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The Hunt For Yield

Markets Confront Higher Rates And Rising Uncertainty



Monthly Outlook

by OCBC Wealth Panel

Bringing the best thinking from OCBC Group Research and Bank of Singapore CIO Investment Institute

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For **now**, and **beyond**

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The Hunt For Yield

The crosscurrents that shaped markets over recent months have carried into September, albeit with shifting intensity. Risk assets continued to wrestle with geopolitical tensions, an energy shock, and renewed concerns over the sustainability of the artificial intelligence (AI) investment wave, while resilient economic activity and strong corporate performance continued to support investors' risk appetite. Renewed monetary tightening along with a sharp re-pricing in long-term bond yields is bringing the cost of capital back into sharp focus, even as equity markets have remained remarkably resilient. The past month reinforced a familiar market reality so far in 2026 where strong corporate fundamentals are co-existing with a more demanding macro and policy backdrop.

The most consequential development this month came from the central banks. The debate over how much interest rates would ease at the start of 2026 has altered starkly to how high might they need to remain or rise to contain inflation over the next 12 months. The US Federal Reserve (Fed) raised rates for the first time in three years, and the tightening impulse is also observed across major developed markets including European Central Bank (ECB) and Bank of Japan (BOJ). Continued impasse following recent escalation in the Middle East pushed Brent crude above USD100/bbl, adding upside risks to the inflation outlook globally. These forces drove long-term bond yields higher, with the 10Y US Treasury (UST) yield moving above 5% in the past month.

Risk assets continued to absorb these macro headwinds well with US equities remaining close to record levels as strong earnings and investments in AI sustained enthusiasm for technology stocks overall. For fixed income investors, the higher interest rates and bond yields have materially expanded the range of assets capable of generating meaningful income, although we note that interest rate volatility will remain high for the remainder of 2026.

Although global financial conditions appear to be tightening at the margin as inflation risks intensify, we continue to expect a shallow rate-hiking cycle rather than a prolonged tightening campaign globally. We therefore maintain a moderately constructive stance on equities in our tactical asset allocation, underpinned by continued confidence in the ongoing technology investment cycle. In fixed income, we are maintaining a modest overall Underweight position and remain Neutral on portfolio duration amidst market volatility. In Developed Markets (DM), we prefer Investment Grade (IG) over High Yield (HY) while in Emerging Markets (EM), we remain Neutral on corporates and Underweight on sovereigns.



GLOBAL OUTLOOK

SELENA LING
Selena Ling, Chief Economist & Head, OCBC Group Research

Markets Confront Higher Rates And Rising Uncertainty

"Given still-elevated inflation, resilient economic activity and the upward revision to the Federal Reserve's September dot plot, we now expect the US central bank to deliver an additional 25-basis-point rate hike by year-end."

- Global financial markets navigated a growing array of macroeconomic and geopolitical headwinds in September. Equities, particularly in the US and parts of Asia, continued to find support from strong AI-related earnings and robust investment spending across semiconductors, cloud infrastructure and data centres, despite periodic concerns over stretched valuations and the sustainability of the AI-driven capital expenditure cycle.
- The more significant development, however, has been the sharp shift in monetary policy expectations. The Federal Open Market Committee (FOMC), European Central Bank (ECB) and Bank of Japan (BOJ) have all recently raised interest rates, prompting a broad repricing higher in government bond yields amid concerns that inflation may prove stickier than expected and fiscal deficits increasingly unsustainable. Meanwhile, energy markets remained volatile as tensions in the Middle East persisted, although the recovery in Saudi Arabia's pipeline flows helped alleviate some supply concerns. On the trade front, the recent Trump-Xi meeting yielded a modest breakthrough, extending the trade truce until 10 January 2027, reducing tariffs on approximately US$30 billion of goods, and formalising dialogue mechanisms through the Boards of Trade, Investment and AI.
- Against this backdrop, markets enter October at a critical juncture. Elevated valuations, rising interest rates and lingering geopolitical uncertainties leave risk assets increasingly sensitive to policy and economic developments. Attention will focus on key central bank meetings, including the FOMC (27-28 October), BOJ (28-29 October) and ECB (29 October).
- The approaching US midterm election cycle could inject a further layer of uncertainty, with betting markets assigning meaningful probabilities to either a hung Congress or a Democratic clean sweep. The three key risks for investors remain: first, whether the Federal Reserve will continue to out-hawk market expectations; second, whether the AI investment cycle can continue to offset mounting macroeconomic headwinds; and third, whether geopolitical tensions and energy market disruptions, particularly in the Middle East, could intensify, potentially compounded by a super El Niño event that drives agricultural prices higher.
- How these forces evolve over the coming months will likely determine whether risk assets can extend their rally into year-end or face a more meaningful correction.

United States

- September's economic data reinforced the view that growth remains on a solid footing. However, the inflation outlook has become less reassuring, as higher energy prices and rising producer costs threaten to reignite price pressures following the renewed escalation of tensions in the Middle East. Reflecting this backdrop, the Fed's September projections painted a picture of an economy that is both stronger and more inflationary than previously expected. The median 2026 GDP growth forecast was revised up to 2.3% from 2.2%, while the projected unemployment rate was lowered to 4.1% from 4.3%. At the same time, the Fed raised its forecasts for both headline and core PCE inflation to 3.7% and 3.4%, respectively, and lifted its median end-2026 policy rate projection to 4.1%.
- Looking ahead, the key question for October is whether the recent energy shock remains confined to headline inflation or begins to filter through to core prices. The answer will be critical in determining whether the Fed needs to maintain its hawkish stance for longer than markets currently anticipate.
- The FOMC raised the federal funds target range by 25 basis points to 3.75%-4.00% in September. With inflation remaining elevated, economic activity continuing to show resilience, and the Fed's September dot plot signalling a higher path for policy rates, we now expect the Fed to deliver an additional 25-basis- point rate hike by year-end.

Euro-Area

- We have revised our 2026 euro-area GDP growth forecast higher to 1.0% YoY while maintaining our headline inflation forecast at 3.1% YoY. Economic activity has proven somewhat more resilient than previously anticipated, with second-quarter GDP revised up to 0.6% QoQ and 1.2% YoY. However, the underlying growth picture remains mixed, as domestic demand continues to show signs of softness, evidenced by a 0.6% MoM decline in retail sales in July.
- Inflation, meanwhile, remains the more immediate policy concern. Final August HICP inflation accelerated to 3.2% YoY from 2.9% in July, highlighting the risk that higher energy and input costs could exert renewed upward pressure on prices.
- Against this backdrop, the ECB raised its deposit rate by 25bp to 2.50% in September, in line with our expectations. Following this move, we expect policymakers to keep rates unchanged in October, allowing more time to assess the extent to which recent increases in energy and input costs are feeding through to broader inflation.
- ECB President Lagarde has continued to emphasise a measured and data-dependent approach, noting that there remains limited evidence of significant second-round wage-price effects. The key question over the coming months is whether higher energy and transportation costs begin to spill over into core goods and services inflation. A broader and more sustained pass-through would strengthen the case for a further rate hike in December.

Japan

- We maintain our 2026 GDP growth forecast at 0.7% YoY and headline CPI forecast at 2.1% YoY. While inflation has moderated from earlier peaks, underlying price pressures continue to build. Headline CPI rose 1.9% YoY in August, while core inflation excluding fresh food eased to 1.7% and core-core inflation stood at

1.9%. However, services producer price inflation accelerated to 3.7% YoY, suggesting that cost pressures are becoming more broadly embedded across the economy.

- Against this backdrop, the BOJ delivered the 25bp rate hike we anticipated in September, taking the policy rate to 1.25%. While we expect the BOJ to keep rates unchanged in October, policymakers are likely to retain a tightening bias as they assess the cumulative impact of recent policy adjustments and the evolving inflation landscape.
- The debate within the BOJ has increasingly shifted from whether further policy normalisation is warranted to the appropriate pace of tightening. Minutes from the July meeting indicated growing concern among policymakers about upside inflation risks, with some questioning whether the previous pace of rate increases had been sufficiently firm. The continued weakness of the yen, despite the September hike, has added to these concerns by raising imported energy costs and sustaining inflationary pressures.
- Nevertheless, a further rate increase in October appears unlikely. Household spending remains soft, while higher bond yields are already contributing to tighter financial conditions. As such, we believe the BOJ is more likely to pause in October while preserving optionality for further tightening. December remains our preferred window for the next rate hike, particularly if underlying inflation continues to firm and the pass-through from import costs becomes more evident.

China

- China's economy lost momentum more sharply than expected in July and August, with third-quarter growth likely to fall below 4.5% once again. The recent run of weaker-than-anticipated data has elevated growth stabilisation on the policy agenda, prompting policymakers to unveil a fresh round of support measures on 29 September.
- The latest package focuses on three key areas: housing demand, infrastructure financing and targeted credit support. Importantly, we view these measures as the start of a renewed easing cycle rather than a one-off stimulus effort. Policy support is likely to remain incremental and data-dependent, with authorities calibrating additional counter-cyclical measures based on incoming economic data and the effectiveness of initiatives already announced. Against this backdrop, we maintain our full-year GDP growth forecast at 4.6%.
- On the monetary policy front, we continue to view a reserve requirement ratio (RRR) cut as more likely than a broad-based policy rate reduction. Policymakers appear increasingly inclined to combine liquidity support with targeted structural tools, rather than rely primarily on conventional rate cuts, reflecting a preference to direct credit toward sectors seen as strategically important while limiting broader financial stability risks.
- Elsewhere, the Trump-Xi summit was rich in symbolism but delivered relatively few substantive breakthroughs. Rather than signalling a fundamental improvement in bilateral relations, the meeting appears to have reinforced the emergence of a "G2 interface" - a framework for managing tensions and reducing the risk of escalation, while leaving intact the longer-term strategic competition over technology, economic influence and global rule-setting.

Rates

- While we have revised our developed-market central bank forecasts higher by incorporating one or two additional rate hikes, we continue to view current market pricing as overly hawkish. We now expect the Federal Reserve to deliver a further 25bps increase in the federal funds rate in 4Q2026. Similarly, we expect the Bank of England to raise rates by 25bps by year-end, while the European Central Bank is likely to deliver one 25bps hike in 4Q2026 followed by another in 1Q2027.
- We have also added an additional rate increase to our Bank of Japan profile and now expect 25bps hikes in 4Q2026, 1Q2027 and 2Q2027, which would bring the policy rate to 2.00%. Even so, our projected path for policy rates across the major developed economies remains less aggressive than that currently implied by market pricing.
- Reflecting our revised Fed outlook and the continued resilience of the US economy, we have raised our forecasts for US interest rates across the curve. Stronger growth, persistent inflationary pressures and a higher-for-longer policy backdrop support a higher baseline for Treasury yields than we had previously anticipated.

GDP Growth Rates Forecast

% Change YoY	2025	2026F	2027F
United States	2.1	2.2	2.0
Euro Area	1.4	1.0	1.1
Japan	1.1	0.7	1.0
United Kingdom	1.4	1.0	1.1
Australia	2.0	2.0	1.9
New Zealand	0.2	1.9	2.4
China	5.0	4.6	4.5
Hong Kong	3.6	3.8	2.8
Macau	4.7	4.0	3.3
Taiwan	8.8	12.1	7.5
South Korea	1.1	2.8	2.6
India	7.2	7.8	7.2
Indonesia	5.1	5.2	5.0
Malaysia	5.2	5.2	4.8
Philippines	4.4	3.2	4.6
Singapore	5.0	5.2	3.4
Thailand	2.4	2.3	2.5
Vietnam	8.0	8.2	8.3

Source: Bloomberg, OCBC Group Research, 1 October 2026.

Inflation Rates Forecast

% Change YoY	2025	2026F	2027F
United States	2.7	3.5	2.2
Euro Area	2.1	3.1	2.5
Japan	3.2	2.1	2.0
United Kingdom	3.4	3.1	2.3
Australia	2.8	3.8	2.8
New Zealand	2.8	3.6	2.3
China	0.1	1.1	2.0
Hong Kong	1.4	1.9	2.2
Macau	0.3	1.1	1.1
Taiwan	1.7	2.1	1.9
South Korea	2.1	2.7	2.2
India	4.6	2.0	5.0
Indonesia	1.9	3.0	2.5
Malaysia	1.4	2.0	2.1
Philippines	1.7	5.8	4.5
Singapore	0.9	2.2	2.0
Thailand	-0.1	2.2	1.6
Vietnam	3.3	4.5	4.5

Source: Bloomberg, OCBC Group Research, 1 October 2026.

US Interest Rate Forecasts

	4Q2026	1Q2027	2Q2027	3Q2027	4Q2027
Federal Funds Rate*	4.25	4.25	4.25	4.25	4.00
2Y US Treasury Yield	4.75	4.65	4.50	4.45	4.25
5Y US Treasury Yield	4.85	4.75	4.60	4.55	4.40
10Y US Treasury Yield	5.05	4.95	4.85	4.80	4.70
30Y US Treasury Yield	5.40	5.40	5.30	5.30	5.20

*Upper limit of target range.
Source: OCBC Group Research, 1 October 2026.



EQUITIES

ELI LEE
Managing Director, Chief Investment Strategist,
Bank of Singapore

Equities Remain Supported By Strong Earnings Growth

"Equities remain supported by strong earnings growth, even as rate expectations have shifted from cuts to hikes. As such, the durability of earnings growth will be increasingly important. We are wary of potential near-term volatility, but we continue to see strategic upside in equities."

- History suggests that equities often face headwinds during the early stages of a new Federal Reserve (Fed) tightening cycle and in the lead-up to US midterm elections. Uncertainty surrounding crude oil prices, a key driver of inflation expectations and bond yields, could also contribute to bouts of market volatility. While these factors warrant caution in the near term, they do not alter our constructive long-term view. We continue to believe that the equity bull market has further room to run, supported by resilient economic growth, healthy corporate fundamentals and powerful secular tailwinds.
- Central to our positive outlook is the accelerating adoption of artificial intelligence (AI), which has triggered one of the largest capital expenditure cycles in recent history. The rapid buildout of AI infrastructure is supporting both US and global growth while driving robust earnings expansion. Strong earnings have largely offset the impact of higher bond yields and valuation compression, allowing equities to continue advancing despite the market's shift from expecting rate cuts to pricing in additional tightening.
- Looking ahead, we expect AI investment momentum to remain strong through 2027 as development and adoption continue to accelerate. While some have called for a coordinated slowdown in AI development, we believe a more likely outcome is greater oversight, governance and safety guardrails. Such measures would increase rather than reduce computing requirements, reinforcing demand across the AI ecosystem and supporting the long-term growth outlook for corporate earnings and equity markets.
- Higher interest rates nevertheless warrant monitoring. Although the direct impact on corporate profitability should remain manageable given the prevalence of fixed-rate and long-dated debt, elevated borrowing costs may weigh on more leveraged companies and sectors not directly benefiting from the AI-driven investment cycle. Geopolitical risks and election-related uncertainties could also generate periods of volatility. However, corporate balance sheets remain generally healthy, and profit margins continue to hold above historical averages.
- Against this backdrop, we maintain a moderately constructive stance on equities. We remain Overweight US equities, where the AI-driven earnings story remains most compelling, Neutral on Asia ex-Japan and Japan, and Underweight Europe. Within Asia, we favour China, Hong Kong, Taiwan and Singapore, with Taiwan particularly well positioned

to benefit from its pivotal role in the global AI supply chain.

US – Looking through the rise in yields

- Rising long-end yields could put pressure on equity valuations, particularly P/E multiples. That said, we expect robust US growth prospects to provide a cushion, allowing equities to withstand higher yields before valuation concerns become more pronounced. This resilience is supported by strong AI-related capital expenditure and earnings growth, which continue to underpin our constructive long-term view on the equity bull market.
- Encouragingly, earnings growth is also becoming more broad-based. Beyond the largest technology names, the median stock in the Russell 3000 Index has shown improving earnings-per-share (EPS) growth over recent quarters. This broadening of earnings participation should help create a more durable foundation for further equity market gains.
- While history suggests that US equities often face headwinds during the midterm election season, markets have typically staged a relief rally in the months following the elections, regardless of whether single-party control of the White House and Congress is maintained. As election-related uncertainty fades, we expect volatility to moderate, allowing investors to refocus on corporate fundamentals. Taken together with the improving earnings backdrop, this keeps us constructive on US equities.

Europe – Caution warranted but allocation justified

- With interest rates remaining elevated and political uncertainty rising, European equities are likely to remain range-bound or face near-term pressure in the absence of a meaningful positive catalyst, such as a de-escalation of tensions in the Middle East. Historical analysis suggests that, since the onset of the latest Middle East conflict, a 10bp increase in the 10-year US Treasury yield has been associated with roughly a 1.0% decline in the STOXX 600 Index, while a similar rise in German Bund yields has corresponded to an approximately 1.2% fall. Real Estate and Consumer-related sectors appear particularly vulnerable, exhibiting sensitivities around 1.5 times that of the broader market.
- Despite these headwinds, European equities retain several attractive qualities. The region could benefit from any market rotation away from AI-related beneficiaries, given the more diversified composition of European benchmarks, which offer meaningful exposure to Financials, Industrials, Materials and Consumer Staples. Investors also have access to a range of high-quality global champions with substantial revenue exposure outside Europe, helping to diversify earnings sources. In addition, the relatively attractive dividend yields available across European markets can provide an important buffer during periods of heightened volatility.
- As such, we continue to view European equities as an important component of a diversified portfolio. Looking ahead, however, investors should remain mindful of Europe's unusually busy 2027 electoral calendar, which could concentrate political risks and contribute to periods of market uncertainty.

Japan – Macro events dominance lingers on

- Japanese equities traded broadly sideways over the past month, with Communication Services, Energy and Financials outperforming, while Consumer and Materials stocks lagged. Value stocks outperformed Growth as investors positioned for a backdrop of higher oil prices, rising interest

rates and currency volatility.

- As widely expected, the Bank of Japan (BOJ) raised its policy rate by 25bp to 1.25%. Market pricing currently implies around a 70% probability of a further rate hike in December, reinforcing expectations of continued policy normalisation.
- Banks remain among the clearest beneficiaries of this normalisation cycle, supported by improving net interest margins and solid loan growth, although investor positioning has become increasingly crowded. Conversely, interest rate-sensitive sectors such as real estate and construction, as well as highly leveraged companies, could face headwinds from higher financing costs.
- Domestic consumption, however, may receive a boost from the planned reduction in the consumption tax on food and beverages from 8% to 1%, effective April 2027. Beyond the near-term macro backdrop, we continue to favour structural investment themes, including opportunities linked to the 17 strategic industries identified by the Takaichi administration. As the earnings season approaches, we expect investor focus to gradually shift from macroeconomic developments towards corporate earnings growth and company-specific fundamentals, providing the key catalyst for Japanese equities through the remainder of October.

Asia ex-Japan – Navigating elevated oil prices and US yields

- Investors are increasingly focused on the implications of higher US bond yields, alongside persistently elevated energy prices. In this environment, China's onshore equity market appears relatively well positioned within the region, supported by its lower dependence on oil, the relative insulation of A-share markets from foreign capital flows, and the more limited impact of higher fuel prices on consumers due to strong electric vehicle adoption and regulated fuel price pass-through mechanisms.
- By contrast, while valuations across ASEAN markets remain broadly attractive, the investment backdrop is becoming more challenging as external balances come under pressure in some economies. Within Asia ex-Japan, we continue to favour China, Hong Kong, Taiwan and Singapore equities, where we see comparatively stronger fundamentals and more compelling risk-reward opportunities.

Singapore – Defensive edge

- We maintain our Overweight stance on Singapore equities, supported by their defensive characteristics, the strength of the Singapore dollar, and ongoing efforts to enhance the attractiveness of the local equity market. While valuations for the Straits Times Index (STI) are no longer particularly cheap, the market continues to offer relative appeal from an income perspective. Although the STI's 12-month forward dividend yield has compressed to below its 10-year historical average, it remains attractive compared with many major global equity indices.
- We continue to view Singapore banks as core holdings for domestic investors. They remain well positioned to benefit from a higher-for-longer interest rate environment, while their defensive qualities and strong fundamentals should continue to attract foreign capital seeking relative stability amid heightened global uncertainty.
- While valuations across the S-REIT sector remain undemanding, a sustained re-rating is likely to require a clearer shift in the interest rate outlook. In the meantime, investors should remain selective, focusing on S-REITs with the ability to deliver sustainable growth in core distribution per unit while maintaining prudent balance sheet management and financial discipline.

Global Sectors –Sectors and styles in a rising rate environment

- A rising interest rate environment is likely to have varied implications across sectors. Financials are typically among the primary beneficiaries, although the extent of the benefit for banks will depend on whether the yield curve steepens or flattens and the resulting impact on net interest margins. Cash-rich companies may also be relatively resilient, as higher rates enhance returns on surplus liquidity. Conversely, rate-sensitive sectors such as Real Estate and parts of the Consumer space may face headwinds from higher financing costs and softer demand. Highly leveraged companies with weaker balance sheets could come under greater pressure, while speculative growth stocks with long-duration cash flows are also likely to see valuation multiples challenged.
- From an investment style perspective, a gradual and shallow rate-hiking cycle continues to support our preference for Quality Growth. However, should rate increases become broader and more aggressive, the case for rotating towards Low Volatility strategies would strengthen. Rather than pursuing the highest-yielding stocks, we favour companies that offer a combination of sustainable dividends, earnings growth and resilient cash flow generation.
- Importantly, investor yield should not be viewed solely through the lens of dividends. Companies with strong balance sheets may also return capital through share buybacks and special dividends, making total shareholder yield a more comprehensive measure of value. In a higher-rate environment, businesses with strong pricing power, robust free cash flow and limited refinancing needs are likely to be best positioned, as they are better able to protect margins, maintain financial flexibility and self-fund future growth.

AI safety concerns in the spotlight

- Concerns have emerged over the outlook for AI compute demand following calls from leading AI laboratories and international organisations for a more measured, safety-first approach to AI deployment. Nevertheless, we remain constructive on the long-term demand outlook for AI infrastructure and compute capacity.
- First, any voluntary slowdown by a small number of frontier AI developers is unlikely to be sustained in the face of intense competitive pressures, particularly from open- source models and alternative developers that may continue to advance at a rapid pace. Second, the emergence of recursive self-improvement (RSI), whereby AI systems are increasingly able to enhance their own capabilities, has the potential to unlock entirely new addressable markets over the coming years, much as advances in coding assistants and agentic AI workflows have expanded use cases over the past 18 months.
- Third, the continued decline in token and inference costs is accelerating the development and adoption of AI-powered applications. Lower costs improve accessibility, broaden the range of commercially viable use cases and ultimately drive greater demand for AI services. Importantly, falling token costs do not necessarily threaten the economics of leading AI developers, as improving efficiency can support both adoption and profitability.
- Taken together, these factors reinforce our view that demand for AI compute capacity is likely to remain robust over a multi-year horizon. That said, regulatory developments remain a key risk to monitor. More stringent oversight of AI model development, deployment or training requirements could have a meaningful impact on the pace of innovation and, in turn, future demand for AI infrastructure and compute resources.

HONG KONG / CHINA MARKET OUTLOOK

ELI LEE
Managing Director, Chief Investment Strategist,
Bank of Singapore

Looking Past The US-China Presidential Summit

"China's onshore A-share market outperformed Hong Kong and offshore China equities over the past month, reflecting its lower sensitivity to rising US long-term yields and reduced exposure to foreign capital flows."

- China's onshore A-share market outperformed Hong Kong and offshore China equities over the past month, reflecting its lower sensitivity to rising US long-term yields and reduced exposure to foreign capital flows. Performance across sectors was notably polarised, with innovative growth segments such as Healthcare and Information Technology outperforming alongside yield-supported value sectors including Financials and Utilities.
- Historical experience from the previous two US rate-hiking cycles suggests that higher US interest rates can create headwinds for Hong Kong and offshore China equities through tighter financial conditions and valuation pressures. However, their market performance has ultimately been driven more by domestic fundamentals, including the strength of economic growth, policy developments such as stimulus measures or regulatory tightening, and geopolitical factors, particularly developments in US-China relations.
- While rising US yields remain an important consideration for investors, we believe the outlook for China and Hong Kong equities will continue to be shaped primarily by the trajectory of economic activity, policy support and corporate earnings, rather than by US interest rates alone. This underscores the importance of focusing on underlying fundamentals amid an evolving external environment.
- Market expectations surrounding President Xi's state visit to the US were relatively subdued, with investors largely anticipating that the existing trade truce would remain intact and broader stability in bilateral relations would be maintained. As a result, we expect markets to look beyond the Presidential Summit and remain focused on underlying economic and corporate fundamentals.
- In Hong Kong, ongoing policy efforts to strengthen the city's position as a leading offshore RMB hub and support the internationalisation of the renminbi should provide a structural tailwind for the financial sector. Banks with strong RMB franchises are particularly well placed to benefit from expanding cross-border RMB activity, while exchanges and brokerage firms could also gain from deeper capital market connectivity and increased offshore RMB-related business flows.

BONDS

ELI LEE
Managing Director, Chief Investment Strategist,
Bank of Singapore

Capturing Carry In A Higher-For-Longer World

"We remain Neutral on overall portfolio duration but currently favour positioning closer to a three- to five-year range, while preserving dry powder to selectively add duration should valuations become more compelling."

- We continue to expect interest rates to remain higher for longer and maintain a cautious stance on fixed income. While the scope for bond price appreciation appears relatively limited, elevated yields have significantly enhanced carry opportunities and improved forward return potential across fixed income markets.
- Credit markets are likely to remain shaped by rates volatility, persistent bond supply pressures, and increasing dispersion across issuers, which could lead to modest spread widening in the near term. Although the risk of further yield volatility remains elevated, higher US Treasury yields have created more attractive income opportunities for investors seeking yield.
- Against this backdrop, we maintain a modest Underweight position in fixed income and remain Neutral on overall portfolio duration. Within duration, we favour positioning in the 3–5-year segment of the curve while retaining flexibility to selectively add duration should valuations become more compelling. Across credit markets, we continue to prefer Developed Markets (DM) Investment Grade (IG) bonds over High Yield (HY), while in Emerging Markets (EM) we remain Neutral on corporate credit and Underweight on sovereign debt.

Rates and US Treasuries

- The recent rise in US Treasury yields reinforces the importance of disciplined duration management. While current yield levels appear increasingly attractive, history suggests that interest rates can continue to move higher even after the Federal Reserve delivers its first rate hike. Yield curves have typically continued to flatten, with 10-year Treasury yields often peaking only two to three months later.
- Against this backdrop, we believe it remains premature to extend portfolio duration aggressively. Nevertheless, longer-dated US Treasuries continue to play a valuable role as portfolio diversifiers and potential hedges against a growth slowdown or a decline in yields. Given their heightened sensitivity to interest rate movements, however, duration exposure should be added selectively and opportunistically rather than through a broad-based extension at current levels.
- In a higher-for-longer interest rate environment, investors can continue to capture attractive carry through shorter-dated fixed income and credit exposures without assuming excessive duration risk. This approach also preserves flexibility to extend duration at more compelling entry points should yields overshoot or the outlook for Federal Reserve policy become clearer. As a result, portfolios can remain invested, generate income and retain optionality while awaiting greater clarity on the path of inflation, growth and interest rates.

Developed Markets

- DM corporate credit delivered negative returns in September as rising government bond yields and continued supply pressures weighed on performance.

Japanese and Australian credits proved relatively resilient, returning -1.7% and -1.8% respectively, outperforming both US (-2.5%) and European (-2.0%) markets.

- We remain constructive on Japanese credit as the economy continues its transition from deflation to reflation. Corporate fundamentals remain broadly resilient, supported by a large base of highly rated financial institutions, particularly banks and insurers, which provide diversification and attractive income opportunities. While increased bond issuance is expanding the investment opportunity set, heavier supply may periodically pressure spreads, reinforcing the importance of careful security selection and disciplined entry points.
- In the US, IG credit spreads widened modestly during September, although headline moves masked meaningful divergence beneath the surface. Cyclical sectors such as automotive, leisure and media underperformed amid increased issuance and a less supportive market backdrop, while more defensive sectors, including consumer products and healthcare, demonstrated greater resilience and outperformed.
- US HY bonds fared no better despite their shorter duration profile. Wider credit spreads, heavy issuance and broader risk aversion resulted in losses comparable to the IG market, making September the weakest month for the asset class since September 2022. Yield-to-worst rose to its highest level since April 2025 as higher US Treasury yields and wider spreads improved income levels across the market. Within HY, higher-quality "B"- and "BB"-rated bonds outperformed the lower-quality "CCC" segment, reflecting investors' preference for quality amid a more uncertain environment.
- As market dispersion continues to increase across regions, sectors and issuers, active management and rigorous credit selection are likely to play an increasingly important role in generating returns. We continue to favour high-quality credit exposures and believe investors should remain selective, focusing on issuers with resilient fundamentals and attractive risk-adjusted income opportunities.

Emerging Market Corporates

- EM corporate bonds outperformed both DM corporate credit and EM sovereign debt in September, demonstrating greater resilience amid rising yields and volatile market conditions. Although EM corporate spreads offer a smaller cushion relative to some other credit segments, the asset class generally remains less sensitive to higher interest rates, albeit with meaningful differences across sectors and regions.
- We continue to see merit in maintaining selective exposure to high-quality EM corporate bonds, given their diversification benefits and attractive long-term income potential. That said, investors should remain mindful of external risks. Any broad-based spread widening in US credit markets could spill over into EM credit through technical and sentiment channels, creating periods of volatility. In this environment, careful security selection remains critical, with a preference for issuers supported by strong fundamentals and resilient balance sheets.

Asia

- Asian credit markets were not immune to the headwinds from rising global yields, generating negative total returns in September. However, the asset class remained relatively resilient and outperformed broader EM peers, supported by its lower duration profile and more stable credit spreads.
- We maintain a Neutral stance on Asian corporates, underpinned by

several structural strengths. Compared with many other EM credit markets, Asian issuers generally benefit from ample domestic liquidity, diversified funding sources and better access to local capital markets, which help cushion the impact of external shocks. Against a backdrop of stable corporate fundamentals, we expect carry to remain the primary driver of returns.

- In China, policymakers stepped up efforts to support growth through a range of targeted fiscal and monetary measures announced on 29 September. These included a 25bps cut in the Pledged Supplementary Lending (PSL) rate, expanded support for infrastructure-related "Six Networks" projects, larger relending quotas, and mortgage interest subsidies for eligible first-home buyers. The measures reinforce policymakers' commitment to stabilising economic activity and restoring confidence, although their ultimate effectiveness will depend on the pace and scale of implementation.
- The mortgage subsidy programme should provide some near-term support to housing demand, particularly in lower-tier cities. However, we expect the broader impact on economic growth and property prices to be more modest, given the scheme's relatively tight eligibility requirements and the continued overhang from elevated housing inventories. As such, while the latest easing measures should help stabilise conditions, they are unlikely to mark a decisive turning point for the property sector in the near term.

Emerging Market Sovereigns

- Hard-currency Emerging Market (EM) sovereign bonds came under pressure in September, with higher US Treasury yields more than offsetting the benefit of carry. Performance was weakest among longer-duration sovereign bonds, highlighting the market's sensitivity to rising global rates, while credit spreads widened only modestly during the month. IG sovereigns outperformed their HY counterparts as investors became increasingly selective amid rising funding costs and refinancing risks, leading lower-rated issuers to lag.
- Central bank responses across EM have become increasingly differentiated as policymakers balance domestic economic conditions against a challenging global backdrop. Brazil continued its easing cycle, South Africa tightened monetary policy further, while Türkiye and Indonesia kept policy rates unchanged. For investors in US Dollar (USD)-denominated sovereign debt, the key consideration is not merely the direction of interest rates, but how policy decisions influence inflation credibility, external balances and future sovereign financing requirements.
- While higher all-in yields have improved the income appeal of EM sovereign bonds, September underscored that elevated starting yields provide only limited protection during periods of sharp US Treasury market sell-offs. Against this backdrop, we continue to favour short-to-intermediate maturities, where the balance between yield and interest-rate risk remains more attractive. We also maintain a preference for countries with manageable external financing needs, credible fiscal frameworks and adequate liquidity buffers.
- Within the USD HY sovereign universe, we remain selective and favour issuers with a clear and credible funding path rather than those relying primarily on further spread compression to drive returns. This leads us to prefer higher-quality HY sovereigns, particularly those rated BB- and above, where fundamentals appear better positioned to withstand a higher-for-longer rates environment.



FX & COMMODITIES

CHRISTOPHER WONG
Executive Director, OCBC Group Research

Constructive Medium-Term View On Gold

"We maintain a constructive medium-term view on gold but expect near-term performance to remain sensitive to the interest rates and the US Dollar backdrop. "

Oil

- We continue to expect oil prices to ease as Middle East export flows recover. Saudi Arabia's East-West pipeline has restarted, and tankers are still moving through the Strait of Hormuz despite ongoing security concerns. However, the decline is likely to be gradual and volatile as the endgame of the US-Iran conflict remains uncertain. Saudi supply flows are improving, but full restoration of pipeline capacity will take time. We therefore raise our end-2026 Brent forecast to US$85/barrel from US$80/barrel.
- Washington continues to tighten sanctions on Iran, while Tehran has threatened further retaliation and it has set conditions for any reopening of Hormuz. Shipping activity remains subdued, and a growing share of cargoes is being transported by vessels operating with restricted or disabled tracking systems. This makes it harder to assess the true extent of supply disruptions. Rising dark fleet activity reflects the market's adaptation to persistent geopolitical risk rather than improving security.
- Inventory drawdowns have helped offset supply disruptions and cap gains in crude prices. However, this cushion is shrinking as stockpiles decline, leaving the market more exposed to fresh shocks.
- Refined product markets remain particularly tight. Disruptions to Middle Eastern and Russian refining capacity have constrained supply, while China's spare refining capacity remains largely unavailable due to export restrictions. Diesel prices are therefore likely to stay elevated, reinforcing energy-driven inflation pressures and raising the risk of policy measures aimed at protecting domestic fuel supplies in the US.

Precious metals

Gold

- Gold came under renewed pressure in September as the macro backdrop turned less supportive. The Fed raised rates by 25bps and retained a tightening bias, while higher oil prices added to inflation concerns and contributed to elevated Treasury yields. Together with a firmer USD, this has kept the opportunity-cost backdrop challenging for gold.
- Investment demand has nevertheless remained relatively resilient. Bloomberg-tracked gold ETF holdings continued to rise even as prices traded broadly sideways-to-lower, while managed-money positioning and demand for upside options eased from earlier highs. This suggests that longer-term investment demand has held up even as tactical positioning has become less stretched.
- In the near term, catalysts for a sustained recovery remain limited while yields, oil and the US Dollar (USD) stay firm. A softer run of US activity or inflation data, together with some moderation in energy prices and long-end yields,

would create a more supportive backdrop. Seasonal demand from India may also provide some support as the festive and wedding season approaches, although elevated prices could limit the extent of the pickup.

- We therefore maintain a constructive medium-term view on gold but expect near-term performance to remain sensitive to the rates and the USD backdrop. Resilient ETF demand and continued official-sector buying should help provide support on corrections, while a clearer improvement in macro conditions would be needed for a more durable move higher.

Silver

- Silver also came under pressure in September as higher yields and a firmer USD dampened sentiment. The move was more pronounced than in gold, consistent with silver's higher beta and greater sensitivity to the industrial cycle.
- Investment signals remain mixed. ETF holdings have been softer compared to gold, while positioning remains relatively light, leaving room for participation to rebuild if the macro backdrop improves.
- Near term, silver is likely to remain sensitive to shifts in yields, the USD and global growth expectations. A softer US data backdrop and some easing in yields would be supportive, while signs of firmer industrial activity, particularly from China, would provide an additional catalyst. Seasonal demand from India may also offer some support into the festive and wedding period, particularly for bars and coins, although elevated prices could limit the pickup in jewellery and silverware demand. Conversely, a renewed rise in yields or continued USD strength would likely weigh more heavily on silver than on gold.
- We retain a constructive medium-term view but expect a more uneven path than for gold. Silver's lighter positioning leaves room for a stronger recovery if the macro backdrop improves, although a more sustained move higher would benefit from renewed ETF inflows and clearer support from industrial demand.

Currency

US Dollar (USD)

- The US Dollar (USD) has strengthened as rising energy prices, resilient US growth and sticky inflation reinforce a hawkish Fed outlook. Our base case remains for a moderate USD rally into year-end. Markets are currently pricing almost four Fed rate hikes over the next year, which appears overly aggressive unless demand- driven inflation re-emerges as the dominant force behind price pressures. Wage growth and rental inflation will be critical indicators to watch. Our constructive USD view is also tempered by two factors: ongoing gradual appreciation of the CNY (Renminbi traded within mainland China i.e. onshore) and improving prospects for JPY strength as Japan's policy backdrop becomes more supportive.

Japanese Yen (JPY)

- The Japanese Yen (JPY) remains one of the world's most undervalued currencies, but cheap valuations have not prevented prolonged weakness. While intervention should curb disorderly depreciation, a lasting recovery will likely require domestic policy support. That support is starting to emerge. The BOJ appears more committed to policy normalisation, gradually narrowing the gap with other major central banks. While it is

unlikely to out-hawk the Fed anytime soon, the policy direction is becoming increasingly JPY-supportive. A stronger JPY story also hinges on capital flows. Japanese institutional investors, led by GPIF, remain heavily invested overseas. Any meaningful shift back into domestic assets could provide a powerful boost to the currency. Against this backdrop, we raise our JPY outlook, lowering our USDJPY forecasts to 155 by end-2026 and 150 by end-2027.

Asia ex-Japan Currencies (AXJ FX)

- Asia ex-Japan currencies (AXJ FX) weakened into September-end as the external backdrop turned less favourable. Higher oil prices, firmer US Treasury yields and renewed expectations for further Fed tightening lent support to the USD and weighed on regional currencies. But the pressure was far from uniform. Oil- and yield-sensitive currencies saw larger moves, while those backed by firmer domestic fundamentals, stronger external balances, corporate flows or clearer policy support proved more resilient. In October, the direction of oil and US yields remains important. A moderation in either would offer some relief to AXJ, while another leg higher would likely keep relative performance differentiated.

Renminbi (RMB)

- The Renminbi (RMB) remained relatively resilient, with the daily official fixing continuing to provide an important policy signal. After a period of broadly stable guidance, the PBOC had increasingly leaned towards stronger fixes, reinforcing a preference for RMB stability and a measured pace of appreciation. More recently, that trend has become less one-way, suggesting policymakers are still pursuing a measured pace of appreciation rather than encouraging a sharper move. Near term, liquidity may also be thin around the China holidays, which could exaggerate price action.

Singapore Dollar (SGD)

- The Singapore Dollar (SGD) dipped slightly for the month of September but held up steady on relative terms. The latest inflation data suggest underlying price pressures remain sufficiently firm, and we are looking for a slight increase in the S$NEER (S$ Nominal Effective Exchange Rate Index) slope at the October Monetary Policy Committee (MPC) meeting, broadly similar in magnitude to July's move. The currency should continue to take its cue from moves in the US currency and rates, and the RMB, while the prospect of further MAS tightening should help keep the SGD relatively resilient against some of the higher-beta AXJ currencies.

Malaysian Ringgit (MYR)

- The Malaysian Ringgit (MYR) weakened alongside higher global yields and softer regional sentiment, while the earlier sell-off in Malaysian Government Securities also added to pressure on the currency. Domestic macro conditions remain supportive, but attention is increasingly turning towards Budget 2027, the pace of fiscal consolidation and some political noise. For now, we see the recent weakness as more reflective of external and event risks rather than a material change in Malaysia's underlying fundamentals.

Indonesian Rupiah (IDR)

- The Indonesian Rupiah (IDR) remained more exposed to shifts in external conditions, in particular

the rise in oil and US Treasury yields. Bank Indonesia has kept its focus firmly on currency stability, including greater use of NDF/DNDF (Non-Deliverable Forwards/ Domestic Non-Deliverable Forwards) tools and new hedging incentives aimed at supporting foreign participation in IDR assets. These measures can help smoothen volatility, but a more sustained improvement would still require softer US Treasury yields and foreign inflows.

Forecast table for Oil Prices

USD/barrel	Dec 2026	Mar 2027	Jun 2027	Sep 2027	Dec 2027
Brent	85	83	81	78	75
WTI	81	79	77	74	71

Source: OCBC Group Research; the figures are end-period prices

Forecast table for Precious Metals Prices

USD/ounce	Dec 2026	Mar 2027	Jun 2027	Sep 2027	Dec 2027
Gold	4,600	4,720	4,850	4,960	5,050
Silver	70	72	73	75	78

Source: OCBC Group Research; the figures are end-period prices

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