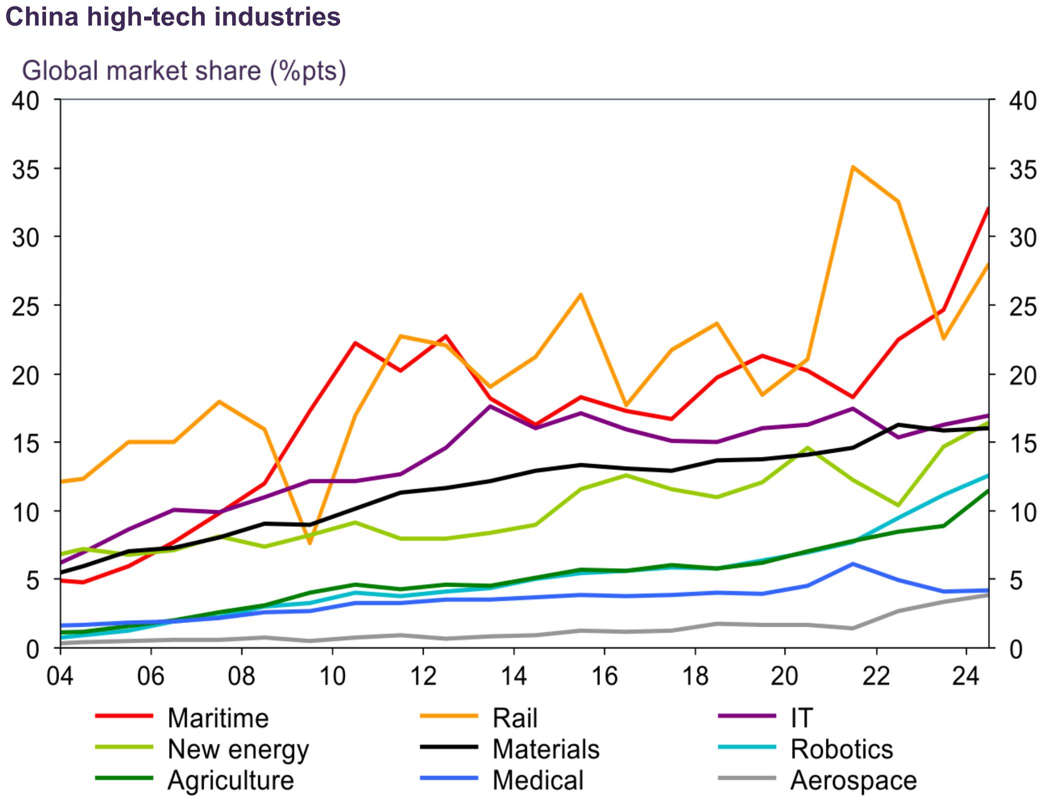
Expenditure on R&D (across all sectors)



Source: LSEG Datastream, August 2026

20. See Fullerton Fund Management, Investment-Opportunities-in-the-Age-AI Oct 2023.

Figure 22: China's global market share across key industries



Source: LSEG Datastream, August 2026

China's policymakers have made it a priority to continue to enhance spending on R&D, and the global IT sector is likely to continue to navigate such competition and drive alpha opportunities for investors. For example, on 27 July 2026 the shares of China's CXMT Corp surged nearly 470% at their Shanghai debut, marking Asia's biggest IPO this year, and catapulting the chipmaker to the top of China's stock market by valuation (overtaking the Industrial and Commercial Bank of China[21]). Such strong performance is consistent with investors seeking to diversify their global IT-sector alpha exposures, and recognise that the fundamentals across the sector can still be very rewarding.

Across tech/IT the first big wave of advance from the AI theme may be maturing and impacts are becoming more dispersed. The beneficiaries and even those adversely impacted from AI are disproportionate – gains are broadening away from the chipmakers to related industries such as the neocloud players, the "pick and shovel" component manufacturers to AI data centres along the supply chain, as well as to power suppliers. Conversely, other sub-sectors in tech like the Software as a Service (SaaS) players may be increasingly under pressure with AI being able to automate many of their services[22].

The impact of AI and related technologies is broadening, increasing productivity, lowering costs, and supporting earnings. But investment implications remain more nuanced than simply buying "AI winners" or chipmakers. Fullerton has consistently emphasised that while AI can create earnings tailwinds in sectors such as IT, Healthcare and Financials, it can also disrupt incumbent business models and create demand destruction elsewhere.

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21. CXMT (Chang Xin Memory Technologies) is China's largest producer of chips used in devices from servers to cameras, and its key competitors are South Korea's SK Hynix and Samsung Electronics, and Micron (US). Source: 27 July 2026, Reuters News.
22. For more related discussion see: [US Software sell-off and rotational plays: February 2026 - Fullerton Fund Management.]

Alpha opportunities across the 'beneficiaries of disruptions'

A second structural opportunity lies in "Disruptions" – not disruptive upheaval for its own sake, but transformative forces and change that re-shapes value chains, re-distributes margins and creates new victors. Our framework points to "Disruption" beneficiaries in areas such as domestic manufacturing (from re-onshoring trends) and the energy transition, where capital spending, supply-chain re-wiring and new policy priorities are altering the competitive dynamics. The most productive countries, and businesses that are most adaptable to changing supply-chain and energy structures, are better placed to navigate a volatile and disruptive environment.

For active investors, this matters because disruption rarely lifts all participants equally. It tends to reward readily positioned businesses with the technology, balance-sheet strength and execution capability that can adapt quickly, while leaving weaker incumbents exposed to pricing pressure, stranded assets or slower growth. It is therefore incumbent on active managers to identify the winners and losers.

Winners Take All and Policy Beneficiaries are key features of global exceptionalism driving alpha for investors

Our "Winners Take All" theme reflects the prospect that industry leaders with scale, pricing power, intellectual property or structural advantages can continue to pull away from weaker peers. This is especially relevant in a more demanding market where competition for liquidity is more intense and investors are becoming more selective.

'Policy Beneficiaries' remain important as global fiscal and industrial policies are impacting corporate investment decisions and capital flows. Government spending remains significant across China, the US, Japan, and Germany, and it almost always gives some support to investor confidence and alpha across the sectors that benefit directly. One of the latest developments that is most exciting for global investors is Japan's public-private partnership-based (PPP) investment plan[23]. It is an unprecedented spend in duration and magnitude, with supports targeted across 17 sectors including AI, quantum technology, energy, healthcare, and entertainment. Japan is already the second most productive economy in the world (behind the US) and like the US, corporate profits are record highs as a share of GDP[24].

Additionally, government-led initiates and reforms such as South Korea's Corporate Value-Up Programme and Singapore's Equity Market Development Programme are galvanising investor interest[25]. Investors are being rewarded as the Singapore equity market continues to re-rate higher with returns YTD in excess of expected earnings growth[26].

Consumers are also becoming more discerning

The final structural theme in our framework is "Lifestyle" beneficiaries. Consumption preferences are shifting towards experiences (especially tourism), convenience, wellbeing and more emotionally resonant spending. At the same time, healthcare demand is also changing as populations age and as consumers place greater emphasis on quality of life, prevention and personalised care. For global equity investors, this opens opportunities across selected consumer and healthcare names that meet such consumer demands, and businesses who can capture durable demand rather than models that rely on cyclical spending.

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23. It is a ¥370tn public-private investment plan through to 2040 – which equates to $2.3tn USD at current exchange rates, and is equivalent to about $164bn USD per year over fiscal 2027–2040 and 4.0–4.3% of GDP per year on average. Source: 25 June 2026, Mainichi News.
24. Source: LSEG Datastream 10 Aug 2026.
25. See our Singapore Equities Special 'Let's Make Singapore Equities Greater Again!' pp 23-26 in our Q2 Fullerton Investment View - "Keep Calm and Carry On": Our Bullish Outlook under the 4Rs - Fullerton Fund Management.
26. Refers to STI Singapore's YTD return to 31 July of 24.0%, which is ahead of 2026's expected EPS growth of 6% (Source: LSEG Datastream, July 2026).

03 Fixed Income

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Deputy CIO &
Head of Fixed Income
Fullerton Fund Management

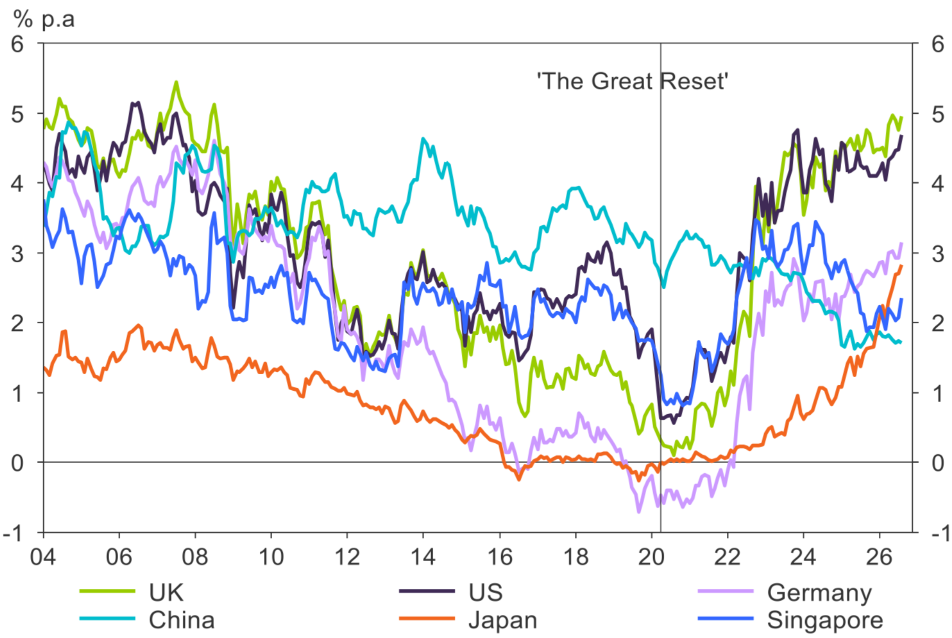
Sustainably higher yields are positive, but the cycle keeps active management crucial

Our core investment theme remains 'the Great Reset'[27] 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 23). 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 the prolonged war in the Middle East, bond markets have lurched from fears that economic activity will fall with the adverse global supply shock (i.e falling yields, rising bond returns) to worries about high inflation (i.e rising yields, falling bond returns). For investors it reinforces just how critical active management remains because fixed income returns can cycle painfully even if underpinned by higher than otherwise interest rates (see Figure 24).

Figure 23: Key global bond yields remain around historic highs

Global 10y Bond Yields

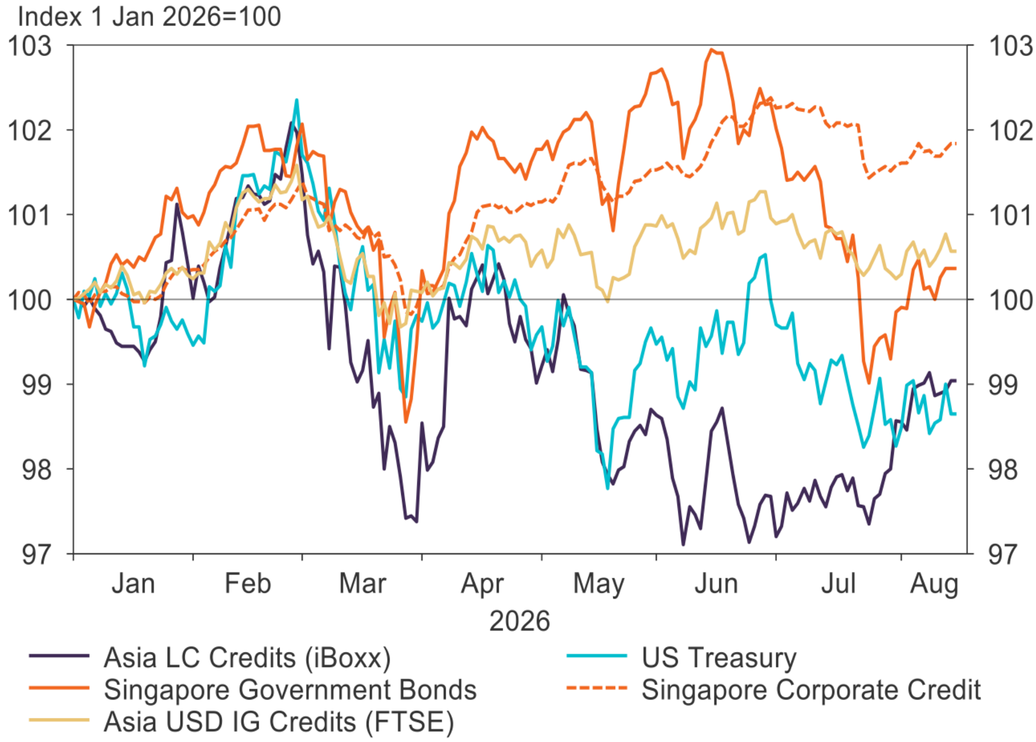


Source: LSEG Datastream, August 2026

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

Figure 24: Fixed income returns – cycling with yield dynamics

Key Fixed Income total returns



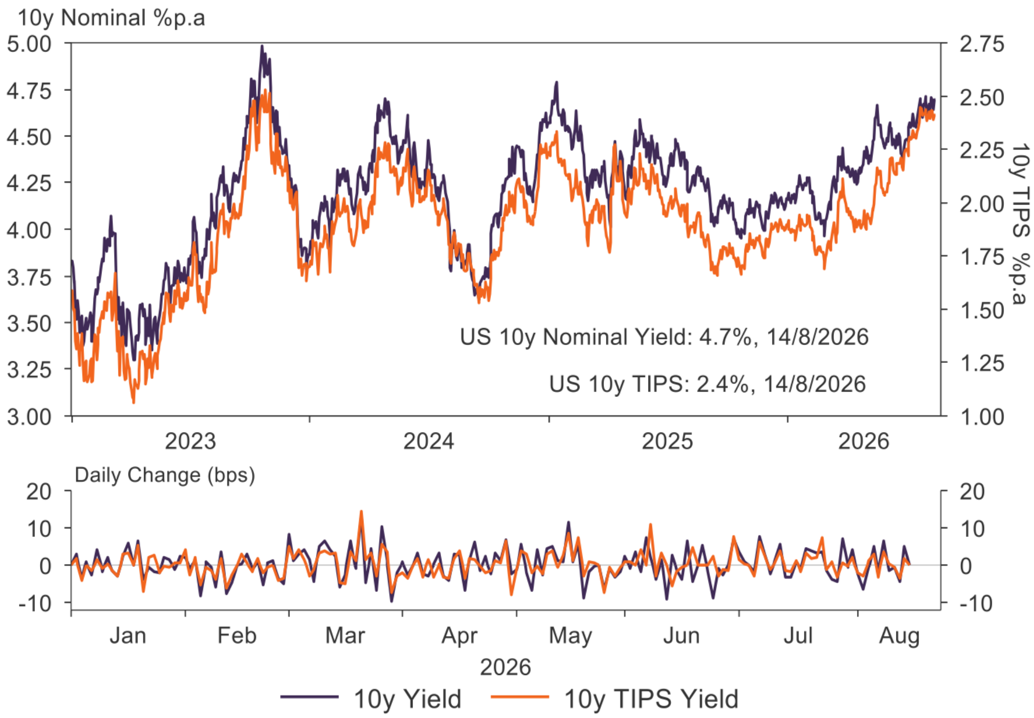
Source: LSEG Datastream, August 2026

Because the dominant driver of higher nominal yields this year has been increases in the real yield[28] (see Figure 25), rather than significant worries about inflation, the higher cost of capital may not prove a significant headwind to growth and equity market performance (if underlying demand and spending remains strong). What may also provide some cushion to the performance of US corporates is that their (net) interest burden is around record lows at just 4.5 cents in the dollar of profit (see Figure 26).

28. "Market gauges of inflation-adjusted borrowing costs have shot to their highest in more than a decade across major economies" Source: Reuters News 14 August 2026.

Figure 25: US 10y Real (TIPS) and Nominal Bond Yields

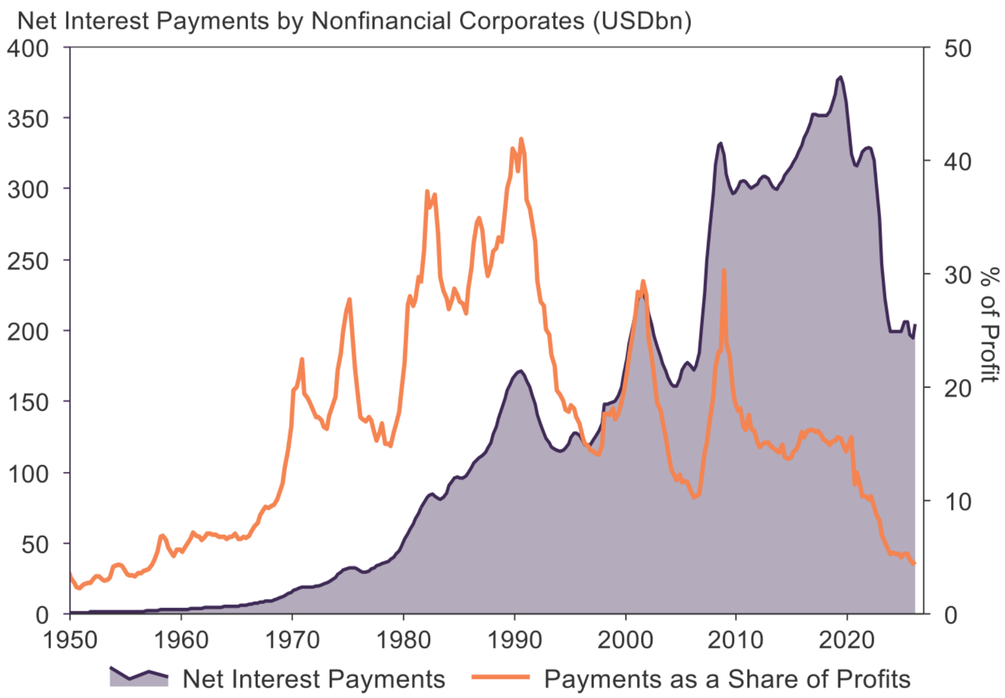
US bond yields



Source: LSEG Datastream, August 2026

Figure 26: The interest burden on US corporates is at record lows

Interest burden on US corporates

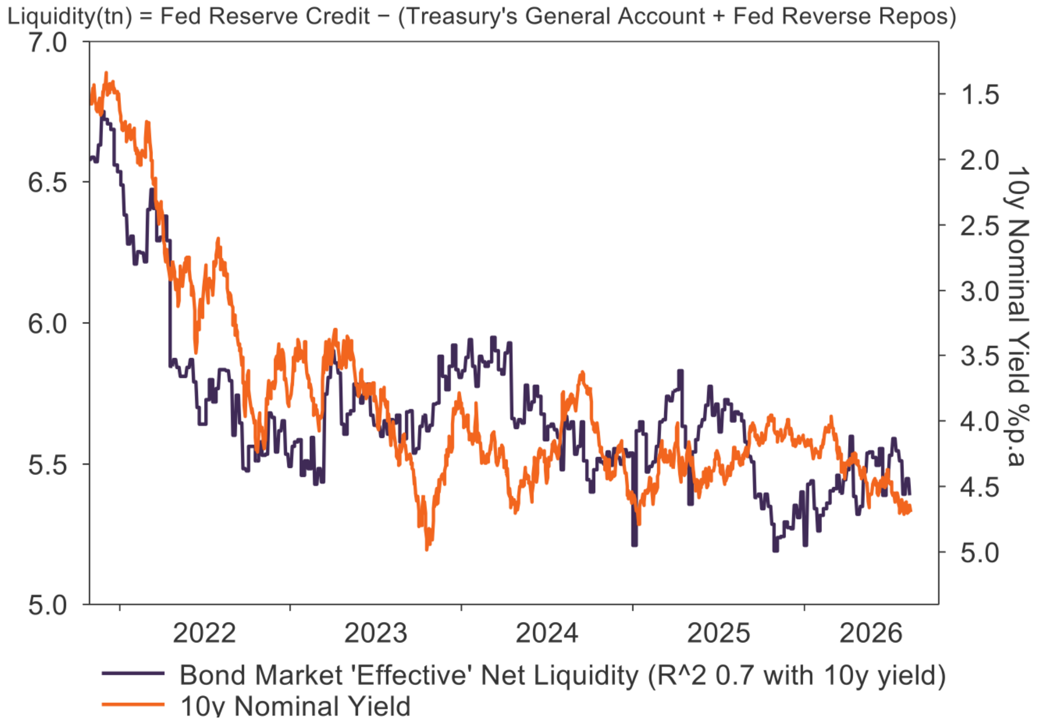


Source: LSEG Datastream, August 2026

Further, as the rise in US real yield has been significant, any overshooting may be avoided because net national savings are also improving as reflected in the smaller US current account deficit. In addition, US bond market liquidity is still sufficiently above the lows that would typically correlate with a 5%p.a (or higher) 10y nominal yield (see Figure 27).

Figure 27: US 10y Nominal Yield and Fullerton's Bond Market Liquidity Indicator: US bond market liquidity seems high enough to avoid a sustained 5%p.a (or higher) 10y nominal yield

US 10y yield and bond market liquidity indicator



Source: LSEG Datastream, August 2026

Global central banks were split on tightening monetary conditions for a war-driven oil price shock, and now peak expected tightness may have been reached

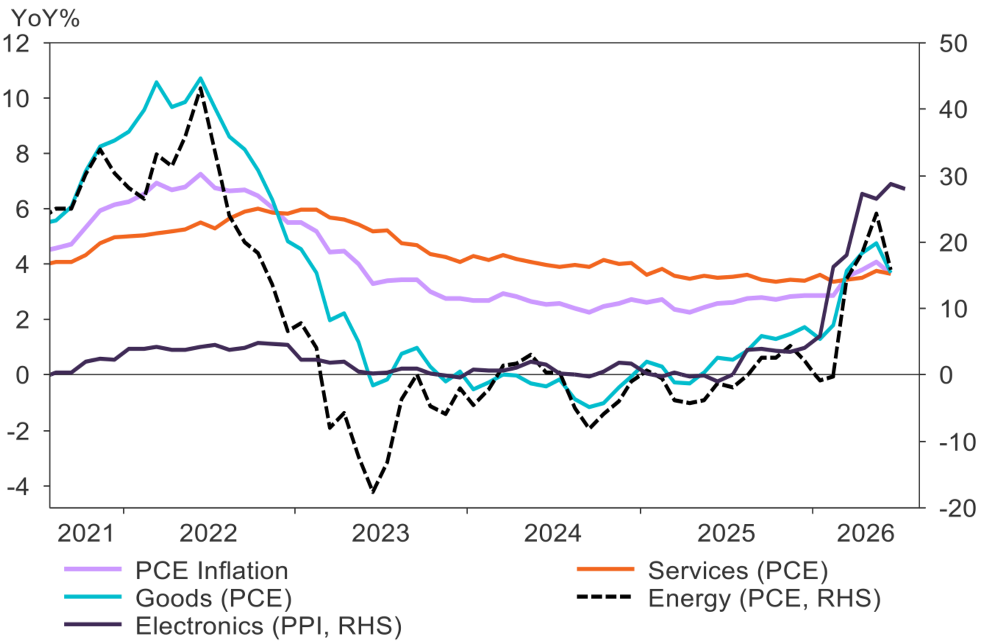
The peak of expectations for tighter monetary conditions for this cycle is likely behind us, and should allow central banks to remain patient and data-dependent. As higher energy prices tended to push up generalised inflation across Asia, monetary conditions have tightened, with the Bank of Japan (BoJ), Bank of Korea, Bank Indonesia, and Bangko Sentral ng Pilipinas, all hiking their respective policy rates, and the Monetary Authority of Singapore (MAS) adopted a steeper slope for its currency policy band. Across developed markets, the energy driven surge in inflation sparked rate hikes by the European Central Bank (ECB), The Reserve Bank of New Zealand (RBNZ), and the Reserve Bank of Australia (RBA).

The US Fed has remained an outlier, along with the Bank of England, the Bank of Canada, the Riksbank, and the Swiss National Bank, in not hiking the policy rate. Because for the US, while energy prices have surged and pushed PCE inflation (the Fed's 2%p.a target) as high as 4.1% YoY in May, US services inflation - a key driver of 'generalised inflation' - has remained stable. The new Fed Chairman Kevin Warsh said, during his Congressional testimony, that his job "is to make sure any short term changes in particular prices do not broaden out"[29]. So far the Fed will be encouraged that services inflation, at around 70% of aggregate price pressures, remains contained[30]. What is also very positive is that US bond market inflation expectations (1-year ahead, and beyond) are around 2.5% p.a (or lower), and many investors appreciate that trying to fight higher oil prices (a supply-side shock, driven by war) with rate hikes can be ineffective.

Strong US productivity growth, coupled with investment, continues to push down real unit production costs. The aggregate cost of all investment is still slipping in the US, and this should continue to give significant cushion against any sustained high inflation, especially if driven by excess demand. Of course, AI and IT-related inflation has surged in the US (to 30% YoY), but its weight in consumer spending is small, and aggregate goods price inflation is falling regardless (see Figure 28).

Figure 28: US inflation: IT-inflation has surged, but goods inflation is still falling back

US inflation components



Source: LSEG Datastream, August 2026

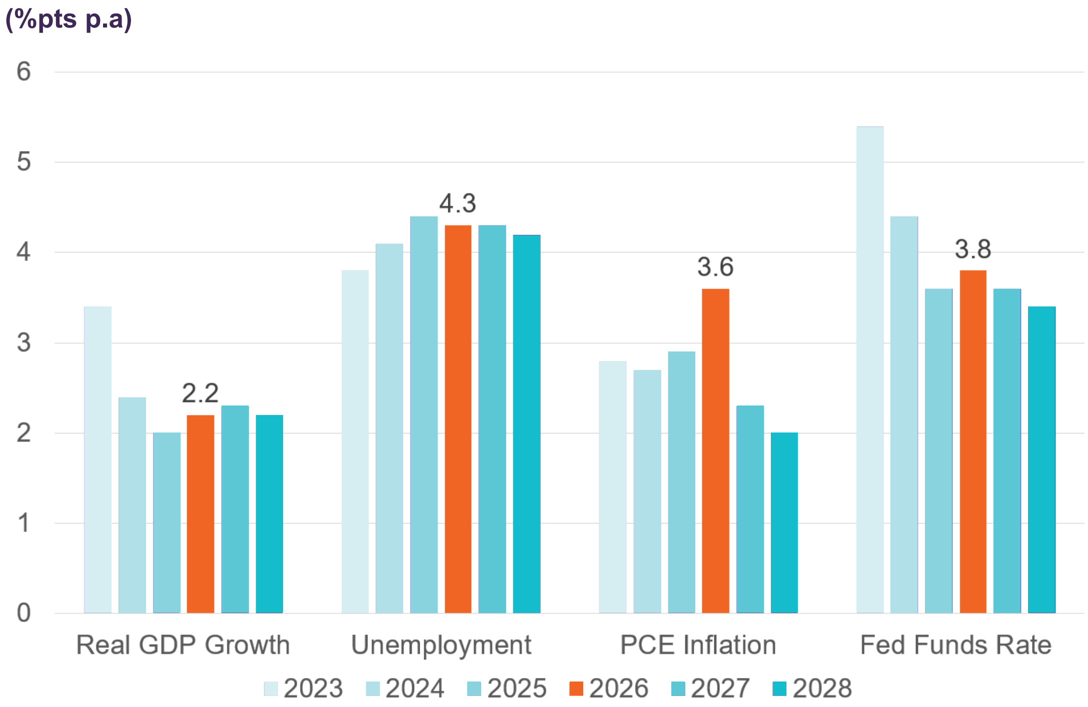
29. Kevin Warsh's first congressional testimony as Fed Chair was on 14 July 2026, before the House Financial Services Committee. He then delivered the same semi-annual Monetary Policy Report testimony to the Senate Banking Committee on 15 July 2026. Source: CNN 15 July 2026.

30. Source: LSEG, 15 Aug 2026.

Being data dependent brings some 'flexibility' because with oil prices still under pressure inflation may not continue to correct rapidly

From the Fed's 17 June forecasts, US PCE inflation at 3.7% YoY June has already fallen much faster than the Fed anticipated (with its 3.6% YoY assumed by Dec 2026, see Figure 29). This may give some 'policy cushion' because with oil prices still under pressure, with the prolonged war in the Middle East, inflation may not continue to correct rapidly. From the forward guidance assumptions the Fed's presented in June they may not hike rates in 2026 even if US inflation stalls for the rest of the year (at 3.6% YoY where it was in June - and US forward Fed policy rate market pricing agrees[31]).

Figure 29: The Fed's US Forecasts (as at June 2026)



Source: US FOMC Projections, as at 17 June 2026

The Fed under Chairman Kevin Warsh will likely be a significant regime shift, and communications could prove a 'learning-curve'

We explained the potential regime shift in Fed policy in detail in our Q1 2026 Fullerton Investment Views[32]. Sure enough, Kevin Warsh announced the sweeping changes he is ushering in with the launch of five key task forces to enhance how the Fed controls PCE inflation (at 2%p.a): 1) Communications; 2) Balance sheet policies; 3) Utilisation of data; 4) Productivity and jobs; and 5) Drivers of inflation (i.e the framework of the inflation process)[33].

31. i.e the Fed's policy rate is 3.75%p.a and the US forward market (as at 15 Aug) prices-in a flat 3.9% policy rate by Dec 2026 through to Dec 2027 (Source: LSEG) which is basically in the neighbourhood of the Fed's June forecasts where the policy rate holds at 3.8% by end-2026 (see Figure 29).
32. See Global Exceptionalism with the 4Rs - Fullerton Fund Management.
33. Source: CNN 15 July 2026.

Fed communications may be an area where change is uncertain and may have the most impact the soonest. For example, the Fed's huge jump in its expected inflation for 2026 (from March to June) was very hawkish and yet the FOMC did not raise the policy rate. Seldom would a 1%p.a increase in the Fed's inflation expectation - when inflation is already well-above target – come without rate hikes. With potentially less direct Fed communications and forward guidance the market may continue to struggle for a while to evaluate the new regime.

Our Positive Outlook for Fixed Income - Carry Remains the Anchor

Against the global macro backdrop, credit markets should remain supported by resilient fundamentals and favourable technicals. With valuations less reliant on further spread tightening, carry is likely to remain a key contributor to investment returns.

Global credit can benefit from resilient corporate fundamentals and healthy investor demand. Strong inflows are helping to absorb elevated primary issuance, including a substantial pipeline from the technology, media and telecommunications sector. While this supply may limit the potential for significant spread compression, it also reflects borrowers' continued access to markets. The combination of income, balance-sheet resilience and dependable demand should keep the asset class well supported.

Corporate credit across Asia can sustain its positive fundamentals and favourable market technicals. Limited headwinds for supply should help ensure that new issuance remains well absorbed, particularly where issuers offer compelling carry and high-quality balance sheets. We expect the bulk of returns to come from carry rather than significant spread compression, making issuer selection and duration management important. Overall, macro and 'bottom-up' fundamentals across the region remain positive, but investment opportunities are more expensive.

Singapore-dollar credit is likely to remain underpinned by high-quality corporate fundamentals, low issuance and resilient domestic demand. Scarce supply can continue to provide technical support, while the strength of local balance sheets ensures very low default rates. Investors are likely to be rewarded with reliable income streams, relative value, and credit quality – rather than aggressive spread tightening.

Asia's local-currency markets should continue to benefit from capital inflows and attractive carry. Regional rate-hike expectations may also have peaked, reducing a key source of pressure on local bond markets. Performance is likely to remain differentiated, however, with currencies, domestic inflation and central-bank credibility continuing to determine the relative attractiveness of individual markets.

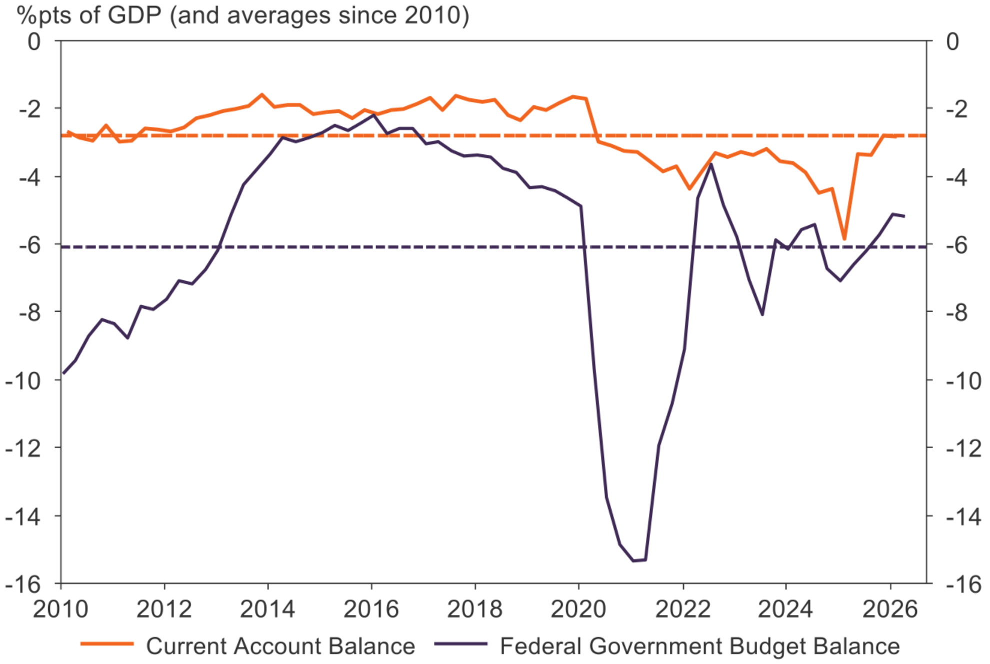
Singapore Government Securities (SGS), especially as geopolitical fears and uncertainties remain significant, should be supported by safe-haven demand, the strong currency, and favourable supply dynamics. The wide SGS–UST yield differential may temper the scope for further outperformance relative to US Treasuries, but the broader backdrop remains constructive. Strong domestic institutional demand, and Singapore's robust macroeconomic fundamentals, should continue to underpin the market, particularly during periods of heightened global volatility. We expect Singapore rates (MAS 3m bills) to remain resilient as the normalisation in liquidity growth has eased the downside pressures.

The US dollar can remain supported and range-bound around its fair value

As the US twin deficits have improved i.e the fiscal deficit is lower at 5.2% of GDP and the current account deficit is around its historic average[34] (see Figure 30), fundamental valuation metrics also show that the US dollar DXY index remains around its fair value (see Figure 31).

Figure 30: The US twin deficits have improved

US twin deficits



Source: LSEG Datastream, August 2026

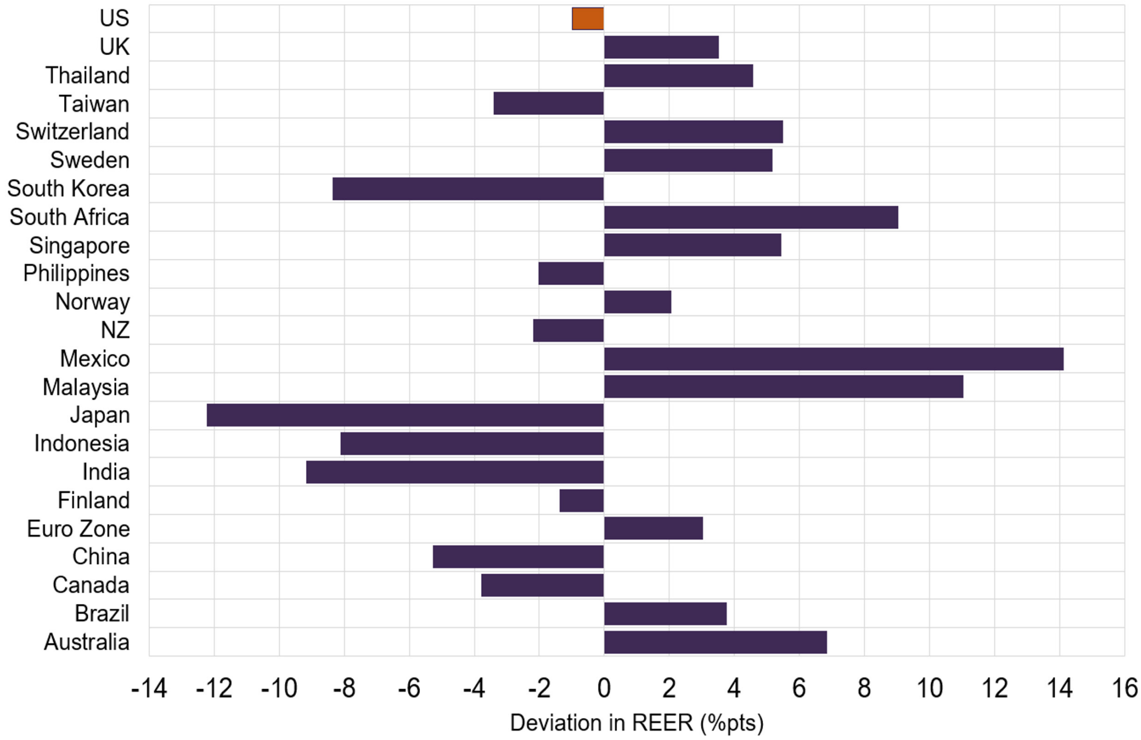
China remains an anchor of stability for investors across Asia, and China's policymakers have allowed some modest RMB appreciation reflecting the strong capital inflows driving the current account surplus much higher (i.e around a 15 year high at 3.7% of GDP[35]).

34. In our Q1 2026 Fullerton Investment Views (see Global Exceptionalism with the 4Rs - Fullerton Fund Management) we explained that US imbalances have improved significantly. The US current account deficit has fallen dramatically suggesting that because the US is living better 'within its means' then the US dollar can be supported.

35. Source: LSEG, 15 Aug 2026.

Figure 31: The US Dollar remains around its Fair Value. The yen is the most undervalued currency, while the MXN-Peso is the most overvalued currency

Deviation in the Real Exchange Rate from its Fair Value



Source: Data is as at end June 2026. FFMC calculations. LSEG, BIS, 7 August 2026. This is the percentage deviation in the real exchange rate (REER, CPI-based) from its trend (a 5y moving average).

A joint US-Japan policymakers' intervention in currency markets, to buy yen and sell US dollars, to fight-off speculative bets against the JPY seems to have worked. A key trigger for the intervention was reportedly financial stability concerns surrounding the surge in speculative investment[36] (net) short positions in the yen, which reached highs not see since the global financial market 'flash crash' of August 2024 (when yen carry trades unwound painfully). After this intervention, data at the close of 7 August 2026, showed that speculative short positions in the JPY had fallen by around 70% (see Figure 32). If the Bank of Japan (BoJ) makes further hikes to its policy rate, as is expected by financial markets[37], then that may help ensure that speculative bets against the yen remain contained.

36. Source: Reuters News Tokyo, 3 Aug 2026.

37. Source: LSEG, 15 Auguist 2026.

Figure 32: Non-commercial (speculative) net positioning in the yen exchange rate

Source: LSEG DataStream 7 Aug 2026. The orange line is the non-commercial (speculative) net positioning in the yen (negative means long USDJPY, short yen). The blue line is the USDJPY exchange rate

The Singapore dollar should remain strong

Fullerton believes that the Singapore dollar can remain strong as it continues its 'cycling' around the top of the Monetary Authority of Singapore's (MAS) policy-band currency basket. Against the US dollar, which has the largest weight in the policy basket, it may remain broadly stable as the MAS is likely to want to avoid policy being too tight for too long such that growth becomes threatened (and as inflation remains very low).

Gold remains a valuable diversifier and hedge for geopolitical shocks

Gold has proved a very useful hedge in a balanced portfolio, especially against geopolitical fears – but it often depends on US dollar weakness. With gold prices falling back from their highs it has allowed investors a more favourable entry-point, and the war in the Middle East is likely to continue to drive geopolitical fears and upside for gold prices.