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Changing Tides

Rate Cut Expectations Pushed Back



Monthly Outlook

by OCBC Wealth Panel

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

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ABOUT THE OCBC WEALTH PANEL



The OCBC Wealth Panel draws on the collective expertise and experience of wealth management experts from the OCBC Group, namely OCBC Bank, OCBC Investment Research, Lion Global Investors and Bank of Singapore. With over 200 years of collective investment experience, the OCBC Wealth Panel is dedicated to provide timely advisory services to grow, manage and protect your wealth.



Changing Tides

In February, investors sold off software companies and selected artificial intelligence (AI) plays, in favour of traditional, hard asset sectors like industrials, materials and utilities in a bid to step up diversification and take advantage of the potential broadening in earnings beyond the Magnificent Seven in 2026. The long-awaited judgement by the US Supreme Court on the legality of President Trump's tariffs enacted under the International Emergency Economic Powers Act (IEEPA) ruled against the president and voided most of the reciprocal and fentanyl-related tariffs, who swiftly replaced them with a new 15% temporary global surcharge. We anticipate some headwinds to growth to result from the renewed tariff uncertainty.

The evolving situation following the US-Israel strike on Iran on 28 February generated a much bigger reaction across risk assets and a notable spike in oil prices. With the death of top Iranian leaders and an explicit aim of regime change by President Trump, the escalation in conflict and retaliation by Iran is expected to keep pressures on markets for some time. Gold and other safe havens like CHF, JPY, USD and US Treasuries (UST) are expected to see strong demand from the flight to safety.

We expect volatility and risk-off sentiments to persist during periods of elevated geopolitical fears, but history has shown that barring a major oil shock, geopolitical events do not typically impact equity markets on a prolonged basis. We continue to expect headwinds to the USD over the medium term given elevated US deficits and volatile policy regime, which is supportive of international equities. We hold a quality bias in fixed income and remain neutral on duration given elevated uncertainty surrounding longer-end rates. In Developed Markets (DM), we prefer Investment Grade (IG) over High Yield (HY). Within Emerging Markets (EM), we prefer Latin America (Latam) on relatively attractive valuations and the potential election of more market-friendly leaders in certain countries facing elections ahead.



GLOBAL OUTLOOK

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Chief Economist & Head, OCBC Group Research

Rate Cut Expectations Pushed Back

“With the US labour market not cooling more rapidly and as inflation remains above the Fed’s target, the US central bank is likely to be in a wait-and-see mode. The latest FOMC minutes continued to point to division among policy makers. We have pushed our expectation for the next Fed funds rate cut from March to June.”

- The situation in the Middle East remains highly fluid, with ongoing conflict in Iran, uncertainty surrounding the succession process following the reported death of Supreme Leader Ayatollah Ali Khamenei and increasing caution around the Straits of Hormuz - a key chokepoint for global energy and trade flows. These developments have heightened geopolitical risk premiums and driven a flight to quality. The key question now is whether this conflict proves temporary or becomes more prolonged.
 - Historically, the economic impact of Middle East conflicts tends to be sharp and front-loaded. The 1973 Yom Kippur War, which lasted roughly three weeks, triggered a major oil crisis after Arab members of OPEC imposed an embargo on the United States. The 1979 Iranian Revolution and the subsequent Iran–Iraq War from 1980 onward led to sustained production losses. In contrast, supply fears during the 1990 Gulf War eased relatively quickly, as was the case during the 2003 Iraq War and the 2019 Saudi Aramco attack.
 - Several factors will shape how the current Middle East situation plays out. The key considerations are whether physical supply is truly disrupted - given that the Strait of Hormuz handles about 20% of global crude oil trade, whether major producers like Saudi Arabia and the UAE have enough spare capacity to cushion any shortfall, the broader global demand environment [since weak economic growth tends to make price spikes fade more quickly], and the likelihood of a coordinated release of strategic oil reserves to ease short-term supply pressures.
- United States**
- The US economy is projected to grow by about 2.2% in 2026, like last year’s pace. Historically, the labour market differential has moved closely with the unemployment rate. Since the differential has only recovered modestly, it suggests no major weakening in overall labour conditions in the near term.
 - As a result, expectations for interest-rate cuts have been pushed back. Futures markets now expect the first Federal Reserve rate cut in July. We now anticipate the first cut in June instead of March, indicating that the Fed now needs a higher level of evidence before easing policy.
 - On trade, the US Supreme Court’s decision to reject President Trump’s tariff plan under the IEEPA has shifted the administration’s approach. In response, the US began implementing a temporary 10% global import tariff under Section 122 on 24 February, with officials indicating it could rise to 15%. Although the court ruling changes the legal basis for tariffs,

the effective tariff rate is expected to be lower than what would have been imposed under the original IEEPA proposal.

- In our view, this lower tariff impact could limit near-term downside risks to global trade, even though trade-policy uncertainty remains high.
- Elsewhere, the delayed January US inflation data came in slightly stronger than expected, reinforcing the view that progress toward the Fed's 2% target is likely to be uneven. Headline PCE rose 0.43% MoM, while core PCE increased 0.36%, marking a notable pickup from the 0.2% pace recorded in November. On a YoY basis, core PCE held at 3.0%, underscoring that inflation remains meaningfully above the Fed's comfort zone and that disinflation may proceed more slowly than markets anticipated at the start of the year.
- On the labour front, conditions remained broadly resilient. The unemployment rate fell marginally to 4.3% in January from 4.4% previously. Consumer sentiment also improved: the Conference Board's consumer confidence index rose to 91.2 in February, with January revised up sharply to 89.0 from an initial 84.5.

- That said, the underlying details suggest a more nuanced backdrop. The share of respondents indicating jobs were "hard to get" climbed to 20.6%, the highest since February 2021, even as the proportion viewing jobs as "plentiful" also increased to 28.0%. This pushed the labour market differential modestly higher to 7.4%. Taken together, these indicators continue to point to a K-shaped economic environment- one where pockets of strength coexist with emerging softness across sectors and income segments.
- From a policy perspective, outgoing Atlanta Fed President Raphael Bostic highlighted that potential labour market disruptions from AI adoption may structurally raise unemployment in ways that cannot be fully offset by lower interest rates. Several other Fed officials echoed a similar view, reinforcing that the Fed sees no urgency to adjust policy in the near term. With inflation still elevated and employment conditions generally steady, policymakers appear inclined to remain patient.
- In essence, the latest data supports a gradual and uneven path toward lower inflation. While

the economy continues to show areas of resilience, mixed labour signals and ongoing structural shifts point to a more complex backdrop. Against this environment, we expect the Fed to maintain a cautious stance and avoid rushing into policy changes.

Euro-Area

- We maintain our 2026 GDP growth forecast for Germany at 1.1%, compared with 1.5% in 2025. Medium-term fiscal spending plans should continue to support domestic demand. The European Parliament also noted, following the recent US Supreme Court decision, that "the situation is now more uncertain than ever" and that a "key instrument" used in negotiations with the US "is no longer available."
- Despite this uncertainty, growth in 2025 proved resilient and headline inflation remained within the ECB's 2% target range. We continue to expect the ECB to keep rates on hold throughout 2026.
- The second estimate of Euro Area GDP growth for 4Q2025 was unchanged at 1.3% YoY and 0.3% QoQ [seasonally adjusted]. Growth was supported mainly by Germany [0.3% QoQ, up from

0.0% in 3Q25), Spain (0.8%, up from 0.6%), and Cyprus (1.4%, up from 0.9%).

- Employment increased by 0.2% QoQ in 4Q25 and 0.7% for the full year, highlighting continued labour-market resilience. Inflation pressures also remain contained, with headline and core inflation steady at 1.7% YoY and 2.2%, respectively, in January.
- Survey indicators for 1Q2026 suggest that growth momentum has continued. The ECB kept its policy rate unchanged at 2.00%, with President Lagarde reiterating that the ECB will “follow a data-dependent and meeting-by-meeting approach” when determining its policy stance.

Japan

- The economy ended 2025 on a softer note. Real GDP grew just 0.1% QoQ (seasonally adjusted) in 4Q25, falling short of the consensus forecast of 0.4% and underscoring the fragility of domestic demand. Still, the full-year picture was more positive: the economy expanded 1.1% in 2025, recovering from a 0.2% contraction in 2024.
- Japan enters 2026 with greater political clarity but lingering macroeconomic uncertainty. Equity

markets have rallied on expectations of fiscal stimulus and structural reform. Meanwhile, inflation data has complicated the outlook. Tokyo CPI eased to 1.8% YoY in February, dipping below the BOJ’s 2% target for the first time in over a year. However, the slowdown was driven mainly by government utility subsidies rather than a broad softening in underlying price pressures.

- The political landscape shifted significantly in February. Prime Minister Sanae Takaichi secured a historic election victory, becoming Japan’s first female prime minister and winning a strong postwar mandate. Her decisive win gives her room to advance a conservative agenda centred on increased fiscal spending, defence modernisation, and deeper strategic alignment with the United States.
- Markets viewed the result as supportive of growth and stability. The Nikkei 225 jumped more than 10% in February, buoyed by expectations of fiscal support and reform. Japanese government bond yields fell sharply across the curve. PM Takaichi has pledged “active but responsible” fiscal management while committing to

reduce Japan’s debt-to-GDP ratio over time.

- On the currency front, the yen stayed weak. The policy outlook has become more complicated following the nomination of two academics - Ayano Sato and Toichiro Asada, both widely seen as dovish - to the BOJ’s policy board.

China

- China’s GDP growth eased to 4.5% YoY in 4Q2025, down from 4.8% YoY in 3Q2025, broadly in line with market expectations. For the full year 2025, the economy grew 5.0% YoY, meeting the government’s target of “around 5%.” Looking ahead to 2026, China may set its national growth target in the 4.5%–5.0% range. Compared with 2025, around 12 provinces have maintained their growth targets, while 18 provinces have either lowered their targets or shifted from specific numbers to target ranges. On aggregate, the weighted average of provincial GDP targets for 2026 is estimated at 5.0%–5.1%, slightly below the 2025 average of 5.3%, reinforcing expectations of a softer national goal next year.
- In January, both the manufacturing

and non-manufacturing PMIs slipped back below the 50-point expansion–contraction threshold, indicating that demand momentum remains fragile and firms are still cautious about expanding capacity.

- On the property front, Shanghai's Pudong New Area, Jing'an District, and Xuhui District have announced plans to acquire resale residential

units for conversion into government-subsidised rental housing. Previously, such acquisitions focused mainly on unsold newly built units. The updated approach places greater emphasis on older, smaller apartments in core districts. Converting these high-yielding rental units into subsidized housing

helps unclog the upgrade chain for homebuyers while meeting rising rental demand associated with the continued urbanization of permanent residents.

- More importantly, the policy sends an early signal that price floors for older, smaller units in core urban areas may be starting to form.

GDP Growth Rates

% Change YoY	2025F	2026F	2027F
United States	2.2*	2.2	2.0
Euro Area	1.5*	1.1	1.1
Japan	1.1*	0.8	1.0
United Kingdom	1.4*	1.4	1.7
Australia	1.9**	2.2	2.2
New Zealand	0.4**	2.4	2.6
China	5.0	4.7	4.5
Hong Kong	3.5	2.6	2.5
Macau	4.7	3.0	3.0
Taiwan	8.7	5.8	3.5
South Korea	1.0	2.0	2.0
India	7.1	7.5	6.4
Indonesia	5.1	5.0	5.0
Malaysia	5.2	4.4	4.2
Philippines	4.4	5.5	5.5
Singapore	5.0	3.0	2.5
Thailand	2.4	2.0	2.0
Vietnam	8.0	7.5	8.0

Source: OCBC Group Research

Inflation Rates

% Change YoY	2025F	2026F	2027F
United States	2.7	2.9	2.4
Euro Area	2.1	1.8	2.0
Japan	3.2	2.5	2.2
United Kingdom	3.4	2.5	2.0
Australia	2.8	3.3	2.7
New Zealand	2.8	2.3	2.1
China	0.1	1.8	2.0
Hong Kong	1.4	1.6	1.9
Macau	0.3	0.6	0.9
Taiwan	1.7	1.7	1.9
South Korea	2.1	2.0	2.0
India	4.6	1.7	3.5
Indonesia	1.9	2.7	2.5
Malaysia	1.4	1.5	2.0
Philippines	1.7	2.5	3.0
Singapore	0.9	1.3	1.6
Thailand	-0.1	0.6	1.0
Vietnam	3.3	3.7	4.0

Source: OCBC Group Research

US interest rate forecasts

	1Q2026	2Q2026	3Q2026	4Q2026	1Q2027
Federal Funds Rate*	3.75	3.50	3.50	3.50	3.50
2Y US Treasury Yield	3.55	3.50	3.50	3.50	3.50
5Y US Treasury Yield	3.65	3.65	3.65	3.65	3.65
10Y US Treasury Yield	4.05	4.00	3.95	3.95	3.95
30Y US Treasury Yield	4.80	4.75	4.75	4.70	4.70

* Upper Limit of Target Range

Source: OCBC Group Research



EQUITIES

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Managing Director, Investment Strategy, OCBC

Moving To Neutral on Asia Ex-Japan

“As part of our ongoing risk-management approach given developments in the Middle East, we are adjusting our view on Asia ex-Japan equities from Overweight to Neutral. This is a measured move, not a negative call on the region. Consequently, our overall global equity exposure also moves to Neutral.”

- Global equities have entered a more complex phase, with the conflict in the Middle East and rising concerns about an emerging “AI bipolarity” adding to ongoing trade uncertainties.
- In our tactical asset allocation, we are moving our position in Asia ex Japan [AxJ] equities from Overweight to Neutral given the uncertainties facing the Middle East and oil prices. Consequently, we also calibrate our overall exposure in global equities down from Overweight to Neutral.
- We remain mindful of potential volatility spikes. Investor selectivity will be critical as markets navigate several uncertainties.

US – AI worries coming to bear

- The recent surge in AI-related developments has created significant volatility in the US market. New releases - such as Anthropic’s Claude Cowork features and Alphabet’s Project Genie - have unsettled several

parts of the market, with software companies bearing most of the impact. We expect these pressures to persist, and at this stage, we continue to favour semiconductors over software.

- We are also seeing a clear rotation in US equity styles, particularly from large caps toward small- and mid-cap stocks. In our view, this shift reflects investors’ increasingly constructive outlook on the US macroeconomic environment. Factors contributing to this sentiment include potential tailwinds from the “One Big Beautiful Bill Act” [OBBBA], expectations of deregulation, and the possibility of fiscal support ahead of the midterm elections. Ultimately, however, sustained market broadening will depend on whether earnings-per-share [EPS] growth can extend meaningfully beyond the tech sector.
- Within our tactical asset allocation, we maintain a Neutral stance on

US equities. While fundamentals remain solid—highlighted by a large majority of S&P 500 companies beating estimates this earnings season—current valuations are still not compelling enough for us to adopt a more constructive position.

Europe – Pick-up in German industrial production amidst broader AI focus in Europe

- German industrial production, which had been declining almost continuously since its 2017–2018 peak, appears to have found a floor last year. Recent manufacturing orders have also risen noticeably. Although some volatility in the near-term data is likely, these developments offer the strongest evidence so far that the country’s fiscal stimulus is taking effect. The defence industry, in particular, is showing stronger domestically driven demand, which we expect to continue providing support.
- For European equities more

broadly, supportive factors include positive global macroeconomic surprises and the potential for further stimulus. At the same time, concerns around the macro-outlook and risks related to AI-driven disruption remain present.

- Over the longer term, fiscal expansion and increased infrastructure spending across Europe should benefit sectors tied to domestic demand, construction and capital goods. Export-focused companies, however, may face challenges from trade frictions and rising competition. The market is also likely to increasingly distinguish between firms that successfully adopt AI and those that are vulnerable to AI-related disruption. Companies across sectors-such as software, platforms, media firms and intellectual property (IP) owners-have already experienced notable sell-offs.

Japan – The LDP’s landslide victory

- Japan equities have performed strongly following the Liberal Democratic Party’s (LDP) landslide victory in the Lower House election. The Takaichi administration is expected to enjoy a relatively high degree of political stability,

allowing it to push forward pro-cyclical fiscal measures and policy changes. These include growth-oriented investments as well as defence and security initiatives, with limited resistance from opposition parties. Historically, Japan’s equity market has tended to react positively when a single party secures a majority.

- Currently, the MSCI Japan Index is trading at 18.5x forward price-to-earnings (P/E), which is more than two standard deviations above its long-term average.
- We continue to emphasise several investment themes:
 - AI, technology hardware, defence, energy and critical resources
 - Domestic demand o Banks, which may benefit from expectations of ongoing rate hikes and increased loan growth driven by rising capital expenditure (CAPEX)
 - Construction and real estate, which typically perform well in an inflationary environment
- That said, we will closely monitor the implementation of the proposed expansionary fiscal policies, as these could significantly influence the Japanese yen, interest rate expectations, and ultimately the

equity market outlook.

- Key near-term events to watch include the FY26 initial budget and tax reform proposals, as well as the mid-March meeting between Prime Minister Takaichi and US President Trump.

Asia ex-Japan – Shifting to a neutral position as regional markets navigate near term risks

- Recent developments in the Middle East have introduced new uncertainties for global markets. Two factors have become important indicators to monitor:
 1. potential disruptions to oil flow through the Strait of Hormuz, and
 2. risks to oil infrastructure in the region.
- Both have contributed to increased volatility in energy markets. Brent crude briefly rose to US\$119.50/barrel before settling closer to US\$90/barrel at the time of writing. While markets have absorbed these moves relatively well, the backdrop suggests a more balanced investment stance is appropriate.
- As part of our ongoing risk-management approach within our tactical asset allocation, we are adjusting our view on Asia ex-Japan (AxJ) equities from Overweight to

Neutral. This is a measured move, not a negative call on the region. Consequently, our overall global equity exposure also moves to Neutral.

- Despite heightened geopolitical noise, the MSCI AxJ index remains resilient: it is only 7.2% below its all-time high, up 7.0% year-to-date and up 38.9% since 1 January 2025. Valuations also appear reasonable, with the index trading at 13.0x forward price-to-earnings - broadly in line with its 10-year average.
- Within the region, we are refining our positioning. We are moving Malaysia to Neutral, and Philippines and Indonesia to Underweight, while maintaining our preference for Hong Kong, China, and Singapore.
- In China's case, while roughly half of its crude oil imports originate from the Gulf and pass through the Strait of Hormuz, the country has built substantial strategic and commercial reserves. Oil and gas also play a much smaller role in China's power generation mix - at around 4% - compared with the 40–50% reliance seen in many other Asian economies. This provides the Chinese economy with a degree of insulation from short-term energy price swings.
- Broader macro considerations are also relevant. Higher oil prices can weigh on global growth and place upward pressure on inflation, complicating monetary policy for central banks that are trying to support economic activity. Historically, this backdrop has been challenging for the US Federal Reserve and its global peers.
- There are indications that the US administration is mindful of the economic impact of elevated oil prices and is keen to limit the duration and extent of the conflict. Nevertheless, the path to a quick resolution remains uncertain given the involvement of multiple stakeholders and ongoing geopolitical complexities.
- While measures such as the recent announcements of oil reserve releases — including 80 million barrels from Japan and 400 million barrels from the International Energy Agency — have helped stabilise sentiment, it is still unclear whether these actions can fully offset the estimated 11–16 million barrels per day of disrupted Gulf supply.
- Against this backdrop, we believe equity markets should reflect a somewhat higher risk premium. The risk-reward trade-off has become more balanced, and a more neutral equity stance allows portfolios to remain resilient while retaining flexibility should conditions improve.
- While the situation in the Middle East has introduced additional uncertainties to global markets, we believe there is no need for investors to be alarmed. The long-term fundamentals for Asia ex-Japan remain intact, and the asset class continues to play an important role in a diversified portfolio.
- In fact, there are still pockets of opportunity across the region. Singapore equities for example continue to benefit from structural tailwinds supported by strong policy initiatives - including efforts to deepen capital-market development, broaden sectoral listings and reinforce the city-state's position as a regional financial hub. These supportive dynamics, coupled with the market's defensive earnings profile, make Singapore an attractive component within Asia ex-Japan exposure.
- In this environment, staying diversified across regions and asset classes remains the most effective way for investors to navigate near-term volatility while remaining positioned for long-term growth. Our Neutral stance reflects balance, not retreat, and we continue to seek

selective opportunities within Asia ex-Japan as the situation evolves.

Global Sectors - Global Energy and Materials lead the pack...

- Energy has been the top-performing sector so far this year, driven partly by rising oil prices amid heightened geopolitical tensions in the Middle East. The sector has also benefited from notable multiple expansion across many industries as part of a broader cyclical rotation. Integrated Energy and Energy Services have led the gains, and valuations have now moved closer to their long-term averages.
- As a result, further upside in the sector increasingly depends on positive earnings-estimate revisions, aside from any short-term spikes caused by geopolitical uncertainty-particularly involving Iran. Fundamentally, the oil market continues to grapple with elevated surplus levels, which may limit sustained price increases.
- The renewed market focus on real assets is also evident in the Materials sector. Diversified miners have outperformed, even as gold miners pause after earlier gains. The Industrial Gas subsector has also delivered strong performance, supported by

exceptional pricing power and strategic exposure to long-term structural trends, including the global energy transition. In addition, parts of the Materials sector-such as metals and chemicals-are attracting increased investor interest given expectations of higher demand from ongoing AI-driven infrastructure build-outs.

- On the other hand, the Consumer Discretionary sector has underperformed year-to-date, partly due to investors rotating out of high-valuation growth names such as Amazon and Tesla - which together make up about 37% of the MSCI ACWI Consumer Discretionary Index - and into more value-oriented sectors. In addition, cautious earnings guidance from several major European luxury brands and weakening consumer perceptions of the US labour market have further dampened consumer confidence.

From AI-phoria to AI-phobia: Markets wrestle with disruption and monetisation concerns

- As commercially viable AI applications are rolled out by AI-native companies, concerns about AI-driven disruption are shifting from theoretical debates to tangible realities. These fears

have weighed on equity markets, impacting not only software companies but also non-tech sectors such as insurance brokers and real estate services, where business models may face long-term pressure. Investors are increasingly looking past near-term earnings strength and focusing instead on the uncertain long-term growth outlook created by AI disruption.

- Within the technology sector, we maintain our preference for semiconductors over software. Semiconductor companies stand to benefit from robust capital expenditure by hyperscalers, whose budgets have been revised over 20% higher post-earnings, reaching yet another record. However, hyperscalers themselves are now under intensifying pressure to demonstrate meaningful monetisation of AI investments while still maintaining healthy free cash flow. This concern was evident in the share-price reactions following recent results from Microsoft and Amazon-Microsoft faced disappointment over Azure's slower growth, while Amazon's stock came under pressure amid expectations of potentially negative free cash flow after its CAPEX upgrade.



HONG KONG / CHINA MARKET OUTLOOK

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Policy Developments in Focus

“We remain constructive on Hong Kong and China equities overall, with a preference for offshore China equities”

- The onshore A-share equities market has outperformed Hong Kong and China offshore equities over the past month, supported by sector rotation and volatility in the Developed Markets (DM) tech sector. Energy and Materials continue to lead performance across both onshore and offshore markets.
- We remain constructive on Hong Kong and China equities overall, with a preference for offshore China equities. Valuations remain reasonable: the MSCI China Index is trading at 11.7x forward P/E, about +0.5 standard deviations above its historical average, supported by an estimated 12% year-on-year earnings growth. However, if DM volatility continues to rise, it may justify a tactical shift toward the onshore A-share market.
- The upcoming National People’s Congress (NPC) will be a key event. Beyond announcing headline targets such as GDP growth and the fiscal deficit, the government will also release the full 15th Five-Year Plan (2026–2030). We expect more detailed policy guidance after the NPC, particularly around key priorities including domestic consumption, innovation, and efforts to address “involution.”
- In Hong Kong, the FY2026–2027 Fiscal Budget was recently announced. As expected, no major stimulus measures were introduced for the real estate market. The government reaffirmed its commitment to developing the “REIT Connect,” and an amendment bill will be introduced to enable the privatisation or restructuring of REITs.

BONDS

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Prefer High Quality Issuers

“We prefer to stay with high quality issuers amidst higher market volatility. We continue to be Neutral on portfolio duration.”

- Credit markets have remained relatively resilient so far this year, despite a confluence of pressures - including heightened geopolitical tensions, renewed tariff uncertainty, concerns about AI-driven disruption in vulnerable sectors, and rising stress in private markets. Year-to-date (YTD), total returns have been positive across all segments.
 - While credit spreads may continue to widen as investors demand a higher risk premium amid a more uncertain macroeconomic environment, interest rates could help offset some of this pressure and support total returns in the near term, assuming no major oil shock. However, an extended conflict in the Middle East would likely weigh on risk sentiment. Looking ahead, we expect greater performance dispersion and continue to favour high-quality issuers.
 - We also view emerging markets (EMs) as useful diversifiers within global bond portfolios. Although near-term sentiment could soften due to geopolitical developments in the Middle East, selective exposure to EM bonds can offer meaningful diversification benefits for global investors over the medium to long term - particularly against the backdrop of growing structural concerns about a weaker US Dollar (USD) and deteriorating fiscal dynamics in major developed economies.
- US Treasuries**
- US Treasuries (UST) delivered one of their strongest monthly returns in February 2026, supported by declines in both real yields and inflation expectations. The UST yield curve also flattened, with the 2Y-10Y spread narrowing by 13 bps year-to-date to 56 bps.
 - Our base case remains one 25 bps Fed funds rate cut in 2026, though we have shifted the expected timing from March to June. Meanwhile, Fed funds futures continue to price in slightly more than two 25 bps cuts this year, with most of the easing expected after June.
 - While USTs rallied on safe-haven demand amid tensions in the Middle East, we remain cautious about potential volatility in long-dated yields due to elevated fiscal risks and the possibility of rising inflation expectations if the geopolitical conflict persists.
 - Looking ahead, UST performance is likely to remain sensitive to evolving macroeconomic signals. The key drivers to watch include inflation trends, labour market conditions, and fiscal deficits.
 - We maintain a Neutral stance on portfolio duration. A weighted average duration of three to seven years provides flexibility across different market environments. Softer macro data or lower-than-expected inflation could create opportunities to extend duration, whereas sticky inflation or renewed fiscal

concerns could lead to curve steepening.

Developed Markets

- Late-cycle credit dynamics and relatively unattractive valuations continue to favour Developed Market Investment Grade (DM IG) over High Yield (DM HY). We therefore maintain a Neutral stance on DM IG bonds and an Underweight stance on DM HY bonds.
- That said, growing funding needs from hyperscalers - driven by rising AI-related capital expenditure—could create supply pressures in the US IG market. This may lead to wider spreads and/or longer benchmark duration. We also expect major US technology companies to increasingly tap non-USD bond markets to diversify their investor base. In addition, private credit markets, complex SPV structures, chip-backed loans, convertible bonds, and equity issuance could emerge as alternative financing channels.
- We anticipate tighter scrutiny around AI-related risks, which could contribute to higher market volatility and greater dispersion in performance. As a result, we see a stronger need to focus on quality,

conduct deeper credit analysis, and identify potential winners and losers from AI-driven disruption to protect portfolios and position for future valuation or market-dislocation opportunities.

- In Japan, government bond (JGB) yields have partially retraced their recent rise following signals of fiscal pragmatism from the Takaichi administration. A recent proposal to change impairment-related accounting rules is also supportive for Japanese life insurers, as it should ease the negative feedback loop between JGB price declines and lifer balance-sheet risks. Nevertheless, we remain cautious about the potential for higher JGB volatility and will closely monitor upcoming fiscal and monetary policy developments.

Emerging Markets Corporates

- Emerging Market (EM) corporates have continued to outperform their DM peers year-to-date. In 2026, we expect total returns to moderate but remain supported by attractive carry and favourable market technicals.
- In the near term, we are monitoring the potential impact of the Middle East conflict on the broader EM universe, particularly through its

influence on oil prices and overall risk sentiment.

Asia

- Asian credit markets have delivered total returns of 1.5% year-to-date as of 27 February 2026, slightly lagging other EM regions. Within Asia, Hong Kong, India, Taiwan and Thailand have been the relative outperformers.
- Although yields in Asia remain comparatively lower, the region continues to offer a more defensive profile within the EM space. Combined with strong technical support, this keeps us Neutral on Asian credits. In 2026, carry is expected to remain a key driver of total returns. To enhance yield, we prefer moving down the capital structure of high-quality financials and corporates.
- In Thailand, improved political stability following the recent election and targeted government support for small and medium-sized enterprises (SMEs) may help ease near-term asset-quality concerns, especially in the retail and SME loan segments. However, structural challenges remain, and we maintain a negative credit outlook on the Thai banks under our

coverage for now.

- For India, the FY2027 budget prioritizes infrastructure development and high-value manufacturing. Continued solid economic growth should support corporate operating performance throughout the year. We remain constructive on Indian credits, but given relatively tight spreads, our approach remains selective.

Emerging Markets Sovereigns

- Hard-currency EM sovereign bonds extended their gains in February, supported by healthy risk appetite. The asset class delivered a modest return of +1.4%, with IG sovereigns outperforming HY. Strong contributors included Chile (+2.3%), Latvia (+2.4%), Poland (+2.3%), and Uruguay (+2.3%).
- Across regions, performance was broadly positive, though uneven. Latin America (+1.5%), Europe (+1.5%), and the Middle East (+1.4%) led monthly gains.
- Sovereign spreads widened by 14bps, driven mainly by the HY segment (+20bps). Africa remains the widest-spread region at around 406bps, followed by Latin America (~358bps). Asia remains the tightest at approximately 152bps, supported by stronger reserves and more stable macro fundamentals.
- February's performance benefited from a stable US rates environment and expectations that developed market central banks will begin easing later in 2026. The US dollar traded within a narrow but generally weak range, reducing external pressure on EM balance sheets. Commodity exporters were helped by stable energy and metals prices, supporting fiscal consolidation and improving external balances.
- Looking ahead, EM sovereigns continue to offer attractive opportunities, particularly in HY and selected frontier markets where reform momentum is credible. However, risks remain, especially from geopolitical tensions and potential shifts in global interest-rate expectations.
- We remain constructive overall and continue to favour "BB"-rated sovereigns with improving debt dynamics, along with selective positions in reform-driven frontier markets where valuations remain appealing.

FX & COMMODITIES

SELENA LING

Chief Economist & Head, OCBC Group Research

Remain Positive on Gold

“Our constructive outlook for gold remains intact. Structural demand continues to underpin the market - led by persistent central bank buying and wider investor participation. These factors help explain why dips still attract buyers.”

Oil

- Geopolitical risks intensified after military strikes on Iran by the US and Israeli triggered retaliatory attacks across the region. Our base case assumes that Brent price slips below US\$70/barrel by mid-year. In a moderately severe scenario – with partial oil flows through the Strait of Hormuz resuming under military escort - Brent could stay near US\$100/barrel through mid-year, before cooling toward a well-supplied 2026 equilibrium. In an acute scenario with a prolonged halt in oil shipment through the Strait, Brent could spike toward US\$140/barrel and remain elevated through mid-year.

Precious metals

Gold

- Gold’s recovery after a short period of weakness recently, has coincided with a softer US Dollar

(USD), improved risk appetite and renewed demand for hedges. Heightened geopolitical uncertainty and fresh US trade- and tariff-related noises have kept policy uncertainty elevated, helping gold to stay supported.

- The latest tensions in the Middle East have reinforced demand for hedges against geopolitical tail risk, especially as markets are already sensitive to global policy uncertainty. The magnitude and sustainability of gold’s rally will hinge on how events evolve. A prolonged Middle East conflict that disrupts oil supply and feeds into global growth and inflation risks would likely sustain demand for safe-haven assets. Conversely, a swift de-escalation could temper near-term momentum and prompt some consolidation.
- Our constructive outlook for gold remains intact. Structural demand continues to underpin the market -

led by persistent central bank buying and wider investor participation. These factors help explain why dips still attract buyers and why gold has held firm even when broader risk sentiment steadies. Conversely, in clear risk-off episodes driven by geopolitical escalation, gold also benefits from safe-haven demand.

- Key risks to monitor include a hawkish repricing of Fed expectations or a rapid easing of geopolitical tensions that reduces safe-haven demand.

Silver

- A more subdued USD, improved risk appetite and following the bout of weakness in late January (which provided a breather for silver after hefty gains) helped the precious metal to regain its footing and head higher. At the same time, heightened geopolitical

risks resulted in greater demand for safe havens, including gold. With silver's beta much higher than gold, it is no surprise that silver posted stronger gains than gold.

- Overall, we remain constructive on silver. It's dual identity as both a safe haven and industrial metal means it remains exposed to crosscurrents. Any sharp USD rebound, hawkish Fed repricing or signs of a downturn in industrial activity would exert downward pressure, while continued support from industrial usage including solar PV deployment, grid investment, and broader electrification themes should underpin medium-term demand. As such, we continue to expect two-way volatility, but within a broader constructive framework.

Currency

US Dollar (USD)

- Middle East tensions and the risk of a broader conflict - moved to the forefront in early March after military strikes on Iran by the US and Israeli triggered retaliatory attacks across the region. This caused oil prices to increase sharply. Higher crude prices and rising risk aversion should lend support to the US Dollar (USD). The US, now the world's largest LNG exporter and a net energy exporter since 2019, benefits from high energy prices. Energy linked currencies such as the Canadian Dollar, Norwegian Krone and Malaysian ringgit may gain, although geopolitical driven risk aversion could limit the upside. Conversely, import dependent currencies like the Japanese Yen, Indian Rupee and Turkish lira may face growing pressure if oil remains elevated.
- Despite recovering from the "Greenland shock" and if there is no prolonged blockade at the Strait of Hormuz, the USD still faces modest downside risks as US policy uncertainty remains an overhang. This underpins our unchanged EURUSD (Euro-USD) forecast of 1.23 at end-2026 – driven more by a softer USD than a stronger EUR. Even so, resilient US growth should limit the risk of a deeper USD sell-off. A true USD turnaround would require a solid reacceleration in US growth, which remains absent for now. Early signs of labour-market stabilisation could nevertheless

set the stage for a USD rebound in 2027. Our base case remains intact: the AI-disruption narrative, tariff uncertainty and geopolitical oil shocks are unlikely to derail improving US and global growth, especially with fiscal support strengthening into 2026. Better non-US growth provides scope for USD weakness even if US activity holds up - particularly against cyclically sensitive currencies such as the Australian Dollar, New Zealand Dollar, South African Rand and Brazilian Real.

Japanese Yen (JPY)

- A report suggesting PM Takaichi's reservations about further BOJ hikes, plus two dovish BOJ board nominees, has weighed on sentiment towards the Japanese Yen (JPY). Even so, BOJ Governor Ueda has signalled his intention to continue raising rates in line with economic and inflation progress, keeping attention on the March or April BOJ meetings. Intervention risks would rise quickly if USDJPY moves back toward 160, especially amid higher oil prices. Stronger warnings from Tokyo – and potentially Washington – are possible ahead of the 19 March

US-Japan summit. We stay neutral on the JPY. We maintain that JPY will struggle to shift from a funding to an investment currency unless the BOJ turns more hawkish than our baseline of two hikes this year.

Chinese Yuan (CNY)

- USDCNY (USD-Chinese Yuan) extended its decline for the month of February. The Renminbi's (RMB's) outperformance was not due to a single catalyst but likely due a range of factors including a less strong USD environment and perception that policymakers may allow for RMB strength (given little pushback). That said, we would pay close attention to the daily currency fix in coming sessions to assess if policymakers allow for a faster pace of RMB appreciation or if policymakers

are signalling for a moderation in pace of RMB appreciation.

Singapore Dollar vs Malaysian Ringgit (SGDMYR cross)

- SGDMYR (the exchange rate between the Singapore Dollar and the Malaysian Ringgit) has continued to trend lower from around the 3.17 levels since start of the year. This is less about SGD deterioration but more about a meaningful improvement in Malaysia's macro and flow dynamics that supported the MYR's outperformance. Malaysian policymakers also appear to view MYR appreciation favourably. Some of the reasons the MYR has strengthened more than the SGD - lies partly in differing sensitivities and starting points. The MYR is more cyclical and has a higher beta, meaning it responds more

sharply to shifts in global risk sentiment and the direction of the USD and RMB. It also benefits more directly from commodity price tailwinds and was trading at deeper undervaluation previously, allowing for a sharper rebound when sentiment and fundamentals improved over the past year. In contrast, the SGD tends to move in a more measured fashion given MAS's exchange rate-based monetary policy. Whether the MYR continues to outperform will depend on whether supportive drivers such as a stable risk appetite, a steady RMB, and sustained inflows remain intact. If global conditions turn more cautious, then MYR's higher beta profile could just as quickly work in the opposite direction.

Forecast table for Precious Metals Prices

USD/ounce	Mar 2026	Jun 2026	Sep 2026	Dec 2026	Mar 2027
Gold	5250	5367	5425	5600	5626
Silver	117	119	121	133	134

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

Forecast table for Oil Prices

USD/barrel	Mar 2026	Jun 2026	Sep 2026	Dec 2026	Mar 2027
Brent	70	67	65	63	63
WTI	66	64	62	60	60

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

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