

2026 Outlook

The Need for Measured Exuberance

Foreword

As we look back at 2025, one thing is clear, markets once again kept us on our toes! The path for capital markets was far from linear as the intersection of Trump's trade policies on geopolitics led to shifting growth expectations and monetary policy recalibrations. Fortunately, capital markets looked past these issues to focus on structural themes like AI, a weakening dollar, and Asia's renaissance to deliver strong performance for global equities and alternatives like gold. Fixed income too had a decent rally on the back of global easing monetary policies globally.

So what's next for 2026?

Our 2026 outlook labelled **"The Need for Measured Exuberance"**, reflects our belief that investors can remain constructive, but with discipline. We have crafted 5 key themes to discuss how to navigate the evolving exuberance in AI; will Asia and Gold continue to be a diversifier in a weaker USD world and whether fixed income markets can benefit further from more rate cuts?

Regardless of what 2026 brings, our commitment remains unchanged- we remain dedicated to guiding you through shifting market dynamics with the best possible solutions and products.

Thank you for your continued business and trust with CIMB. Wishing you a joyous New Year with good health and abundant prosperity as we navigate 2026 together!

Sincerely,

Patrick Chang
Chief Investment Officer
CIMB Bank Berhad

Prelude: Seismic Shifts Ahead

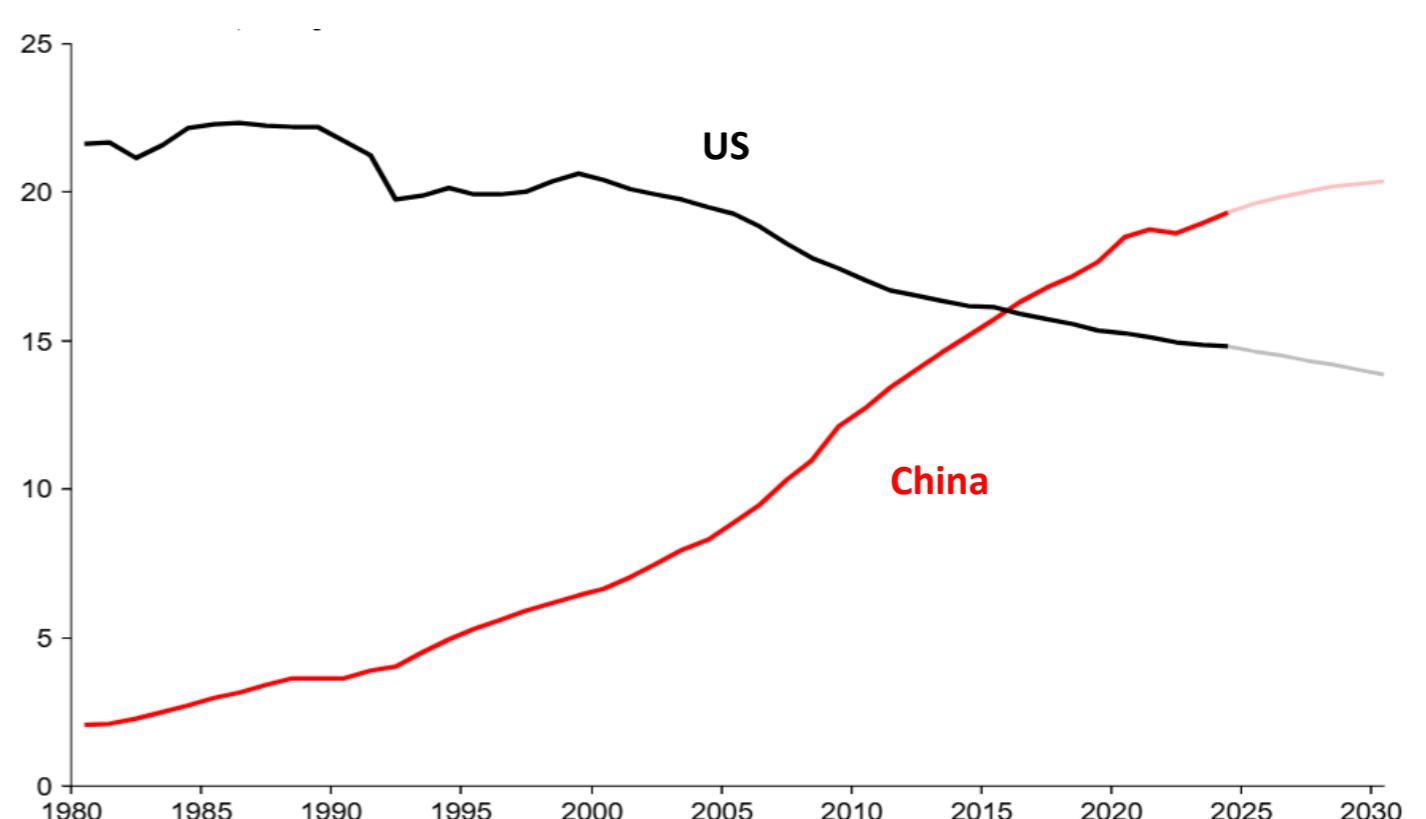
The world is transitioning into a multi-polar system, with **seismic macro shifts accelerating over the next five years**. A key part of this transition is the reconfiguration of global trade and capital dynamics, propelled by the **rise of Artificial Intelligence (AI)**.

For decades, the global economy has operated under a framework where **China produces and the US consumes**. This structure stems from the post-World War II era, when the US established a Dollar-based system, and later reinforced globalisation through China's entry into the World Trade Organization in 2001.

China's export-driven model has turned it into the world's factory and is now the largest economy in the world. But this left China with excess industrial capacity and weak domestic demand. Emerging markets lack large domestic savings, forcing them to rely on foreign investment and remain vulnerable to global liquidity and USD strength.

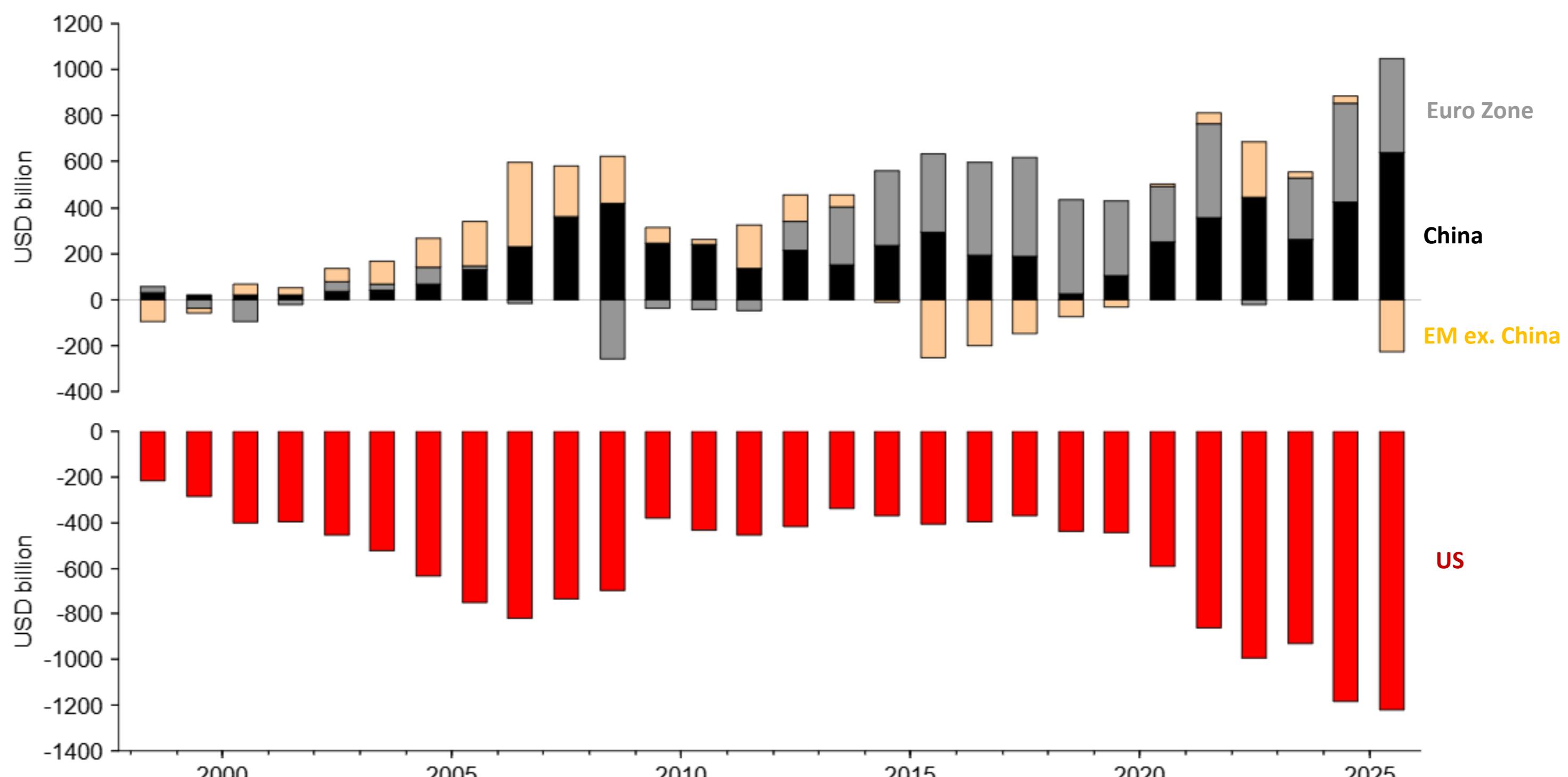
Europe meanwhile faces issues on chronic underinvestment and reliance on external trade. These dynamics have created persistent imbalances in global accounts: **China runs large surpluses, while the US runs chronic deficits**.

China vs. US share of global GDP



Source: LSEG Datastream, CIMB CIO (10 Dec 2025)

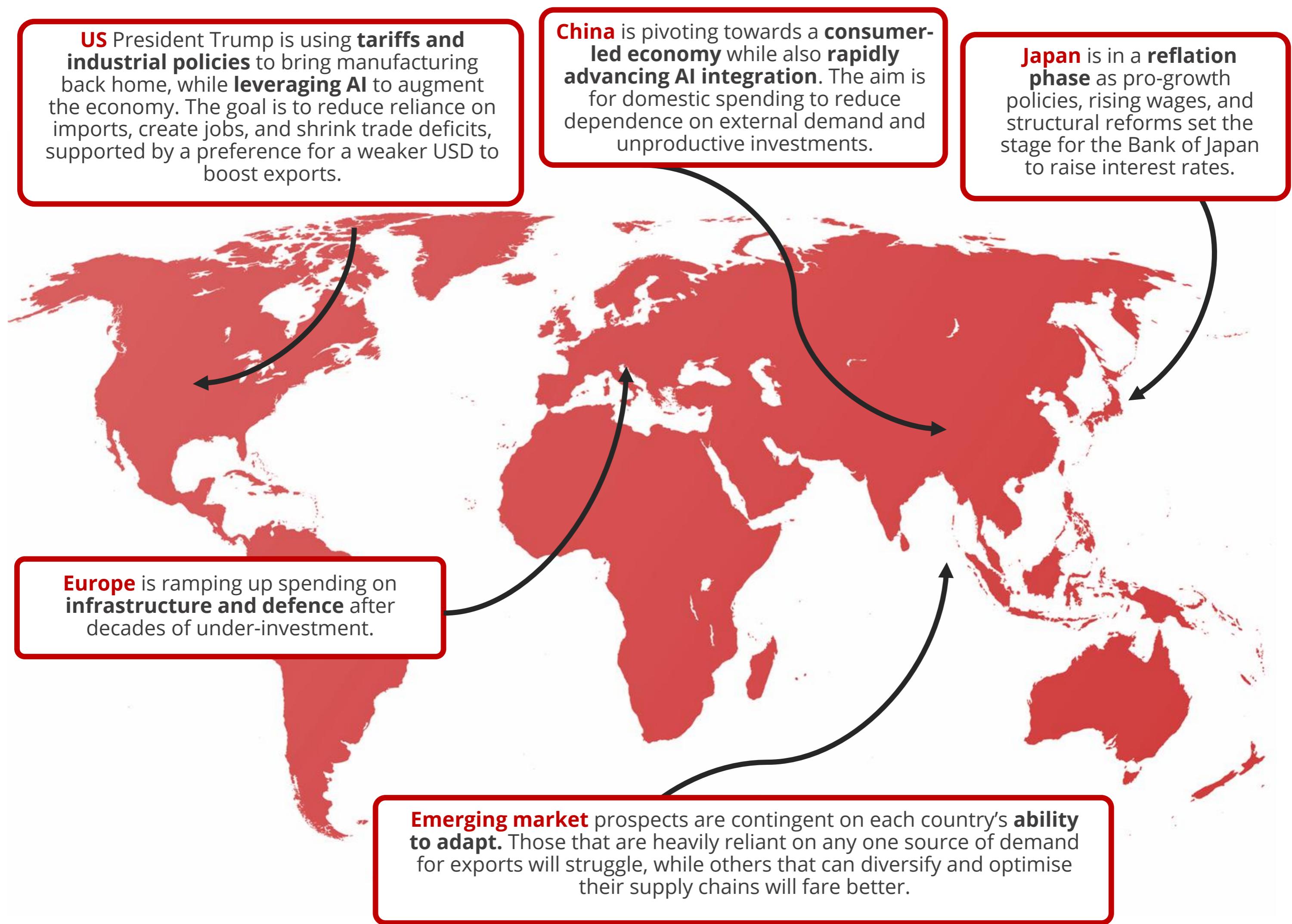
Global current account balances



Source: LSEG Datastream, CIMB CIO (10 Dec 2025)

Prelude: Seismic Shifts Ahead

The state of existing global trade and capital flows is buckling under the strain of the multi-polar world today. We see the following policy shifts underway to **rebalance the world economy**, and in turn **amplifying the role of geopolitics** in shaping future market dynamics.



As a result, **geopolitics** is something to watch closely as **traditional alliances and frameworks loosen**, giving rise to more fluid transactional relationships between major powers based on trade, technology, and defence. Meanwhile, the blurring of war and peace keeps risk elevated, raising the probability of sudden, sentiment-driven market swings.

For portfolios, this environment reinforces the importance of resilience. Opportunities will arise in sectors or regions that benefit from new alliances or bilateral deals, particularly in areas such as **trade, defence, and technology**. At the same time, such areas may face higher volatility arising from strategic competition. The key in managing a portfolio is to **diversify across geographies and themes**, capturing upside from evolving alliances, while also managing risk from political and policy uncertainties. In this backdrop, **gold plays a critical role as a hedge** with its low correlation to traditional assets and resilience during periods of geopolitical stress.

Prelude: Seismic Shifts Ahead

Arguably the largest structural change in the coming years is AI. It is poised to become the **most powerful productivity engine since electrification**. Tasks that once required teams weeks to complete can now be accomplished in hours or even minutes on a single device.

The implications for global productivity growth are profound. Historically, productivity gains have been incremental, driven by gradual improvements in technology and processes. AI, however, is a **step-change** as it compresses timelines, scales expertise, and enables near-instant execution across industries. This acceleration could lift **global output per worker significantly**, supporting higher GDP growth even in aging economies and mitigating structural headwinds such as labour shortages.

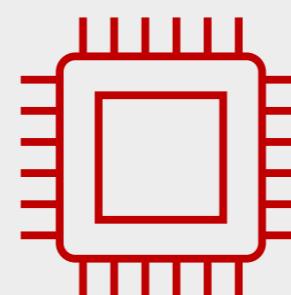
Despite its potential, AI introduces significant uncertainties. **Elevated valuations** and aggressive capital spending could trigger sharp corrections if monetization lags expectations. **Rising leverage and opaque funding structures** around AI infrastructure pose systemic risks, while regulatory shifts and cross-border tech restrictions may disrupt business models. Geopolitical **competition for AI leadership** adds another layer of volatility, and market concentration in a handful of mega-cap tech firms heightens vulnerability to sector-specific shocks. These dynamics underscore the need for **selectivity, diversification, and robust risk management**.

Implications for Investors:

- **Economic growth is shifting away from the US.** Growth is instead driven by China, Europe, Japan and selected emerging market economies.
- **AI is a potential game-changer.** Look for global leaders in AI enablement (chips, foundational models) and domestic beneficiaries (AI-driven local services, data centres) particularly in high growth ex-US markets.
- **Weaker USD and elevated long-end US yields.** A weaker USD becomes the most likely consequence as global trade becomes more balanced. Yields on the long-end will remain elevated as rate cuts by the Fed are offset by debt sustainability issues affecting the term premia. Gold should benefit from USD weakness and geopolitical uncertainty, reinforcing its role as a hedge in diversified portfolios.



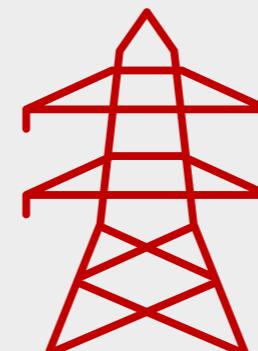
~ 30% uplift in labour productivity



USD4 trillion
AI infrastructure spend by 2030



+70% AI-related capex growth in 2025 across hyperscalers



30-100x more energy consumption from chatbots to agentic AI

Source: Academic Studies, Bloomberg, Nvidia, CIMB CIO (10 Dec 2025)

5 Key Investment Themes

► Is AI a Bubble or Breakthrough?

The promise of AI meets market reality as we navigate between innovation and valuations

► Will Asia Continue its Renaissance?

Asian markets have been riding a wave of AI, reforms, and policy tailwinds, but can the momentum last into 2026?

► Can the US Dollar Sustain its Decline?

Shifts in policy, politics, and global trends are setting the stage for an unsettled dollar

► Enhancing Portfolio Stability Through Fixed Income

Amid elevated yields, steepening curves, and persistent risks, where should fixed income investors position themselves?

► Building Portfolio Resilience

Asset correlations are ever-evolving; how should investors build portfolios that thrive through cycles?

Is AI a Bubble or Breakthrough?

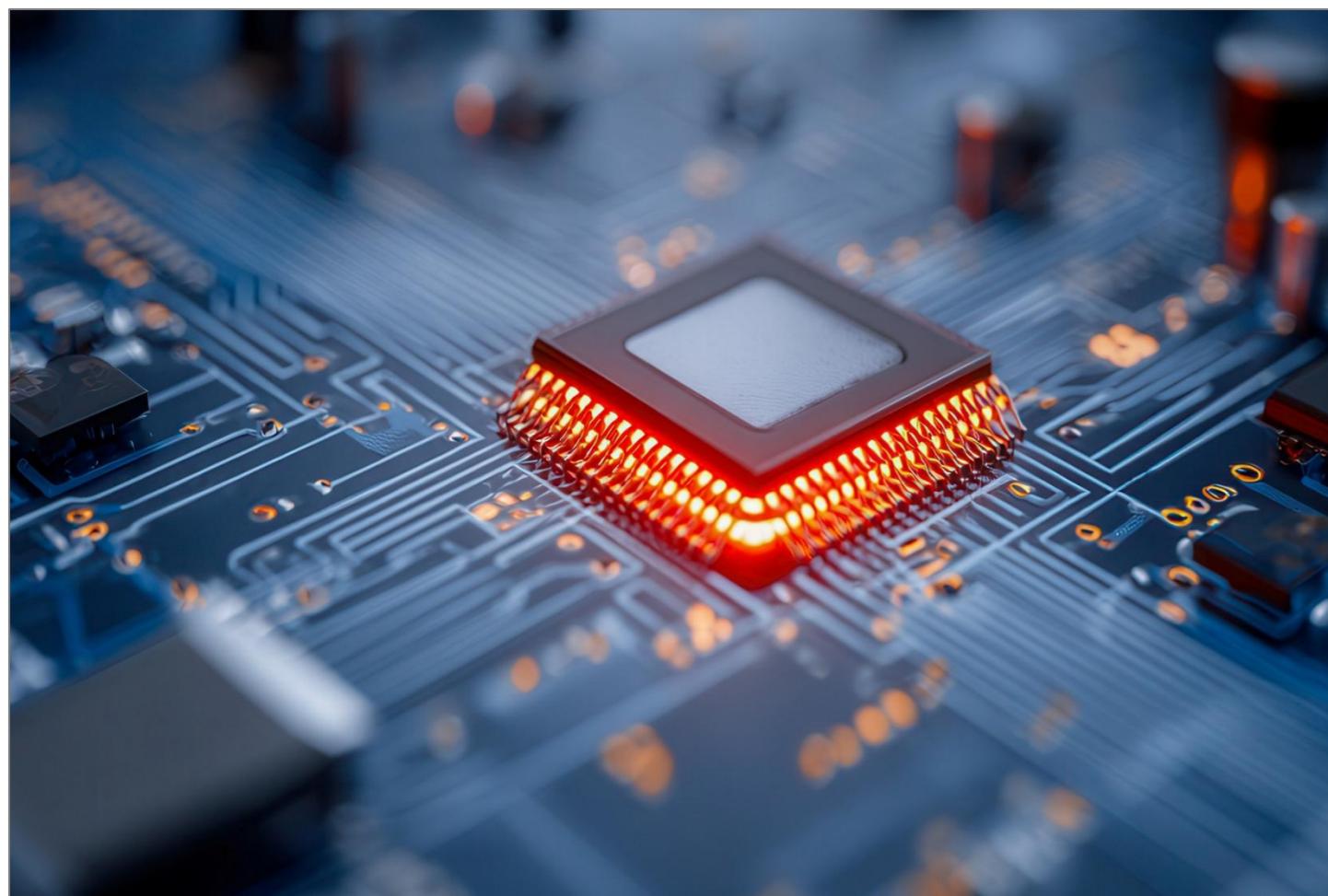
The promise of AI meets market reality as we navigate innovation, valuations, and potential pitfalls



Is AI a Bubble or a Breakthrough?

Key Takeaways:

- AI is a structural megatrend that will continue to define the market narrative in 2026.
- Gains remain dominated by the Magnificent 7 stocks, creating concentration and valuation risks.
- Stick to high-quality large-cap tech and diversify into deregulation and mid-term election plays.



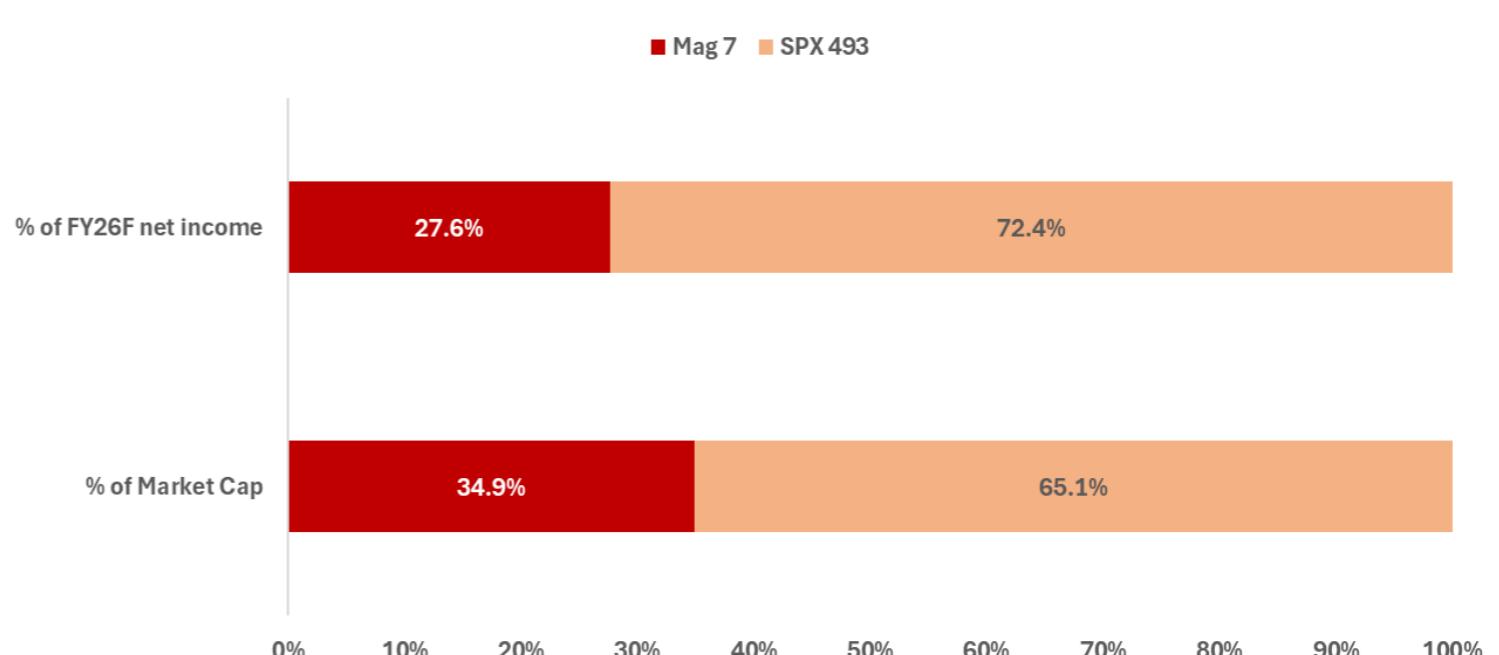
The defining theme in equities

Artificial Intelligence (AI) remains the market's defining theme as we head into 2026. Tech sector has rallied 22.5% YTD outpacing the broader S&P500's 17.1%, powered by the AI narrative and the fiscal easing environment. Taking a step back, Nasdaq rallied 126% since end-2022. While fundamentals appear strong, stretched valuations, aggressive capital spending, and circular funding dynamics raise the question: **is this a sustainable technological revolution—or the makings of another bubble?**

Dominance of the Mag 7 in returns and earnings

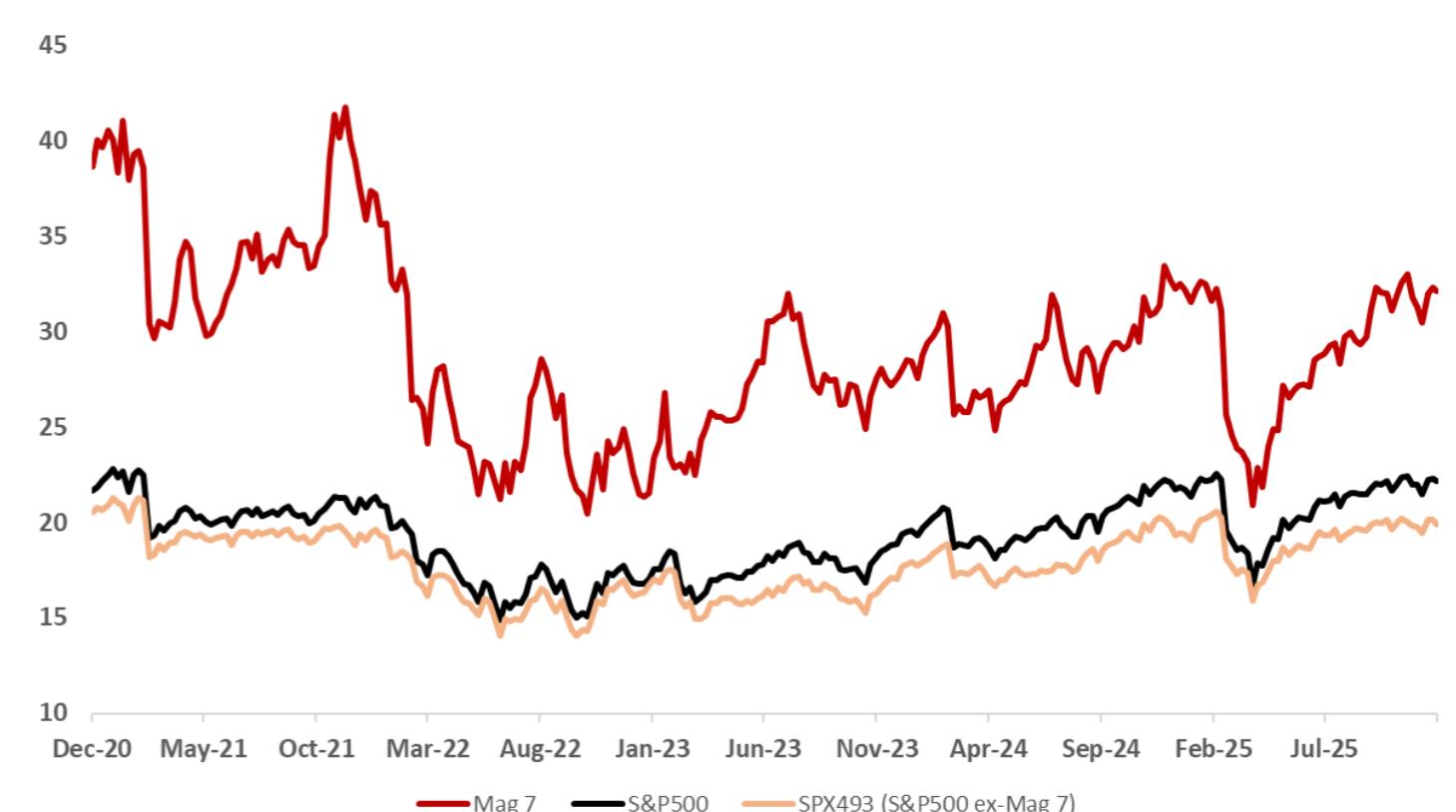
The Magnificent 7 (Mag 7) stocks namely, Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia and Tesla, have been pivotal in driving both index returns and corporate earnings.

Mag 7 stocks dominate S&P500's earnings and market cap



Source: Bloomberg, CIMB CIO (10 Dec 2025)

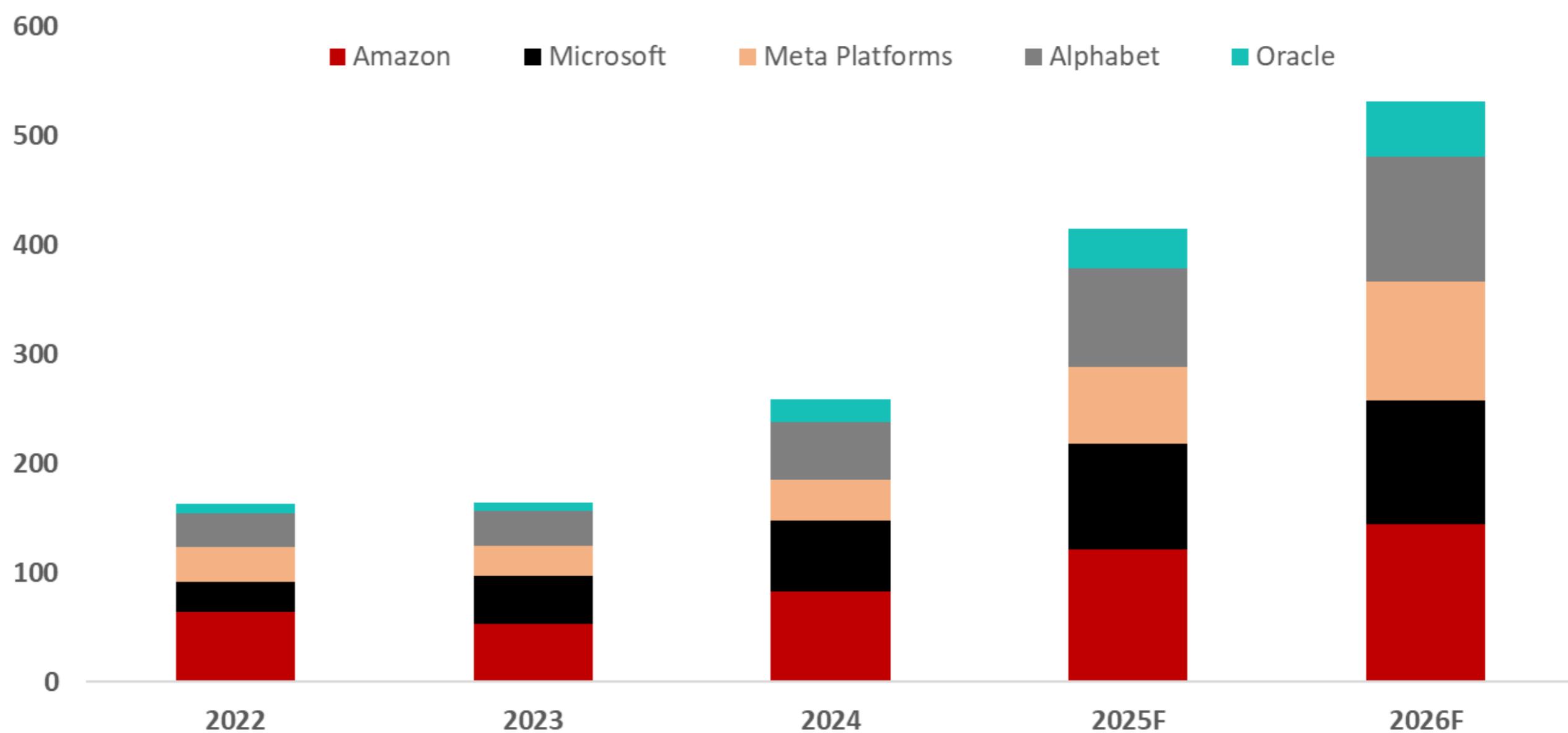
Mag 7 stocks have led the re-rating in P/E valuations



Source: Bloomberg, CIMB CIO (10 Dec 2025)

Year-to-date, the Mag 7 has rallied +25%. Meanwhile, the Mag 7 trades at 32x FY26F PER, a 30% expansion since end-2022. Earnings growth from the Mag 7 remains a crucial driver of overall earnings for S&P500. Mag 7's projected earnings CAGR from FY21-27F stands at 17%, compared to 6.3% for the S&P500 excluding Mag 7 (SPX493). In 2026, earnings for the Mag 7 are expected to grow 17.8%, ahead of the SPX493's 11.2% growth (S&P500: 13%). Operating margin (OPM) gap between Mag 7 vs SPX493 has expanded, the OPM of Mag 7 is at 27.3% vs SPX493 at 15.4%. **Sustained market performance will largely hinge on the attainability of these earnings projections.**

US hyperscalers have scaled up capex by 60% YoY in 2025



Source: Bloomberg, CIMB CIO (30 Nov 2025)

The driving forces behind the AI revolution

- **Exponential demand for compute power.** Training jumped from GPT3 to GPT4 with a 10x increase in resources; GPT5 will push this even further. AI (and agentic AI) adoption across industries is amplifying the need for compute power.
- **Strategic policy tailwinds cements AI's role.** The CHIPS Act positions AI as a national priority, reshoring semiconductor supply and designating advanced chipmaking as critical infrastructure. Energy policies by the Department of Energy will be aimed at fast-tracking grid connections for data centers to meet soaring power needs benefiting the companies in the utilities space.
- **Direct government intervention**, moving beyond subsidies. In August 2025, the administration converted USD8.9bn in CHIPS Act funds into a 10% equity stake in Intel—securing domestic control and signalling a new era of industrial policy.

Differentiating past bubbles vs now

Anecdotally, the current environment appears frothy drawing easy comparisons to the past bubbles –the 1990s dotcom boom, 1840s railway mania and the 1790s canal mania. **The narrative is strikingly similar:** rapidly rising valuations, high concentration risk, a powerful narrative of an emerging revolutionary innovation or technology, unprecedented capex spending and delayed ROI as well as the concerns over circular funding dynamics.

While comparisons are inevitable, a crucial distinction lies in the fundamentals. **Profitability, robust balance sheets and healthy free cash flows of namely the Mag 6 (ex-Tesla) distinguish the current cycle from the speculative excesses of the 1990s** whereby many companies did not have sales, earnings nor clear paths to profitability. For reference, the average P/E now for the Mag 7 stands at 32x vis-à-vis the average P/E of 127x which Microsoft, Dell, Intel and Oracle traded to in 1999 before the crash.

This fundamental strength of these companies coupled with tax incentives from the One Big Beautiful Bill Act (OBBBA) is what fuels the new, central concern: **unprecedented capital intensity**. Alphabet, Amazon, Meta Platforms, Microsoft, and Oracle are leading a colossal AI infrastructure build-out, with collective capex projected to be ~USD400bn in 2025 (+66% YoY) and are guiding for higher YoY capex growth into 2026. The spending is predicated on the assumption that AI will unlock a new era of productivity, though widespread productivity growth remains tepid. This aggressive spending introduces two other concerns:

- **Leverage** is starting to build up in the system with some being off balance sheet, and
- The **USD1.4 trillion circular funding ecosystem** building around OpenAI between several big tech firms i.e. Nvidia, AMD, Microsoft, Amazon, and Oracle.

A reality check – stick to quality; diversify beyond AI

While AI remains a compelling long-term theme, current dynamics warrant caution. History suggests that bubbles often precedes a transformative technology. We recommend **limiting exposure to high-quality large-cap tech and AI supply chain leaders**, which are better positioned to weather volatility and deliver eventual monetization.

While AI has captured the market's imagination, a significant, policy-driven shift in the financial and industrial landscape is creating distinct opportunities. This brings us to our next key themes: **deregulation and the midterm election agenda**.

Beyond Tech: Deregulation Unlocks New Opportunities

Sweeping deregulation under President Trump's 10-to-1 Deregulation Executive Order dismantled Biden-era rules, **easing compliance costs and accelerating financial innovation** especially in digital assets, blockchain integration, and tokenization.

Recent initiatives such as a strategic Bitcoin reserve, digital asset stockpile, and the GENIUS Act for stablecoins signal a **decisive shift toward modernising settlement systems and lending frameworks**.

Simultaneously, a **more accommodative regulatory posture is emerging for US banks**, evidenced by the Fed's push to ease leverage rules for GSIBs (Global Systemically Important Bank), which **frees up liquidity and enables capital optimization**.

While **deregulation propels near-term growth prospects** and is an impetus for first movers, it also inherently heightens systemic complexity, underscoring the **critical need for effective risk management**.

Key deregulation milestones

Date	Key Development
23 Jan	President Trump signed an executive order establishing a Presidential Working Group on Digital Asset Markets to develop a federal regulatory framework for digital assets and evaluate a strategic national digital asset stockpile
6 Mar	President Trump signed an executive order to establish a Strategic Bitcoin Reserve and a U.S. Digital Asset Stockpile (for non-Bitcoin assets)
9 May	President Trump signed a Congressional Review Act resolution nullifying the Consumer Financial Protection Bureau (CFPB)'s final rule that capped overdraft fees for large banks and credit unions
15 May	The CFPB withdrew its proposed rule aimed at limiting the sale of Americans' sensitive personal and financial information by data brokers
12 Jun	The SEC withdrew its proposed rule related to conflicts of interest arising from the use of predictive data analytics in investment services
25 Jun	The Fed proposed modifying the enhanced supplementary leverage ratio (eSLR) standards for U.S. global systemically important bank holding companies (GSIBs) and their depository institution subsidiaries with corresponding revisions
18 Jul	President Trump signed the GENIUS Act, the first major crypto legislation to regulate stablecoins

Source: White House, Congress, U.S. SEC, Federal Register, Federal Reserve, CIMB CIO (30 Nov 2025)

The mid-term election playbook: reshoring and cash checks

Trump's reshoring agenda, to establish "*Made in America*" as a political and economic imperative leading into the 2026 midterms, is aimed at rebuilding domestic supply chains and securing high-tech manufacturing in critical sectors like semiconductors. This policy push, reinforced by bipartisan support stemming from job creation in key states, will drive economic growth. **Over USD1.2 trillion in new production capacity investments** have been announced in 2025 and should escalate into 2026. This translates to **tailwinds for the industrials, manufacturing, and logistics sectors**.

Separately, Trump proposed a **one-time "tariff dividend" of at least USD2,000** for low-to-middle income Americans in mid-2026, which if passed by Congress, would provide a **short-term boost to GDP growth via increased discretionary spending (benefiting the consumer sector)**.

Risks

- **Lofty valuations:** Current prices are at historical highs with potential for mean-reversion
- **High leverage:** Rising debt and large capex could strain balance sheets
- **Policy swings:** Regulatory and monetary policy shifts or government intervention may disrupt the growth trajectory



Bottom line

AI is **not in bubble territory yet**, as long as robust earnings growth supports momentum. We stay **neutral on US equities given stretched valuations** that offer limited margin of safety. We have a **target of 7,300** for the S&P500 for 2026, pegged to 23.5x PER. Volatility is likely to remain elevated, amid uncertainty over the Fed's interest rate path and macro conditions.

While AI thematic remains attractive long term, we advocate focusing on **high-quality tech leaders** and diversification beyond tech—particularly into **industrials** and **utilities** benefiting from reshoring and grid modernization, **financials** poised to gain from deregulation and **consumer** names as a mid-term election play.



Will Asia Continue its Renaissance?

Asian markets have been riding a wave of AI, reforms, and policy tailwinds, but can the momentum last into 2026?



Will Asia Continue its Renaissance?

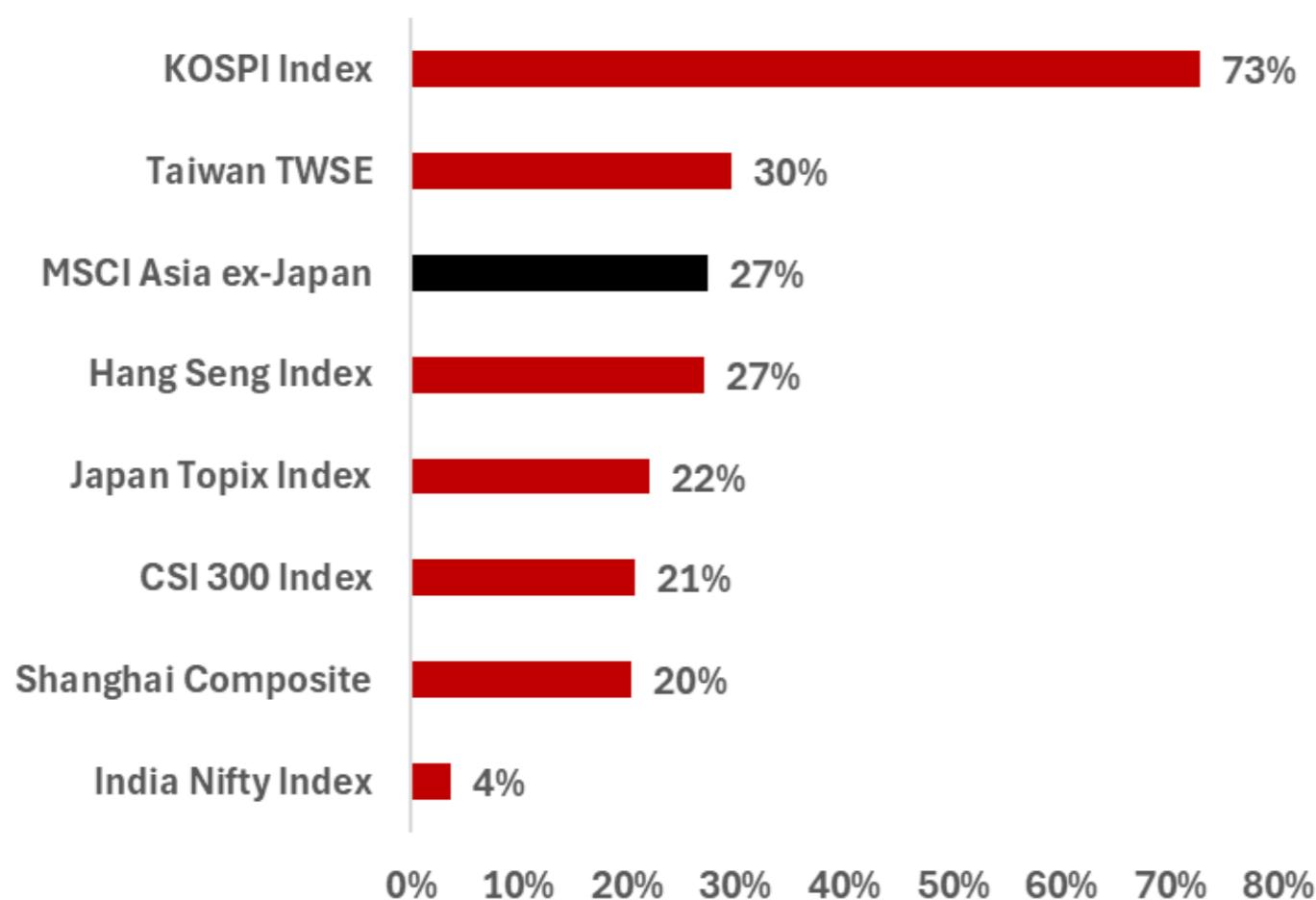
Key Takeaways:

- AI and market reforms remain key structural drivers for Asia which should drive further outperformance.
- ASEAN is a laggard, but Singapore leads in reforms while Malaysia stands out as a defensive laggard.
- Focus on quality AI and tech leaders, reform beneficiaries and balance with dividend yielders to manage volatility.

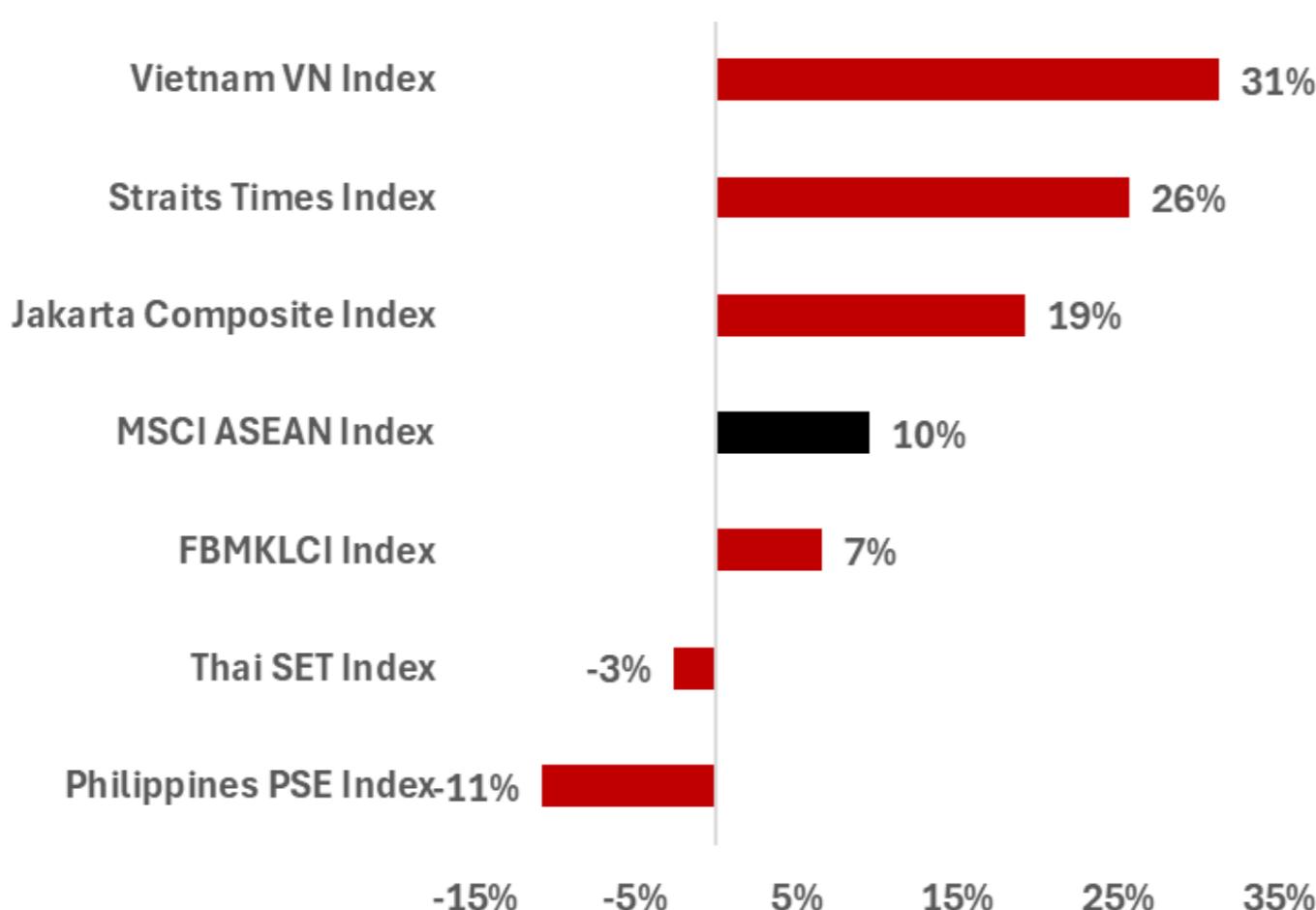
In 2025, flows to Asia were largely driven by US dollar debasement and cheap valuations. With MSCI Asia ex-Japan up +28% YTD and valuations re-rating to 14.2x forward PER (from 12.6x PER end-2024), **can Asia markets still outperform in 2026?**

We believe further outperformance from here, besides US dollar debasement, will be led by two key drivers: **1) AI revolution and 2) market reforms.**

South Korea & HK/China markets led outperformance in 2025...



...while ASEAN markets relatively lagged



Source: Bloomberg, CIMB CIO (10 Dec 2025)

The AI revolution is not confined to the US

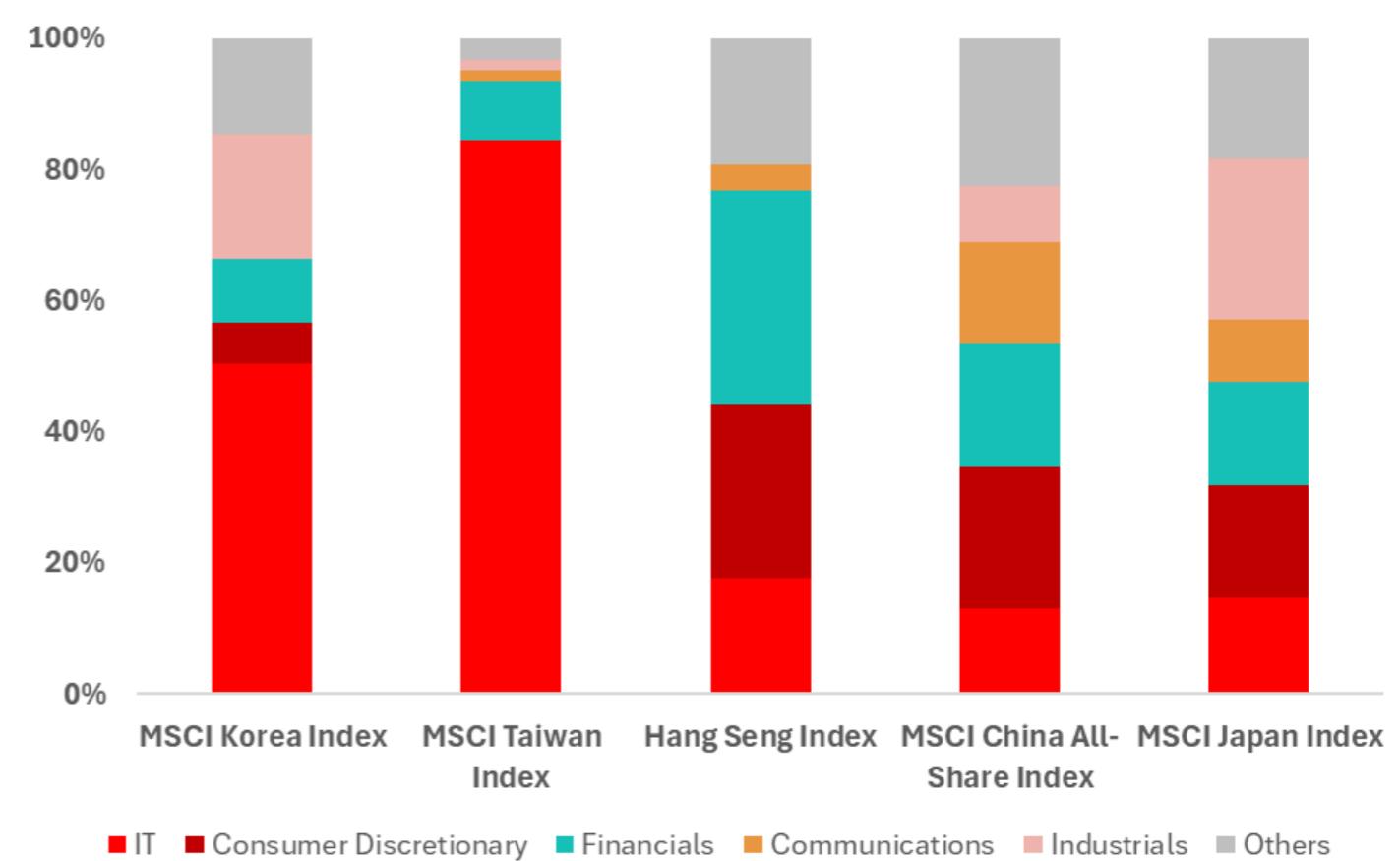
The AI cycle has lifted key Asian markets – Taiwan, South Korea, Hong Kong/China and Japan – due to their strategic positions within the global AI hardware supply chain.

Taiwan's TSMC is the global leader in advanced chip fabrication while South Korea leads in high-performance memory technologies, essential for AI training, dominated by SK Hynix and Samsung Electronics.

In China, the emergence of DeepSeek in 1Q25 gave rise to an AI renaissance, and 2026 could uncover new emerging players. Meanwhile, Japan supplies the precision equipment and materials for semiconductor production. The strong market performance across these Asian countries were largely tech-driven, especially for Taiwan and South Korea, reflecting the heavy tech concentration within their key index constituents.

As such, we believe the continued AI capex should sustain positive earnings momentum across these markets going into 2026.

Tech is a key sector weight in Asian market indices



Source: Bloomberg, CIMB CIO (30 Nov 2025)

Market reforms have been a differentiator of outperformance

Over the past few years, **several major Asian markets have introduced meaningful reforms** aimed at strengthening market quality and attracting long-term capital.

These **targeted reforms** have improved market depth and liquidity, boosted confidence in corporate governance, and created a more supportive backdrop for earnings and valuations.

This makes Asian markets **more structurally attractive** for long-term investors, sustaining our view of the Asian renaissance.

Japan and **South Korea** have focused on better corporate governance, increasing shareholder returns and clearer disclosure standards. These efforts have pushed companies to use capital more efficiently, reduce persistent valuation discounts, and step up dividends and buybacks. **As a result, both markets have seen a broad improvement in investor confidence and more sustained foreign inflows.**

China has been channelling more long-term institutional capital, such as insurers and mutual funds into domestic equities, created liquidity support for share buybacks and tightened oversight on listed companies. **Hong Kong has eased listing requirements for tech and growth companies, which have reignited its IPO market with over 300 IPO applications in its pipeline.**

Singapore's SGD5bn Equity Market Development Program aims to revitalize the stock market through allocating capital to fund managers to invest in Singapore-listed equities, especially small to mid-cap stocks, coupled with attractive tax incentives for asset managers and new IPOs.

Recent market reforms in key Asian markets

Countries	Key Reforms
Japan	<ul style="list-style-type: none"> Companies with low valuations (eg. P/B below 1.0x) to disclose an action plan to increase profitability & valuations Unwinding of corporate cross-shareholdings to increase capital efficiency Nippon Individual Savings Account (NISA) reform to drive higher retail participation
South Korea	<ul style="list-style-type: none"> Voluntary disclosure of a Corporate Value-Up plan tracking key shareholder return measures Establishment of the Korea Value-Up Index to track corporates undergoing a value-up plan Strengthening of minority shareholder rights & the fiduciary duties of independent directors
Hong Kong/China	<ul style="list-style-type: none"> Increased equity investment allocation for state-owned insurance funds Listed SOEs to increase shareholder returns through share buybacks and increased dividend payout Easing requirements for mainland A-shares & pre-revenue Specialist Technology Companies (STC) to list in Hong Kong
Singapore	<ul style="list-style-type: none"> SGD5bn Equity Market Development Programme (EQDP) to invest into small-mid cap companies Establishment of the Next 50 Index to improve visibility for small-mid cap companies Dual listing mechanism between SGX-Nasdaq & reduction in board lot sizes for blue chips

Source: CIMB CIO (10 Dec 2025)

CHINA

The Dragon awakens in the age of AI

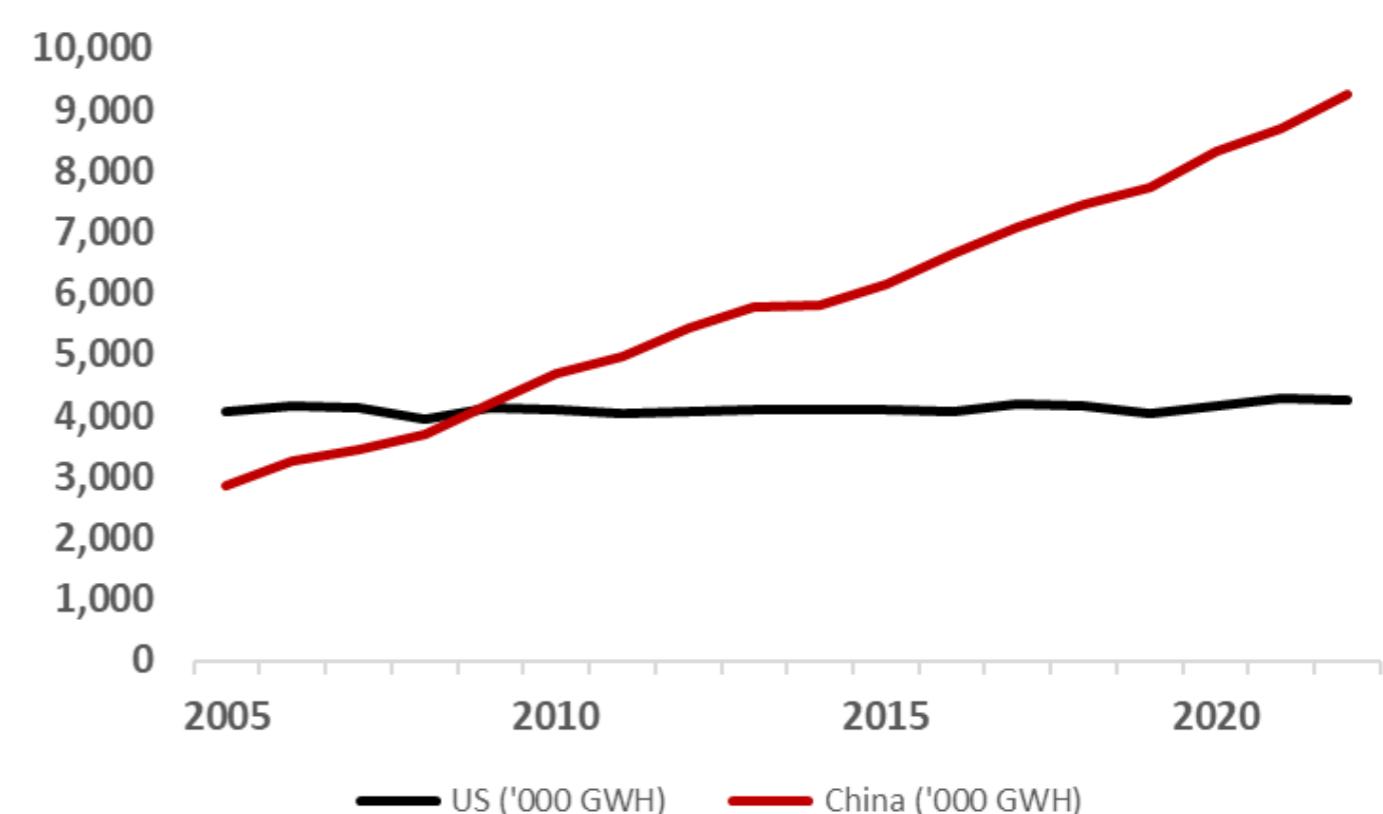
We believe China has entered a **new era of its AI and tech renaissance**. The next Five-Year plan puts **technology self-sufficiency** at the core of its national strategy. The 'DeepSeek' moment had unleashed an acceleration in homegrown AI models and domestic chip capabilities. **As we head into 2026, we expect more 'uncovered gems' in priority areas such as semiconductors, large language models, robotics and industrial automation** that could provide tailwinds for the market.

China's AI trajectory differs from the US. One key difference is that the **US AI revolution is primarily driven by massive private-sector investments** from tech giants while **China's is largely government-led and policy driven**. The US maintains global leadership in core AI models, benefiting from hyperscaler dominance, a deep talent pool and software-driven monetization opportunities.

In contrast, **China's strength lies in applied AI** – integrating AI into EVs, robots, factories, logistics and smart cities. As a result, China's AI sector is more hardware focused, has a relatively lower global reach, and is **less correlated with global tech trends**, partly due to geopolitical factors.

A significant competitive edge that China has over the US is its ability to scale renewable energy to support the expansion of its AI and data centres that require high power demand. This is supported by its recent plan to integrate AI into its national energy system by 2027 coupled with a new initiative to provide cheap electricity to leading technology companies to boost domestic production of AI chips.

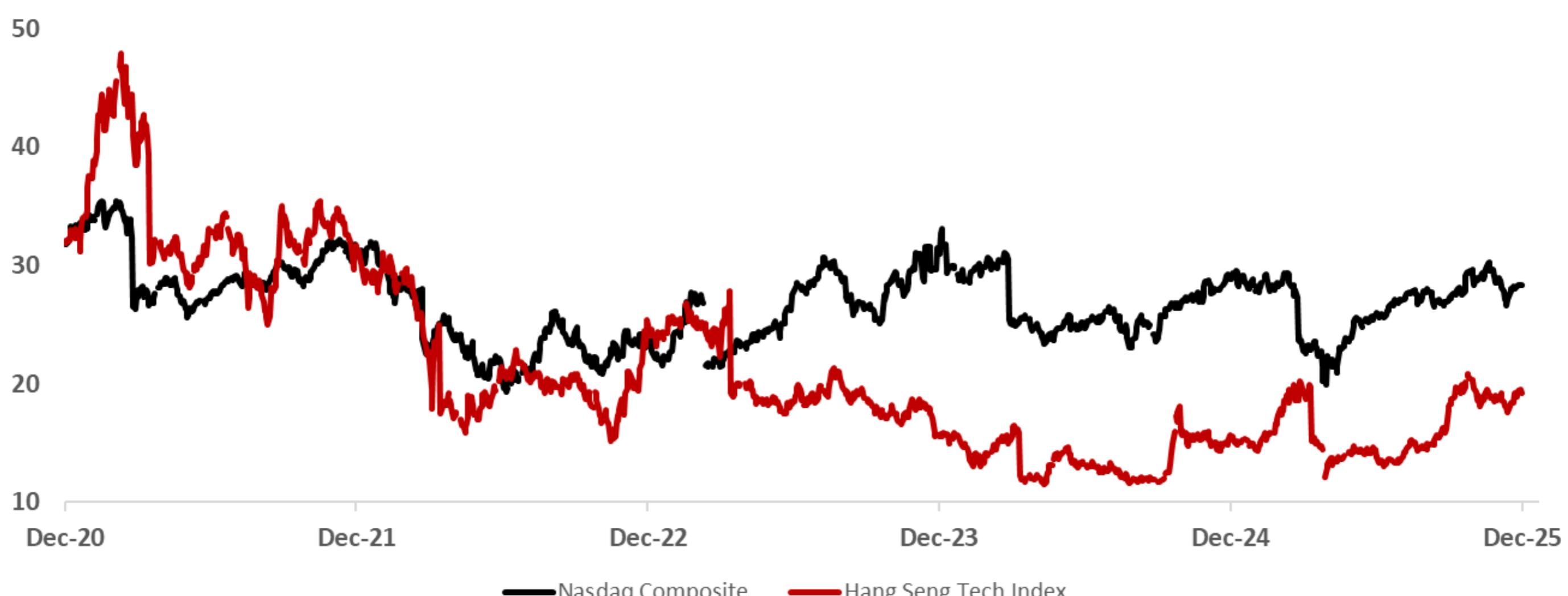
China's total energy generation vs. the US



Source: Bloomberg, CIMB CIO (30 Nov 2025)

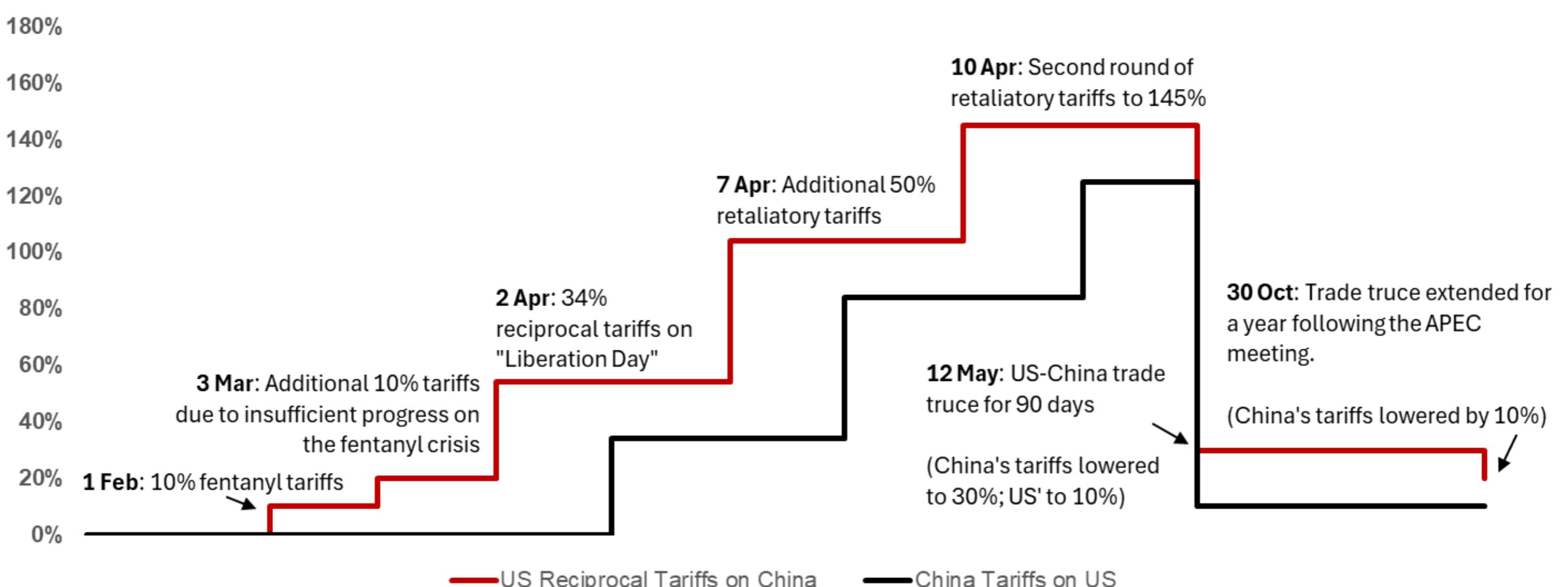
While it remains to be seen who will win the AI arms race, we believe the **valuation gap between the HSTECH and Nasdaq indices should narrow** as 1) China catches up on AI chips self-sufficiency, 2) AI advancement and monetization accelerates and 3) the domestic regulatory environment remains stable.

Hang Seng Tech Index trades at 19.2x PER vs. the NASDAQ Composite at 28.3x



Source: Bloomberg, CIMB CIO (10 Dec 2025)

Timeline of US-China reciprocal tariff rates



Source: CIMB CIO (30 Nov 2025)

An extended trade truce

Our view is that **geopolitical tail risk between US and China have reduced substantially** with the trade truce extended by a year.

China's **dominant position in rare earths** – controlling about 70% of global supply and nearly 90% of refining capacity – will put a lid on further trade war escalation, even if there are periods of rising tensions coupled with easing, which could be a new norm.

The current truce provides a **window for the US to diversify its rare earth supply** and for China to **accelerate its own AI chips development**.

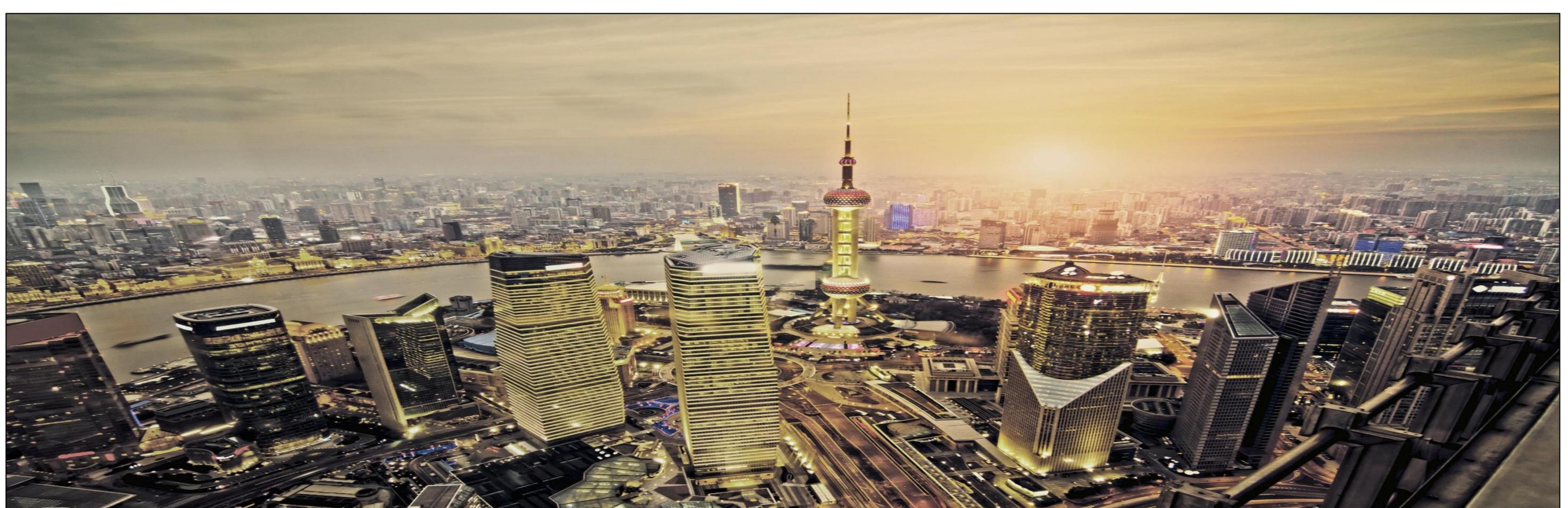
We expect **China's GDP growth in 2026 to be in the 4.5-5% range** with exports remaining steady as long as global growth remains supportive. Despite US' reciprocal tariffs this year, **China's exports remained resilient, rising 6.2% YoY** (January–November 2025), largely due to diversion to ASEAN, followed by Africa, the EU and Hong Kong, among others.

A liquidity-driven rally

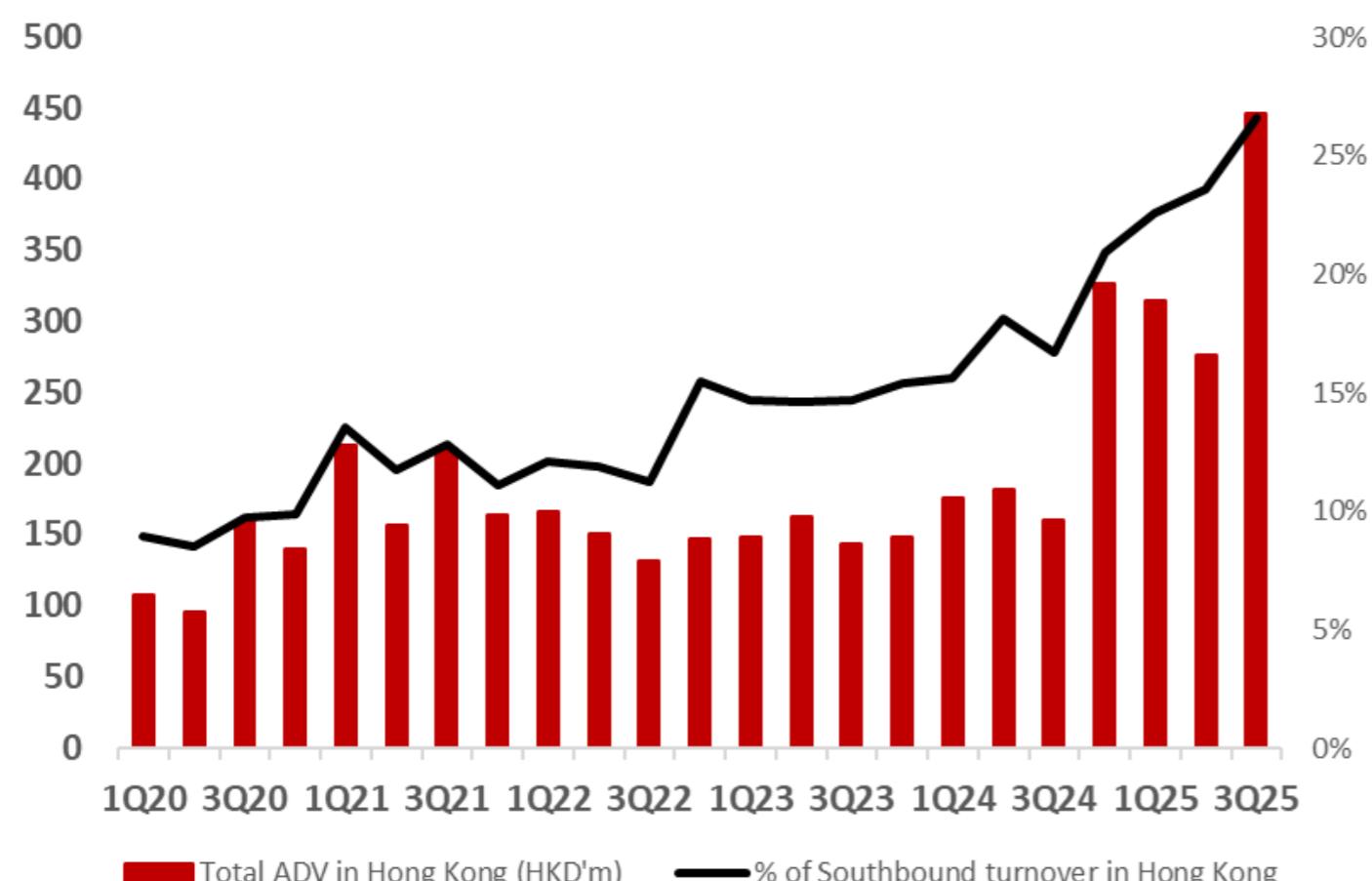
The rally in HK/China markets has largely been liquidity-driven with retail money rotating into A-shares as bond yields stay low at 1.8%. H-shares, meanwhile, have been supported by **strong Southbound flows** now at 26.6% of total market turnover (3Q25), alongside a **surge in IPOs** that have boosted liquidity.

Given the **policy pivot** since September 2024 to a **more pro-growth stance**, ongoing market support measures limiting downside risks, and increased allocation by institutional investors (insurers, mutual and pension funds), we believe the rally can be sustained into 2026. However, further upside will depend on **inflows from foreign institutional investors** as their allocations to H-shares are still below historical averages.

The Hang Seng index now trades at **11.2x forward PER**, about 1 standard deviation above its 5-year average, not as inexpensive as before, but still below its prior peak of 14x and cheaper than the MSCI Asia ex-Japan at 14.1x. This is supported by **projected earnings growth of +11%** in 2026. Meanwhile, the CSI 300 index trades at 14.1x forward PER, versus its peak of 17.2x, for projected earnings growth of 15% in 2026.



Southbound flows comprise 27% of total market turnover in Hong Kong



Source: HKEX, CIMB CIO (30 Nov 2025)

Number of IPOs in the pipeline have surged significantly in Hong Kong



Source: HKEX, CIMB CIO (30 Nov 2025)

Risks

- Domestic regulation:** Potential policy tightening or regulatory changes in sectors such as technology, financial leverage, and margin financing.
- Global growth slowdown:** A sharp deceleration in international demand could weigh on exports and broader economic activity.
- Geopolitical tensions:** Re-escalation of US-China tensions or regional disputes (e.g. China-Japan) could disrupt trade and market sentiment.

Bottom line

We stay **Overweight on HK/China**, favouring H-shares as core holdings. Our **2026 index target** for the **HSI** is **30,100** (pegged to 13x PER). We advocate a **barbell strategy**, balancing quality growth and yield. We prefer **AI/tech, select consumer names, and Southbound-flow beneficiaries**, alongside **financials** and **telcos** for yield.



JAPAN

Much ado about Sanaenomics

We believe **Sanaenomics provides the blueprint for Japan's next growth phase**, being an evolution of Abenomics. In Sanaenomics, there are 'Three Pillars':

1. National crisis management and **promoting economic growth through investment** in strategic sectors, namely AI, semiconductors, energy and defence.
2. **Expansionary fiscal policy** with a JPY21.3trn (USD135bn) stimulus package, to support growth, including more government spending, tax cuts through fuel-tax removal and higher income-tax thresholds and direct support for households through energy subsidies and cash handouts per child.
3. The government should be responsible for monetary policy while the **Bank of Japan (BoJ) has autonomy to choose the best policy tools**. Takaichi would like demand-pull inflation to be the major driver.

The US-Japan alliance matters

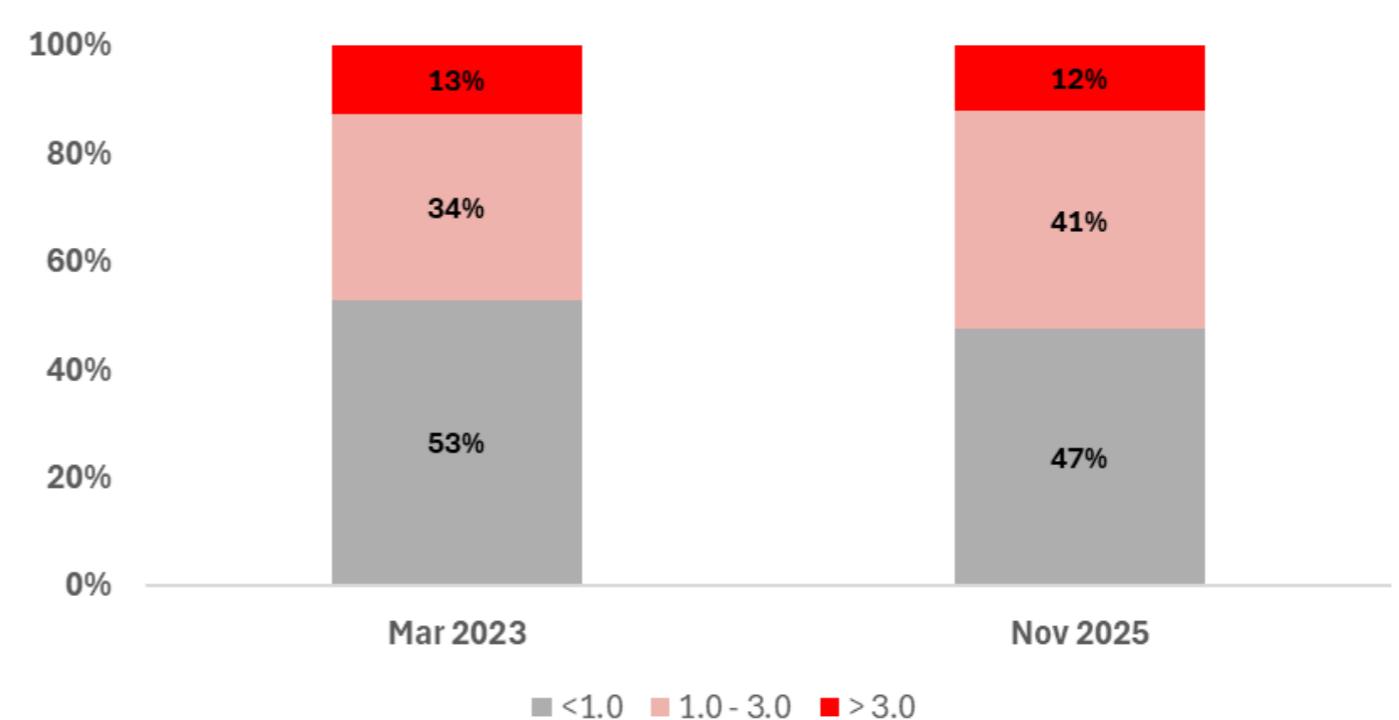
President Trump's visit reinforced bilateral ties with **Japan pledging USD550bn investments in US energy, AI infrastructure, electronics, and supply chains** under the Framework Agreement. This alliance signals a **multi-year capex cycle**, creating tailwinds for companies in power equipment, semiconductors, AI infrastructure, and critical minerals.

Corporate reforms to continue

Following the **Tokyo Stock Exchange (TSE)'s 2023 capital-efficiency push**, companies have **boosted share buybacks and dividend hikes**, coupled with profitability improvements by streamlining operations. We believe there is **still much room for ROEs to improve** as the proportion of companies still trading below book value (P/B < 1x) is high.

Meanwhile, the **launch of the expanded NISA** (Japanese Individual Savings Account) structure, allowing households to invest in stocks and other financial products without having to pay taxes on capital gains and dividends, will continue to **support domestic liquidity** for Japanese equities.

Proportion of companies trading below book is still high in the Topix Index



Source: Bloomberg, CIMB CIO (30 Nov 2025)

The TSE is **enforcing governance reforms** through initiatives such as publishing lists of companies with capital-efficiency plans, imposing stricter listing criteria, and requiring enhanced investor relations and disclosures.

The Topix index is up 25% YTD and trades at 16.3x forward PER or about 1 standard deviation above its historical average of 14.8x, with 9.5% projected earnings growth. While no longer inexpensive, the Topix is still relatively cheaper than the S&P500 index at 22.2x PER. As such, we believe **structural reforms and global funds diversification** could drive flows to further re-rate the market.

Risks

- **Policy execution** by the Takaichi administration
- **Fiscal sustainability concerns** amid the record stimulus
- **Escalating China-Japan tensions**
- Impact on returns from a **weaker-than-expected Yen**

Bottom line

We are **Overweight Japan**, focusing on sectors poised to **benefit from structural and policy tailwinds**. Our 2026 Topix index target is 3,800 (pegged to 18.5x PER).

ASEAN

Will it play catch-up?

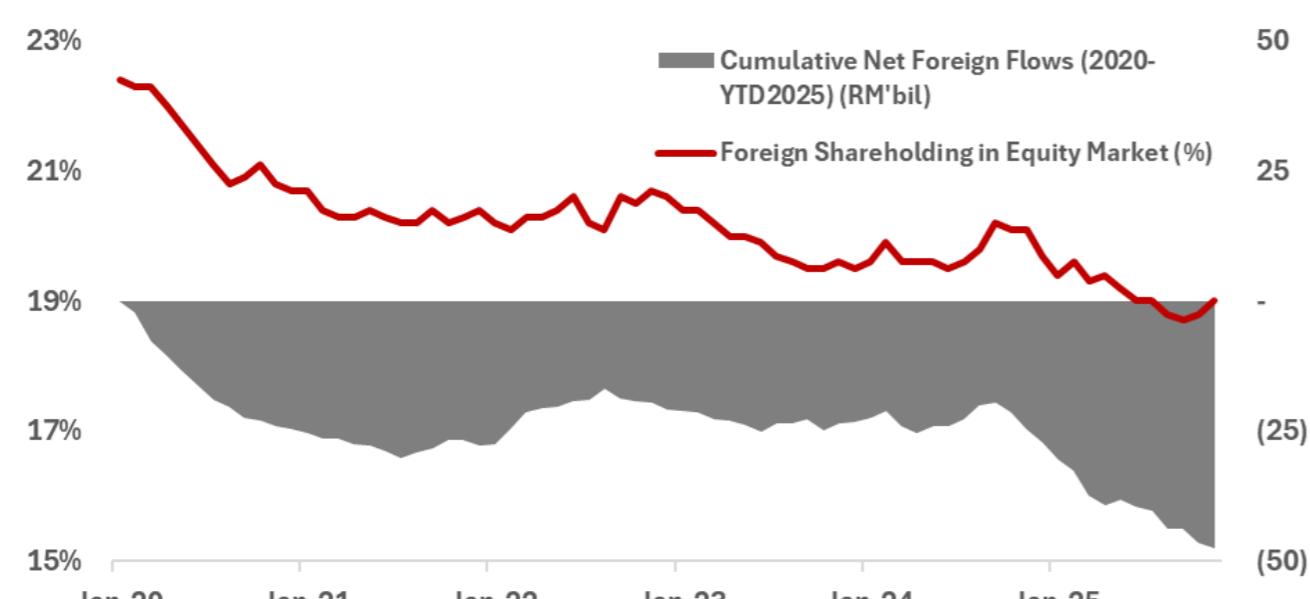
ASEAN markets have been **relative laggards** in 2025, with the exception of Singapore, Vietnam and Indonesia. In the first half, ASEAN grappled with high reciprocal tariffs imposed by the US. **Trade tensions have since eased** upon negotiations with **average tariff rates ranging from 19-20%**, with **Singapore at 10%**. Sector-specific exemptions such as for electronics and pharmaceuticals, have also temporarily cushioned the impact.

ASEAN's growth is expected to remain resilient in 2026, benefiting from **trade diversions, low inflation** and **policy flexibility**, given the Fed's easing cycle. However, uneven corporate governance standards, political instability in certain markets and slow reforms have hindered the region's potential. Two key markets stand out - **Singapore** as a **safe haven** with strong governance and market reforms, while **Malaysia** is a **defensive laggard** with relative political stability and policy reforms.

Malaysia

Structural support from strong domestic liquidity. Malaysian equities remained resilient in 2025 (FBMKLCI YTD: -1.9%) with strong domestic liquidity, offsetting aggressive foreign selling. We expect domestic liquidity to remain the key driver in 2026 whilst a potential foreign inflow could add strength to the local bourse.

Foreign shareholding of Malaysian Equities are at all time lows



Source: Bloomberg, CIMB CIO (30 Nov 2025)

Foreign inflow reversal. Foreign shareholding in Malaysian equities has inched up to 19% as at end-November 2025, but remains at historical lows. **Sustained MYR strength, clearer policy execution, stronger-than-expected corporate earnings** and consumption boost from **Visit Malaysia Year 2026** (VMY2026), could reignite foreign interests. Foreign bond inflows have already begun which is historically a precursor to equity inflows.

MYR strength - a tailwind. The MYR strength reflects resilient macro fundamentals, driven by **robust domestic demand** and a positive current account balance. **Favourable interest rate differentials** is a catalyst as the **FBMKLCI historically outperforms during periods of MYR strength** while domestic-demand linked companies benefit from lower input costs.

Bottom line

We **upgrade Malaysia to Overweight** as an overlooked defensive laggard in ASEAN. Valuations are undemanding at **14.1x forward PER**, below historical mean of 15x, and offers an **attractive dividend yield of ~4.4%**. We believe there is potential upside to consensus' 7% earnings growth driven by MYR strength and boost from VMY2026. Our **2026 target for FBMKLCI is 1,730** (implies 15x PER). We prefer large-caps in **banks, construction, domestic plays and quality dividend yielders**.



Singapore

Straits Times Index (STI) delivered an **impressive 23.5% return in 2024 and another 19% YTD in 2025**. We believe there is more room for upside driven by active market reforms and a still attractive yield premium.

Active market reform. The Monetary Authority of Singapore (MAS)'s **Equity Market Development Programme (EQDP)** is aimed at **boosting market activity, deepening liquidity and broadening participation, particularly in small and mid-cap (SMID) stocks**, with potential spillover flows into large-caps. A key initiative is the **SGD5bn capital injection into active funds to invest in Singapore-listed SMID stocks**. As of November 2025, SGD3.95bn has been allocated across 9 asset managers, with the remaining SGD1.05bn scheduled for deployment in 2026. Additionally, reducing board lot sizes to 10 (from 100) for stocks at SGD10 and above is expected to enhance retail participation and drive flows into large caps. These measures, amongst others, should **support continued valuation re-rating across both SMID and large caps**.

Key market reforms for SG Equities

Direct liquidity injection	MAS to allocate SGD5bn via asset managers through the Equity Market Development (EQDP) into SGX small and mid-cap stocks.
Better retail access	Board lot size reduced from 100 to 10 for stocks that are S\$10 and above.
Better global access	SGX-Nasdaq dual listing for companies with a market cap of at least S\$2bn, providing access to deep liquidity whilst maintaining home base in Singapore.
Boosting SMID cap valuations	MAS/SGX to allocate SGD30m for a "value up" program to improve on investor engagement amongst SMID caps. Also, the rollout of the iEdge Singapore Next 50 Index, tracking 50 liquid mid-cap companies in the REITs and tech/industrial sectors would shore up valuations as well.

Source: MAS, CIMB CIO (30 Nov 2025)

Attractive yield premium. With a current dividend yield at 4.9% - significantly higher than the ~2% yield on 10-year government bonds - Singapore stands out as a **superior source of returns in a low-yield environment**. Inflation remains contained with core inflation at 1.9% in November 2025, while interest rates are expected to stay low. The possibility of **further easing in 2026** should trade-related headwinds persist could amplify the appeal of dividend-paying equities.

With 2026 earnings growth expectation of 7.6%, **STI's valuations remain compelling** at 13.9x FY26F PER. Supported by reform-driven inflows, stable currency and favourable macro fundamentals, the market is **well positioned to deliver continued attractive returns**.

Yield gap remains attractive



Source: Bloomberg, CIMB CIO (30 Nov 2025)

Bottom line

We remain **Overweight Singapore** on strong fundamentals, attractive yields, supportive reforms, and favourable currency trends. Our **2026 STI target is 4,800**, pegged to 14.7x PER. We prefer S-REITs and banks for yield, coupled with reform beneficiaries.

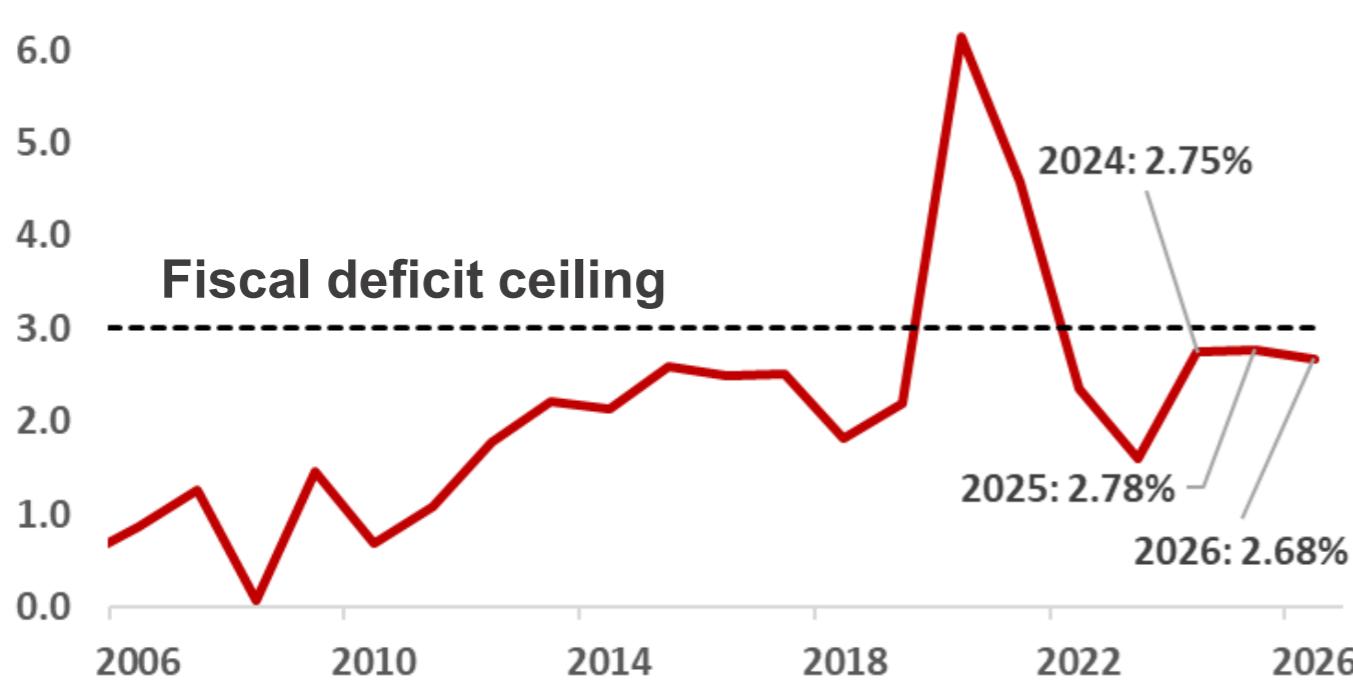


Indonesia

Indonesia is slowly regaining interest as **pro-growth policy mix** takes shape after a volatile 2025. The economy is set to outpace regional peers, with GDP growth forecasted to accelerate to 5.3% in 2026 (from 5% in 2025), underpinned by **fiscal and monetary easing**.

The government has taken **steps to restore confidence** following social unrest in September, rolling out a third stimulus package this year worth IDR16tr (USD1bn), and injecting IDR200tr (USD12bn) in liquidity to local banks to spur lending. New Finance Minister Purbaya has also pledged stricter fiscal discipline, avoiding a return to the previous BI-MOF burden sharing scheme, redirecting state-owned debt to the sovereign wealth fund Danantara.

Indonesia fiscal deficit trajectory



Source: Bloomberg, CIMB CIO (30 Nov 2025)

Achieving the ambitious 10.5% tax-to-GDP target prove challenging without additional tax measures, possibly pressuring the 2.68% fiscal deficit target (2025: 2.78%). Recent foreign selling of government bonds partly reflects these fiscal concerns, alongside profit-taking after bonds rallied on abundant domestic liquidity. The LQ45 index trades at 11.9x PER, compared to its 5-year mean of 13.2x, with 2026 earnings projected to grow 21%. Valuations largely reflect **policy execution risks and fiscal concerns**, which could limit meaningful re-rating.

Bottom line

We are **Neutral on Indonesia**. While valuations and earnings growth appear supportive, risks from **fiscal strain and policy execution remain concerns**. Our **LQ45 index target is 880**, pegged to 12.1x PER.

Thailand

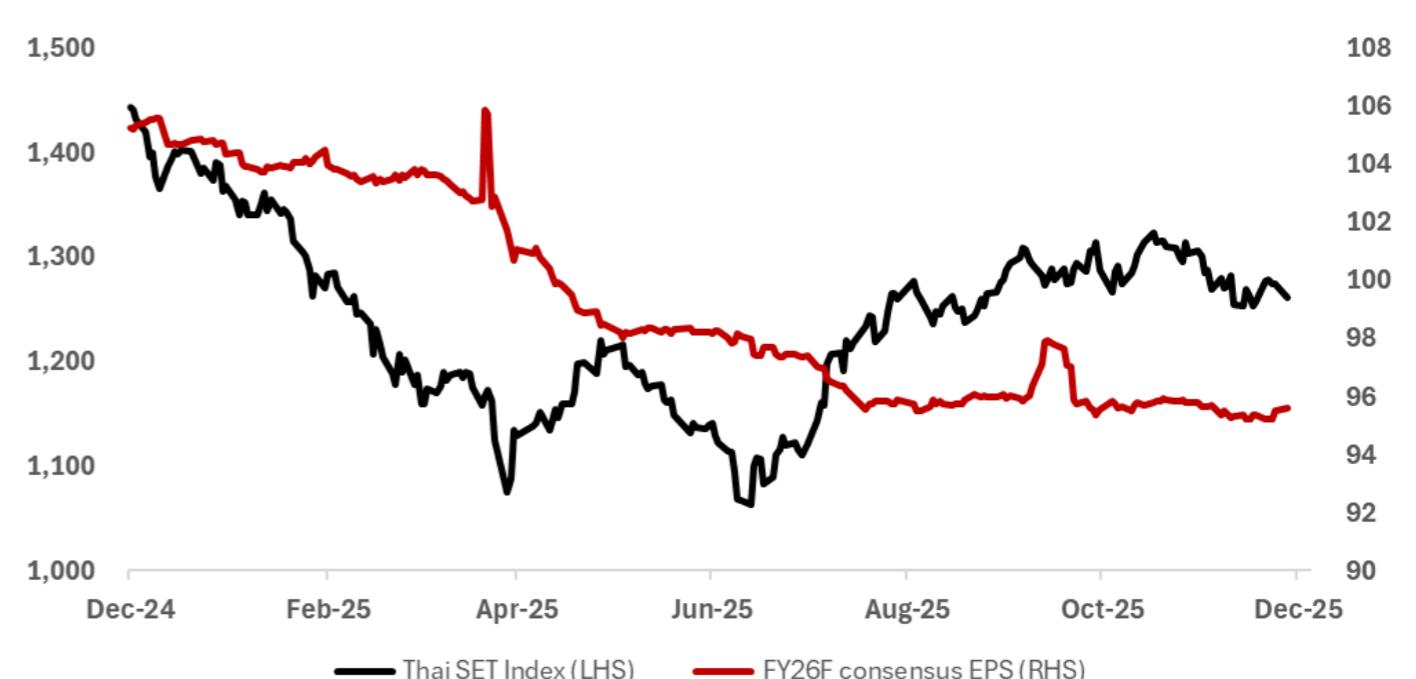
Thailand's macro environment remains **challenging**, with growth slowing to just 1.2% YoY in Q3 2025, the weakest in four years. CIMB's forecast for 2026 GDP growth is +1.9% reflecting a modest recovery amid rising **fiscal pressures** the government's debt relief and subsidy programs, prompting both Moody's and Fitch to shift their outlook to negative. **Political risk looms** large ahead of the 1Q26 election, threatening policy continuity and investor confidence through 1H2026, as evidenced by persistent foreign net outflows.

Stock Exchange of Thailand's (SET) EPS is forecasted to grow 6.8% YoY, but is vulnerable to downward revisions if political uncertainty escalates. Whilst two anticipated Bank of Thailand (BOT)'s rate cuts in 2026 could provide modest support, structural headwinds from weak domestic demand and fiscal constraints will likely cap upside potential for Thai equities.

Bottom line

Underweight Thailand, amid the soft macro backdrop and possible downside risk in earnings, offering limited upside. Our 2026 **SET index target is 1,240** (pegged to 13x PER).

SET Index against 2026F consensus earnings revisions



Source: Bloomberg, CIMB CIO (10 Dec 2025)

A close-up, slightly blurred background image of several US dollar bills, showing the front and back sides of various denominations. The focus is on the text and seals on the bills.

Can the US Dollar Sustain its Decline?

Shifts in policy, politics, and global trends are setting the stage for an unsettled dollar

Can the US Dollar Sustain its Decline?

Key Takeaways:

- **Global growth expansion at a more measured pace**, with moderation expected in the second half of the year.
- **Trade tensions de-escalate** on positive bilateral trade deals, particularly with China.
- **US Dollar to weaken**, but unlikely to be a straight-line path lower as inflation risks persist.

Story of two halves

We expect global growth will **continue to expand** in 2026, though **at a more measured pace** driven by **improving financial conditions** from interest rate cuts, an **easing of trade tensions** and continued **fiscal support** in several economies.

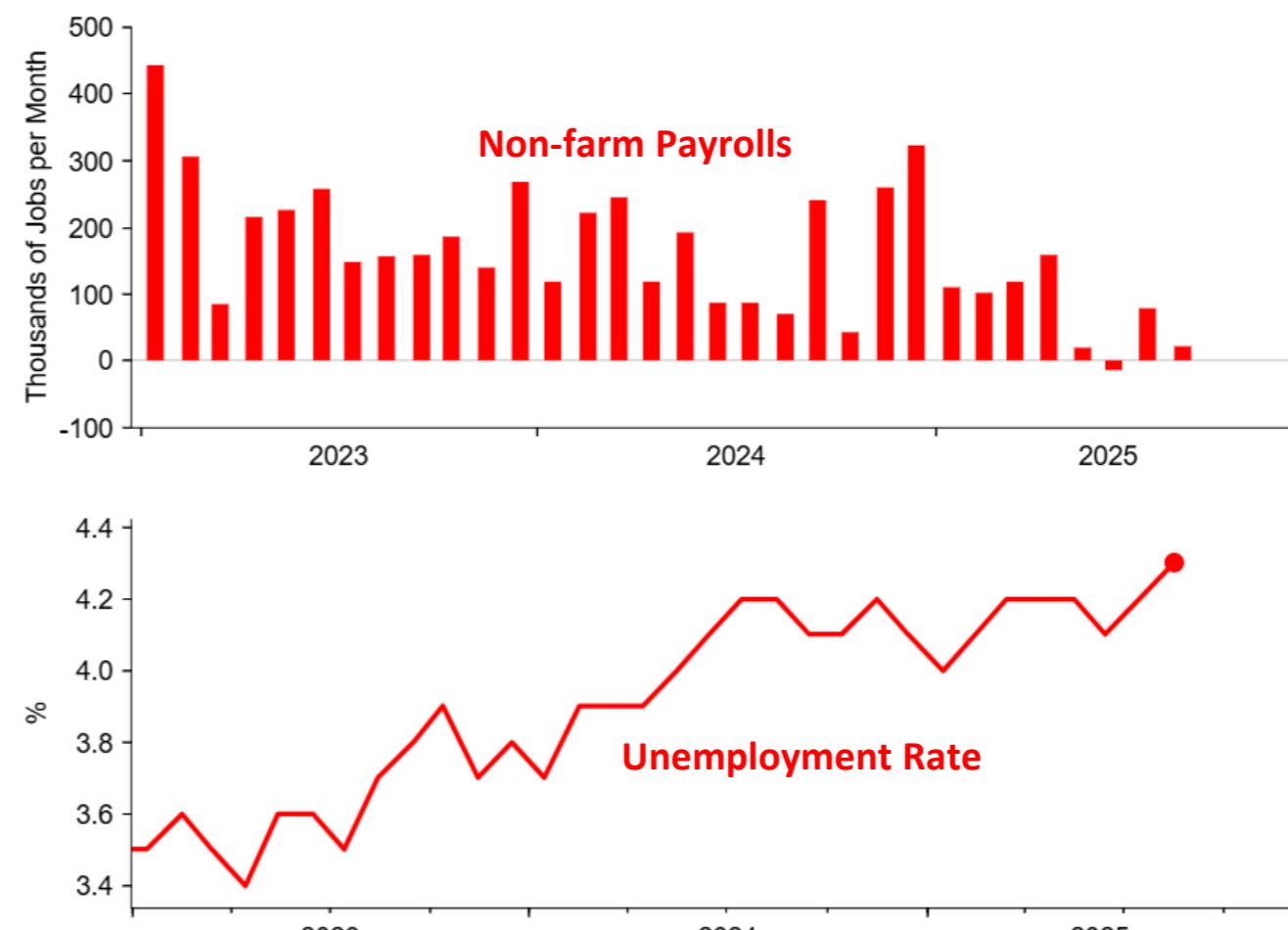
Growth in 2026 is expected to follow a two-phase trajectory of a **stronger first half before easing in the second half**. This reflects the delayed impact of tariffs on economic activity.

Loose fiscal and monetary policies in the US

In the US, the case for a soft-landing is premised in part on the One Big Beautiful Bill Act (OBBA). The bill embeds **large tax cuts and expands investment incentives** which boost corporate and capital spending. These measures are expected to revitalize private investments, particularly once businesses get more clarity on tariffs. Fiscal sustainability concerns remain as the **budget deficit is expected to remain large** over the foreseeable future.

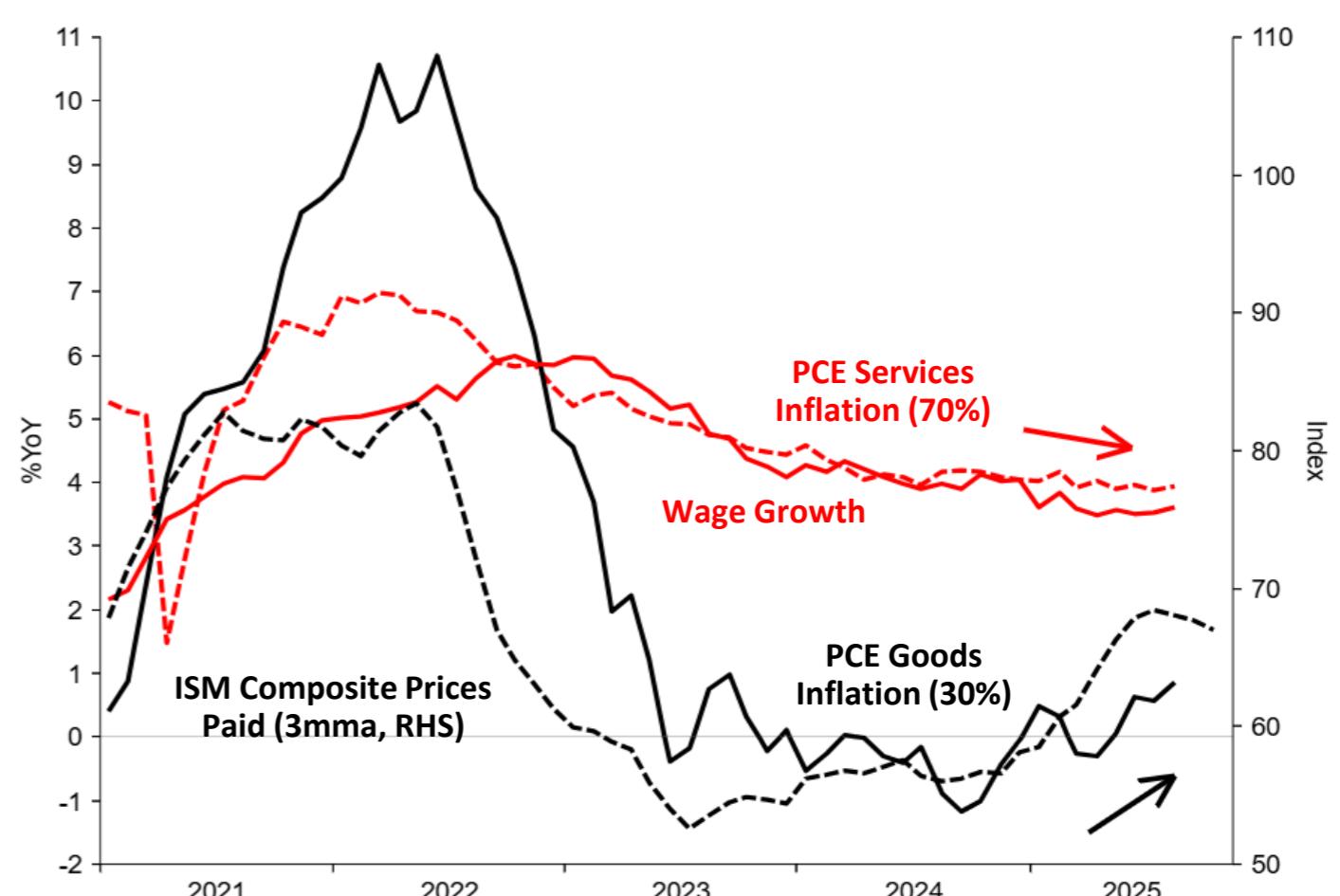
Further, rate cuts by the Federal Reserve (Fed) should support growth as its policy attention **shifts from inflation to the labour market**. Inflation is expected to **stay broadly steady**, with higher goods inflation from tariffs offset by gradually moderating services inflation from lower wage growth. While inflation is expected to remain above the 2% target, the Fed is sensitive to weakness in job creation and a rising unemployment rate. We expect the Fed to **cut its policy rate to 3.00-3.25%** over the next 12 months.

US labour market is slowing



Source: LSEG Datastream, CIMB CIO (30 Nov 2025)

Broadly steady inflation in the US



Source: LSEG Datastream, CIMB CIO (30 Nov 2025)

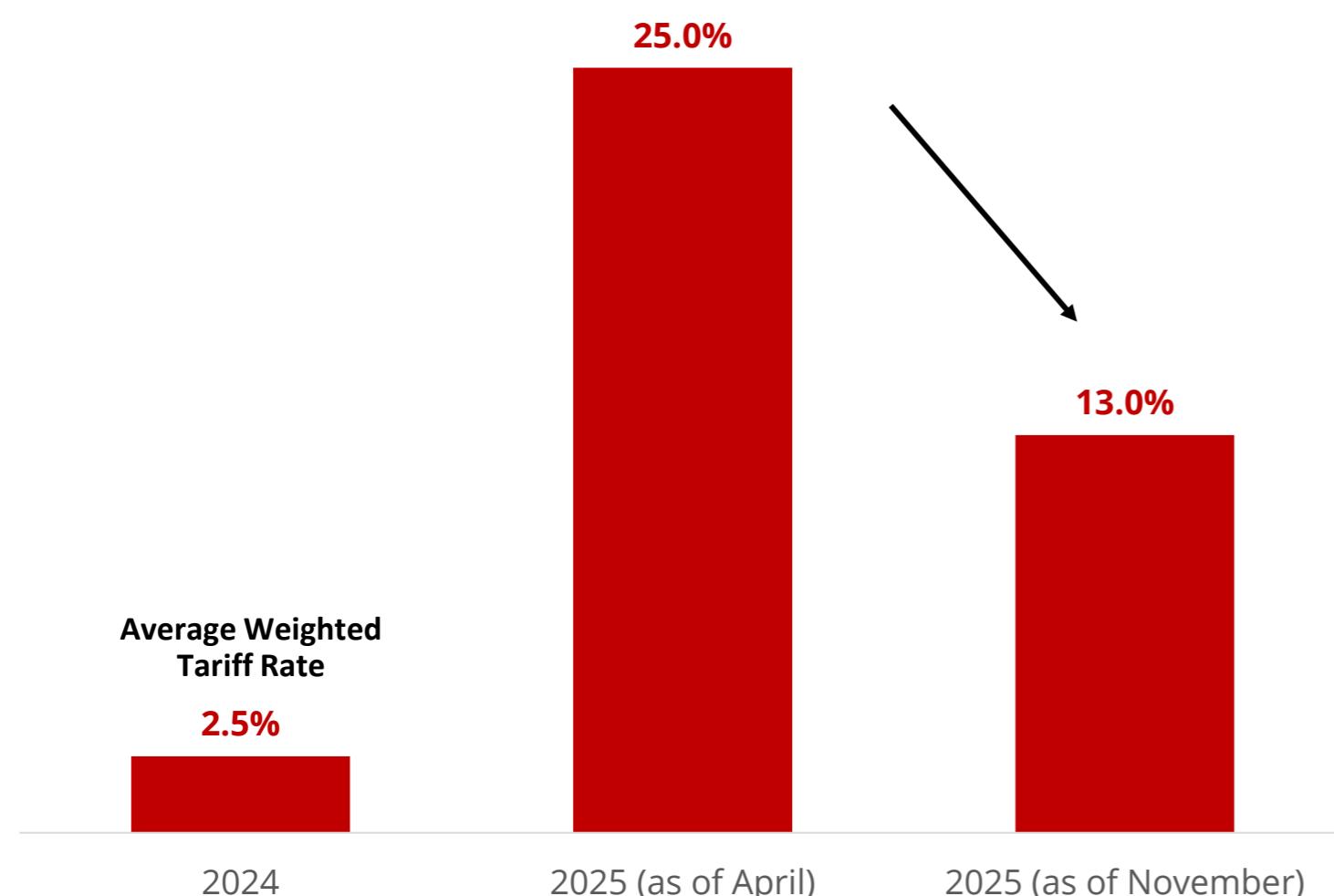
Further, **AI spending and investments** will also be key drivers of US growth. Corporates are committing hundreds of billions to data centres, chips, and infrastructure, fuelling a new capex cycle. Some estimates suggest AI-related investments accounted for nearly 90% of US GDP growth in the first half of 2025. This trend is expected to continue, with spillover effects across energy, construction, and manufacturing.

Trade tensions turning down a notch

Tariff rates on US imports surged in 2025 as the Trump administration sought to rebalance the US trade deficit. The impact of tariffs so far has been **mitigated by bilateral trade deals, exemptions, and limited retaliation**. We think tariffs have **mostly been absorbed in corporate margins** rather than passed through to consumers.

Importantly, following the APEC summit in October 2025, Trump and Xi Jinping agreed to a one-year renewable trade truce that includes partial tariff rollbacks, suspension of Chinese export controls on critical minerals, and renewed agricultural purchase commitments. Both sides also pledged to pause retaliatory measures and ease non-tariff restrictions, **signalling a de-escalation** of trade tensions

Trade tensions have eased, but remain above historical norms



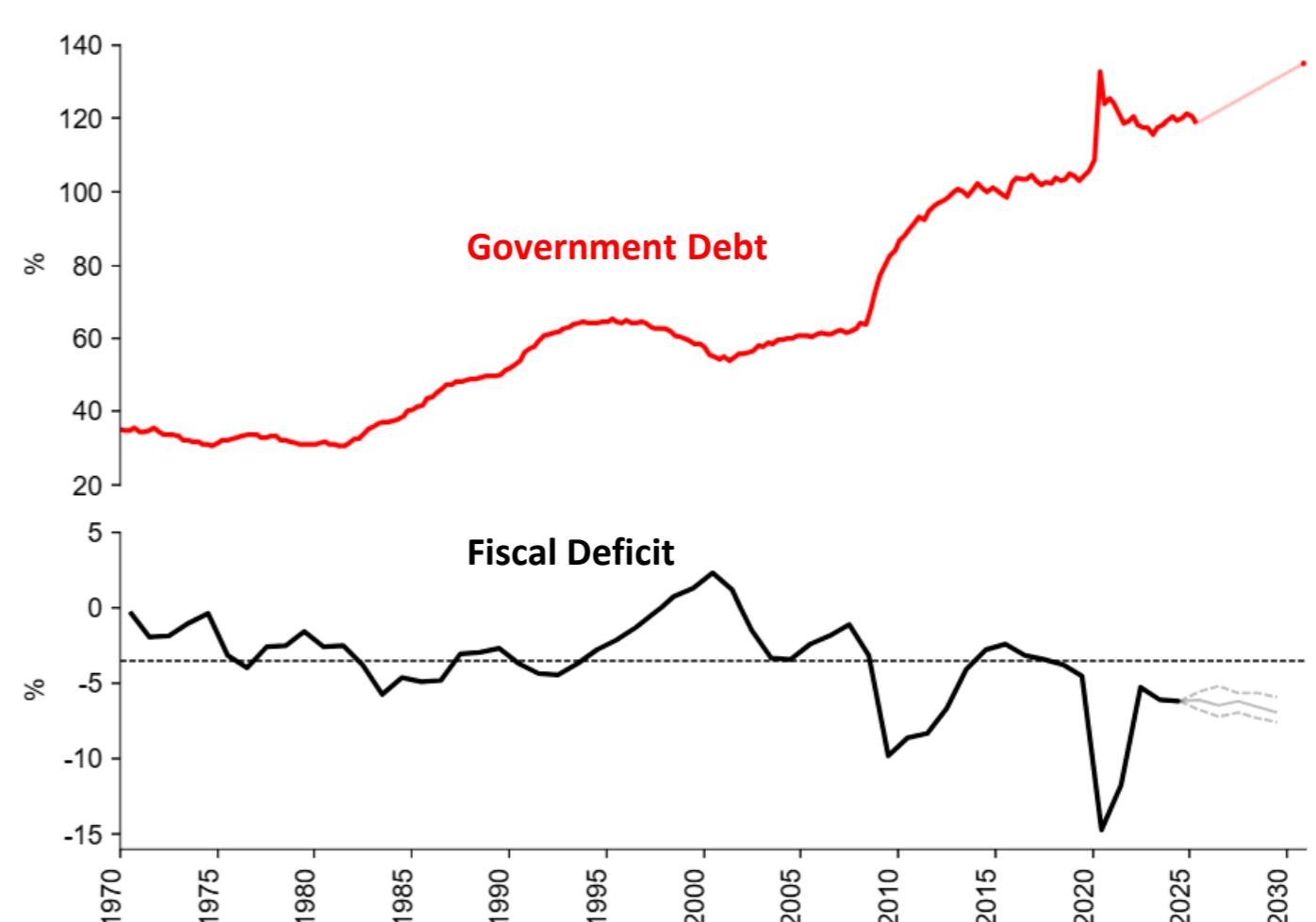
Source: Tax Foundation, CIMB CIO (10 Dec 2025)

US Dollar on a bumpy ride lower

The broad USD (DXY) index recorded one of its steepest declines in 2025. We think the **USD will remain weak in 2026** due to the following factors:

- **Sharp Fed rate cuts.** Compared to the ECB, BoE, RBA, and other central banks, the pace of Fed rate cuts are deeper and faster. This will **narrow interest rate differentials** and may exert sustained downward pressure on the USD.
- **Fiscal and political uncertainty.** Persistent concerns over US **fiscal sustainability**, coupled with heightened political risk and the undermining of the Fed's independence have destabilised confidence in the USD as a safe-haven currency.
- **De-dollarisation over the longer term.** 2025 marked a turning point for global currency dynamics. Institutional investors increasingly sought to hedge USD exposure, prioritising asset performance over currency risk. This trend reflects broader **fears of currency debasement**, as evidenced by the strong rally in gold prices.

Rising US government debt amid continued fiscal deficit



Source: LSEG Datastream, CIMB CIO (10 Dec 2025)

We expect the **decline in the USD will not be a straight line**. Instead, it is likely to be punctuated by periods of volatility around key events, including:

- **Fed leadership transition.** Fed Chair Jerome Powell is expected to step down in May, and his successor will likely face heightened political pressure from the Trump administration. This may raise **concerns over the Fed's independence** and could amplify uncertainty around the policy rate path.
- **Midterm elections.** The US midterms in November is a **key risk event**, with potential shifts in fiscal priorities and regulatory frameworks depending on the outcome.



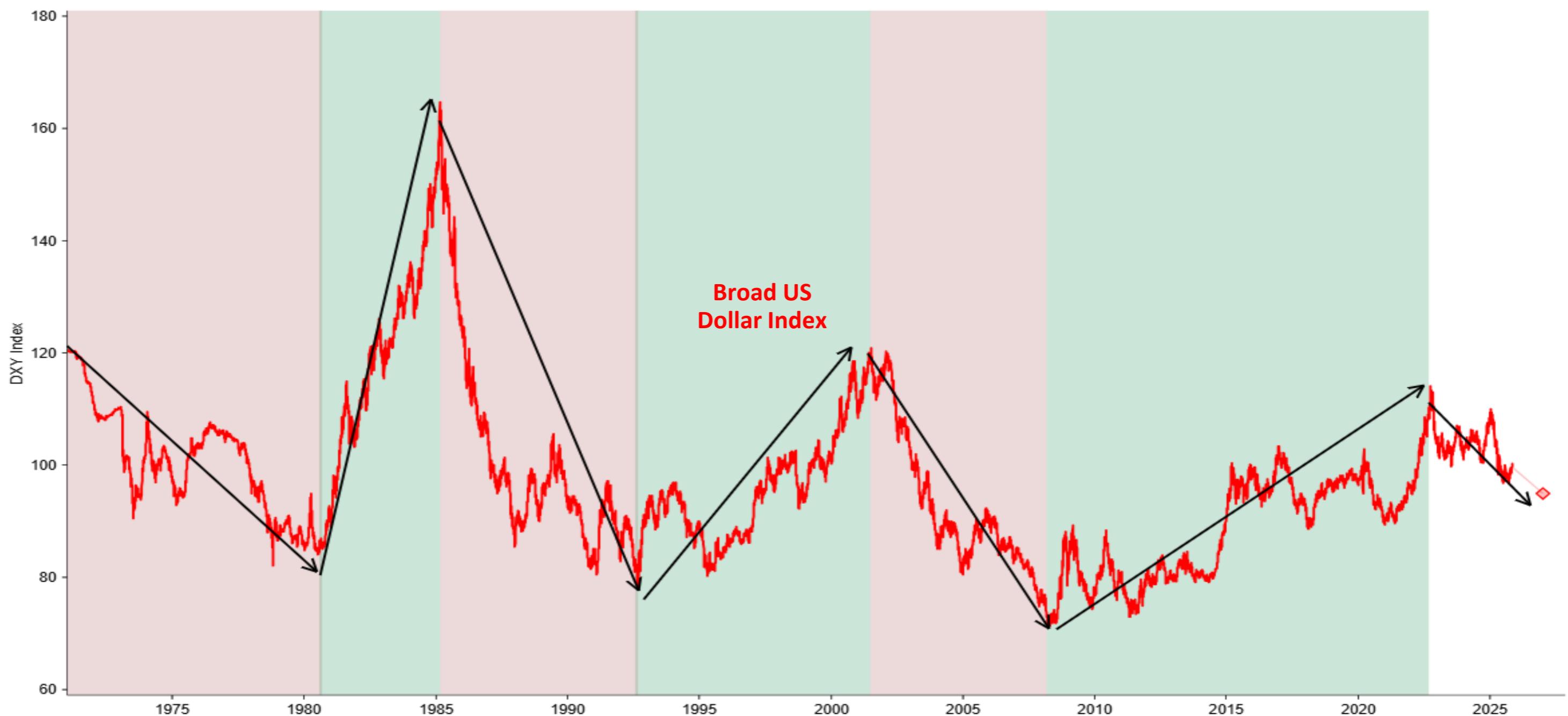
Risks

- **Inflation surprise:** Faster price pressures could force the Fed to delay or cancel rate cuts.
- **Flaring trade tensions:** A reignition of tariff disputes would weigh on global growth and risk sentiment.
- **Geopolitical shocks:** Escalating conflicts or political instability could trigger safe-haven flows and market volatility.

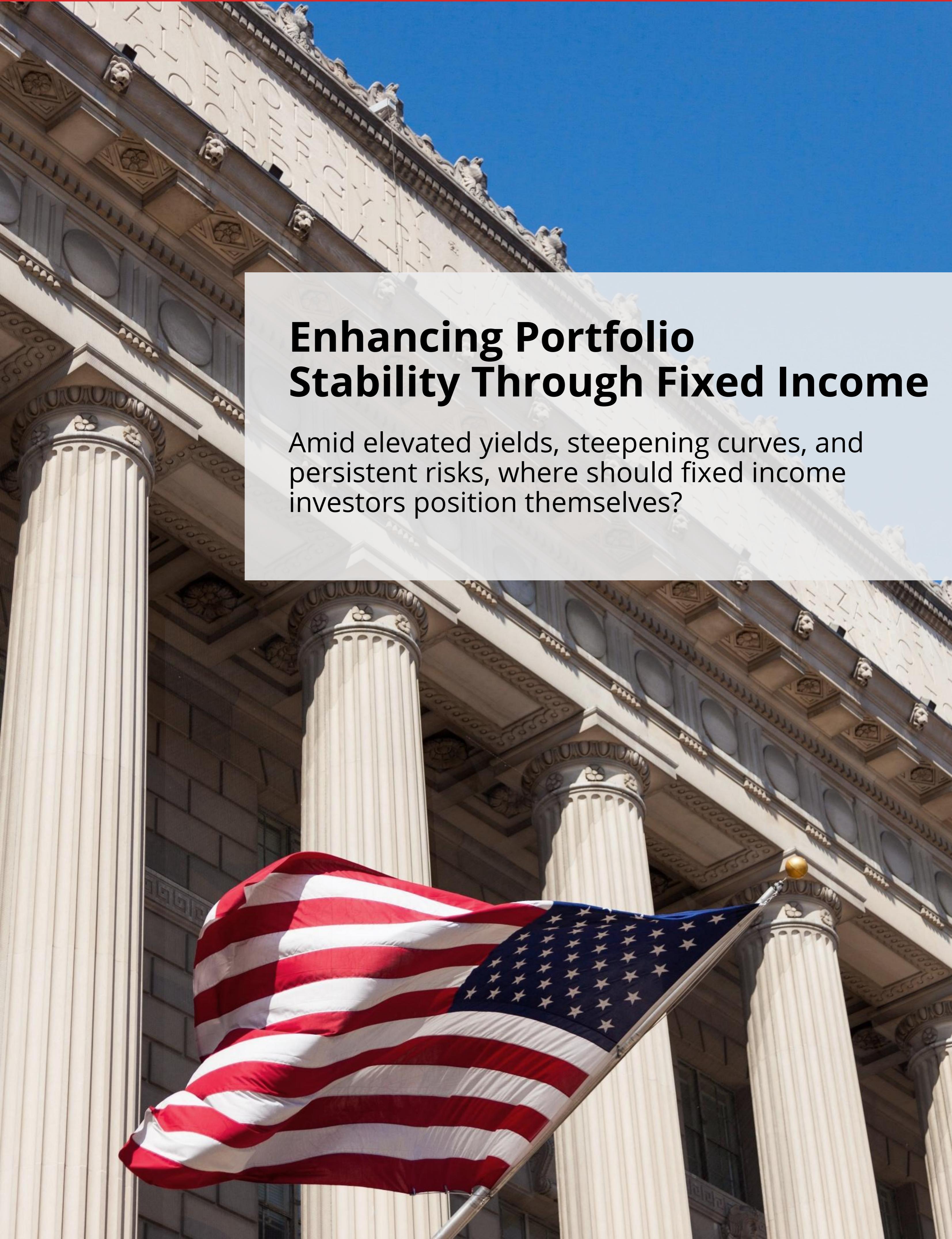
Bottom line

We project the **US Dollar will end the year lower**, though the journey is unlikely to be linear and will include bouts of volatility. Moderating growth in the US alongside rate cuts by the Fed should temper returns on US assets. Against this backdrop, we see merits in continuing to **diversify away from the US Dollar** during temporary periods of strength.

USD cycles can last multiple years



Source: LSEG Datastream, CIMB CIO (30 Nov 2025)

A large, ornate classical building facade with a flag flying in the foreground.

Enhancing Portfolio Stability Through Fixed Income

Amid elevated yields, steepening curves, and persistent risks, where should fixed income investors position themselves?

Enhancing Portfolio Stability Through Fixed Income

Key Takeaways:

- Bond market volatility is expected to rise**, particularly on concerns over Fed independence, re-accelerating inflation and potential credit spread expansion.
- Keep duration low as the US yield curve is expected to bear-strengthen**, with rate cuts anchoring the front end while persistent fiscal challenges push long-end yields higher.
- We prefer **short-to-mid tenor investment-grade AUD and GBP corporate bonds** of high quality.

Higher volatility ahead

We expect rate volatility to rise in 2026, driven by the following factors:

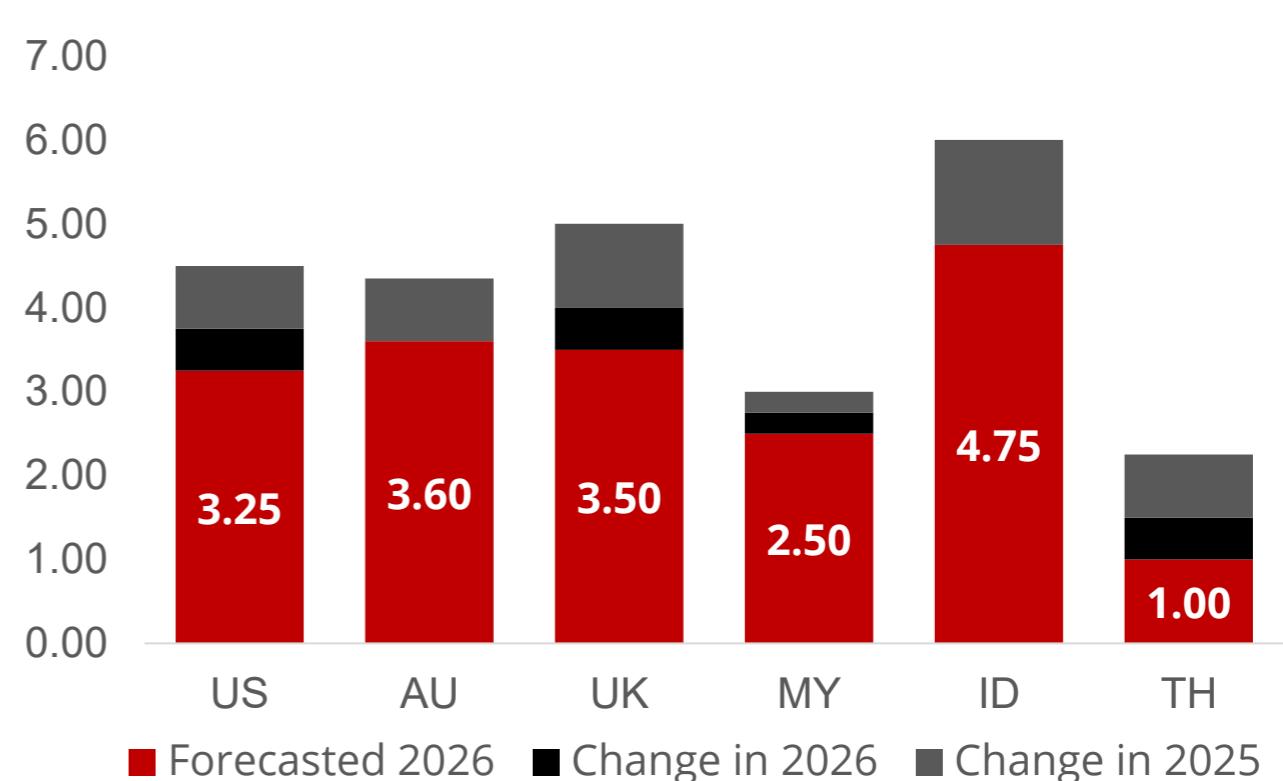
- Fed independence** risks as any sign of weakened Fed autonomy could prompt investors to trim bond holdings, pushing long-term yields higher as risk premiums increase.
- Inflation resurgence** driven by OBBBA (One Big Beautiful Bill Act) stimulus effects and a higher aggregate demand that has been largely underestimated.
- Potential credit spread expansion** caused by concerns over AI capex overspending and private market uncertainties.



Steeper curves ahead

We expect the US yield curve to **bear-strengthen**. The short end will be anchored lower by **anticipated Fed rate cuts**, while the ultra-long end (15-30 years) is expected to rise due to continued **significant fiscal spending and higher debt issuance**. The 10-year yield is projected to remain range-bound at around 4%.

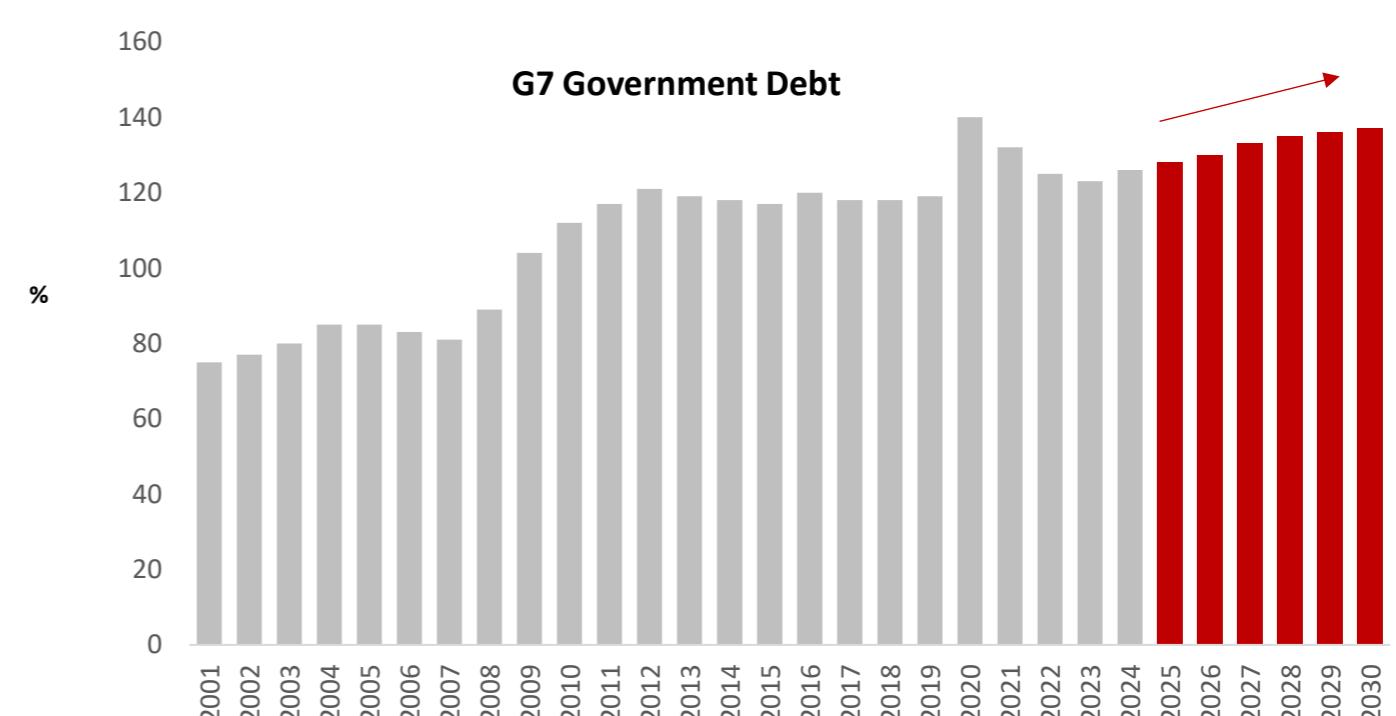
Expected policy easing by central banks



Source: Bloomberg, CIMB CIO (10 Dec 2025)

Fiscal spending to place upward pressure on the long-end. Longer maturity government bond yields are expected to remain elevated amid expansionary fiscal policy in DM economies. Rising deficit spending is forcing government to issue new debt, raising the cost of long term borrowing.

Rising government debt among DMs



Source: LSEG Datastream, CIMB CIO (10 Dec 2025)

Overall, the current interest rate cycle closely mirrors the periods of 2019 and 2007. In the absence of an economic downturn, interest rates are expected to **stabilise in the second half of the year as the policy easing cycle pauses**.

Focus on short-to-mid duration, be selective on high quality corporates

We recommend a bond portfolio with an average **short-to-mid duration, focusing on high quality investment-grade corporate bonds** within the 3 to 7-year tenor that can generate stable income. This balanced approach offers three key advantages:

- **Stable income generation** as yields remain elevated.
- **Lower sensitivity to rate volatility**, which is expected to rise amid policy uncertainty and fiscal pressures.
- **Additional yield buffer** over government bonds which help to offset potential mark-to-market losses.

Credit spreads should remain range-bound, supported by **resilient economic fundamentals and strong corporate balance sheets**. However, **selective positioning is critical** to mitigate risks from potential credit spread widening in a late-cycle environment.

Our preference is for **investment-grade fixed income denominated in AUD and GBP**. AUD offers attractive carry, while GBP has scope for capital gains while maintaining quality exposure, helping to alleviate balance-sheet pressures and contain credit risk.



Bond Market Outlook

Australia Positive



As an attractive carry play, AUD bonds are expected to maintain their yield advantage as the RBA leans hawkish amid improving economic data in Australia. This elevated yield provides a strong income buffer that outperforms lower-yielding peers.

UK Positive



With fiscal headline risks fading post-Autumn Budget, the market's focus will return to the BOE's easing cycle. Steady rate cuts are expected to drive capital gains and outperform markets with less policy room.

US Neutral



Fed rate cuts will anchor the front-end, but persistent fiscal deficits and supply risks will keep the long-end elevated. Prioritise short-to-mid duration to capture yield with lower risk and stick to high-quality investment grade credit. Volatility is likely to stay elevated; tactical duration and credit positioning is key.

EU Neutral



While fundamentals are improving, ECB policy rates are near neutral levels with limited room for further easing. Due to the rate floor, extending duration for yield pickup is preferred to relying on rate-cut driven appreciation. Be selective as the EU shares similar fiscal concerns at the long-end.

ASEAN Neutral



Regional divergence requires selectivity as opposed to broad exposure. Opportunities in select markets with Indonesia offering attractive carry as BI holds rates steady and Thailand for potential capital gains from expected rate cuts by BOT.

Risks

Credit Spreads Expansion: Weaker liquidity conditions, economic slowdown and a rise in corporate defaults may widen credit spreads. With spreads already at multi-year lows, risks are skewed towards expansion.

Inflation Re-acceleration: Services inflation may pick up while goods inflation remains stubbornly high. This would delay rate cuts as central banks adopt a wait-and-see approach.

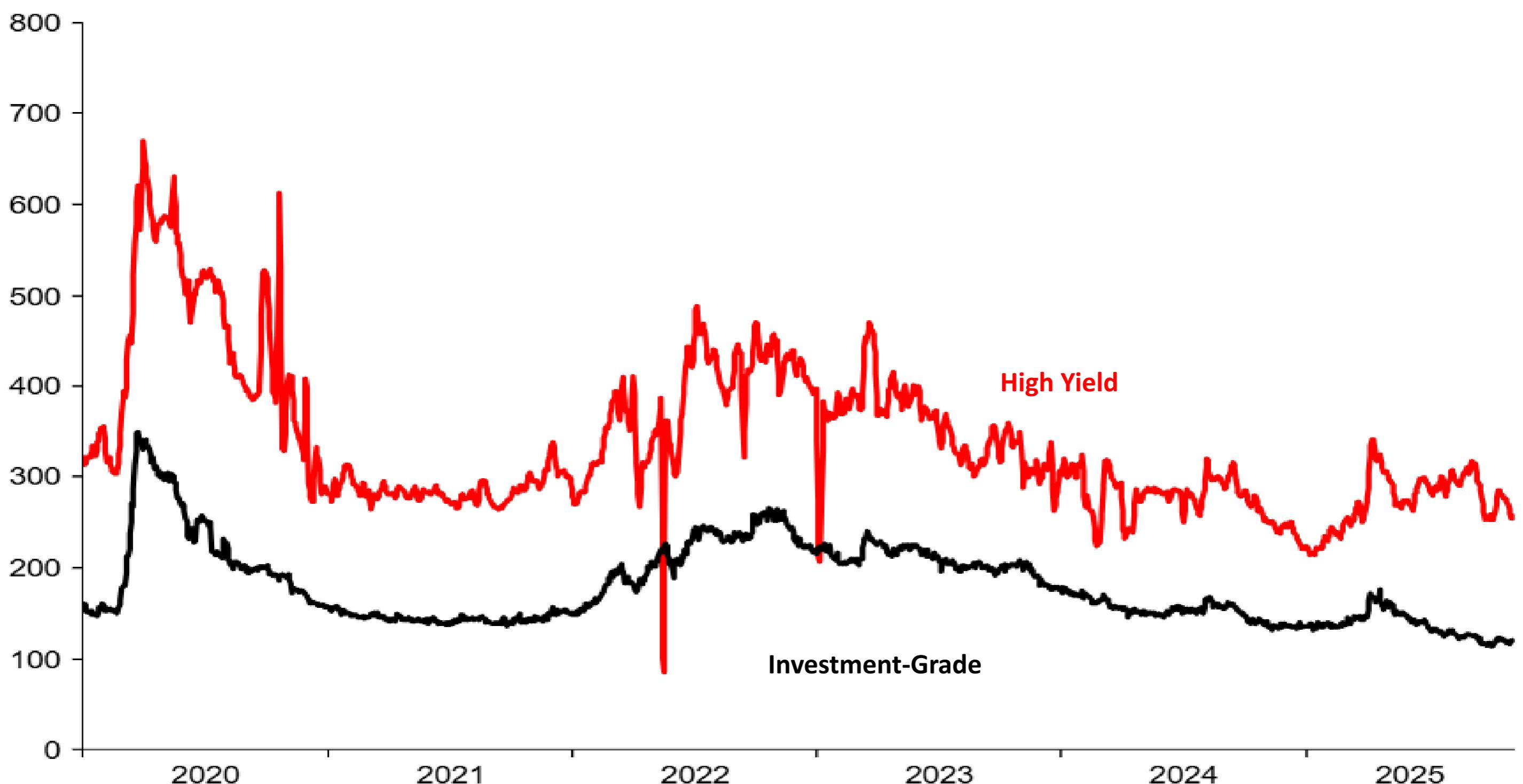
US Fiscal Uncertainty: Deadlocks over the debt ceiling and fiscal plans, along with potential prolonged government shutdowns, could undermine confidence in US fiscal policy and trigger further selling pressure on USTs.

Geopolitical Risks: Rising geopolitical tensions could trigger a flight to safety, driving bond market rallies.

Bottom line

The **US yield curve is likely to bear-steepen** as rate cuts anchor short-term yields lower while persistent fiscal challenges keep long-end yields elevated. Bond market **volatility is expected to rise** amid concerns over Fed independence, inflation risks, and potential credit spread widening. Against this backdrop, we maintain a **positive outlook on AUD and GBP favouring high-quality investment-grade corporates with 3-7-year tenors.**

US corporate spreads against 10y government yield



Source: LSEG Datastream, CIMB CIO (30 Nov 2025)

Building Portfolio Resilience

Asset correlations are ever-evolving; how should investors build portfolios that thrive through cycles?



Building Portfolio Resilience

Key Takeaways:

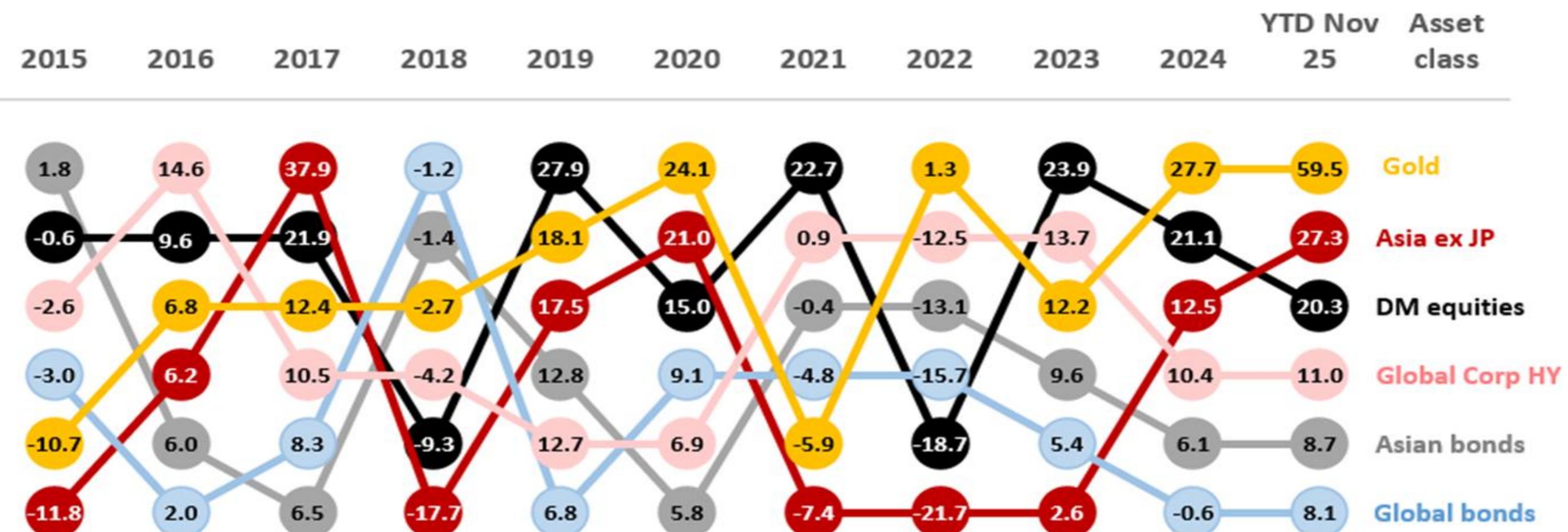
- Diversification and derisking remain key** in navigating shifting asset correlations and rising concentration risks amid crowded trades in US mega-caps.
- Build a portfolio of core global equities and fixed income; **we see more value in Asian equities and short-to-mid tenor investment-grade corporate bonds.**
- Hedging strategies layered with gold and selective structured investments** can enhance portfolio resilience and risk-adjusted returns.

Emphasising 3D: Discipline, Diversification and Derisking

Policy tailwinds and interest rate cuts have fueled a good year for capital markets as the world recalibrates under Trump 2.0. We enter 2026 on a hopeful note but cognizant of fiscal fragility, elevated macro shifts and concentrated AI plays. We emphasize the 3Ds:

- 1) Discipline** - to be mindful of **concentrated positioning in AI** and focus on **quality stocks** and **credit selection** especially when corporate credit spreads have narrowed significantly.
- 2) Diversification** - **Add Asia** as a diversification strategy from the US to generate more returns for portfolios. **Singapore and Malaysia** are defensive assets to add.
- 3) Derisking** - Blend **alternatives** and **hedge strategies** to enhance returns for lower risk through i) **Gold** ii) **Hedging strategies and private equity** and iii) **tailored structured investments**

Diversification across geography and asset classes remains core



Performance based on the following indices: MSCI World Net TR Index (DM Equities), MSCI Asia ex Japan Index, Bloomberg Global Aggregate TR Index, Bloomberg Global High Yield TR Index, JPMorgan Asia Credit Index Core (Asian bonds), Bloomberg Gold Spot Rate.

Source: Bloomberg, CIMB CIO (30 Nov 2025)

Gold - More than a Hedge

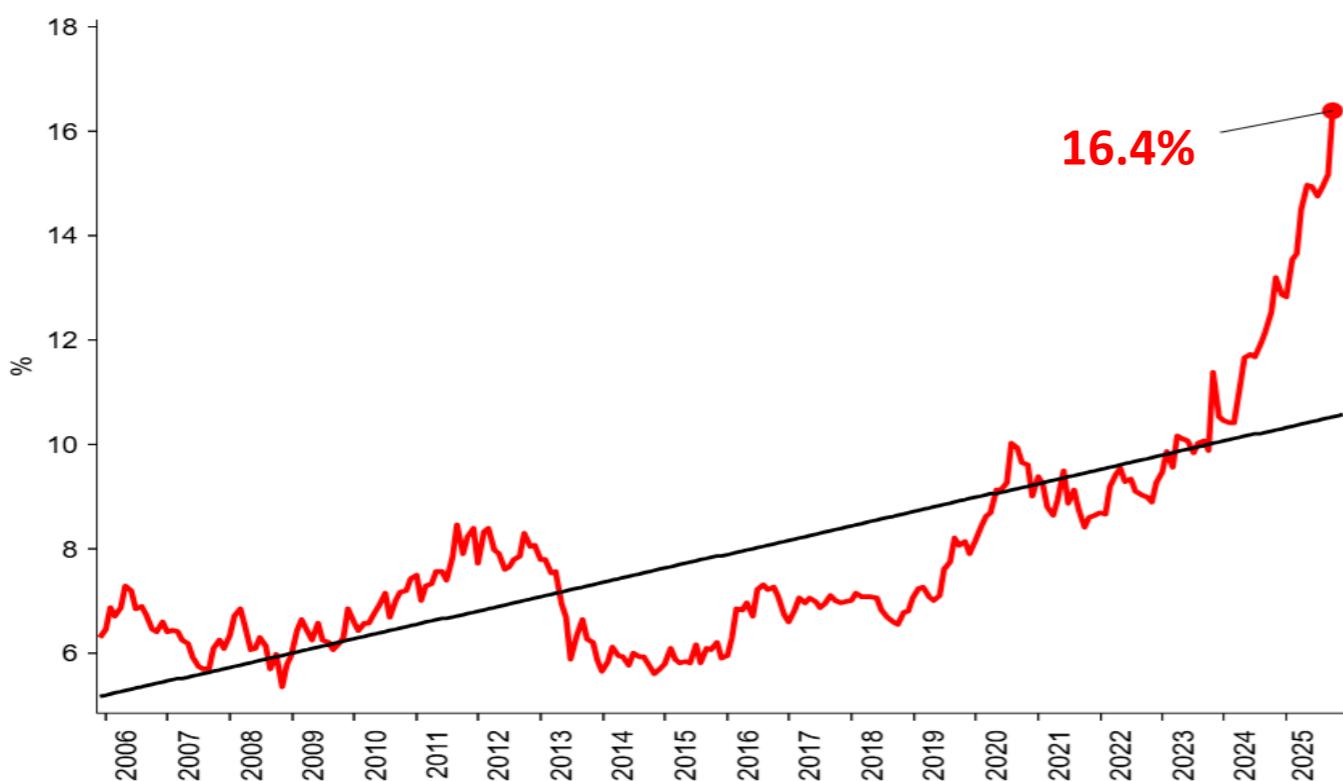
Gold has long been regarded as a reliable **portfolio hedge** due to its low correlation with traditional asset classes like equities and bonds. Historically, it has preserved wealth during periods of economic stress, inflationary spikes, and geopolitical uncertainty, acting as a safe-haven asset when confidence in fiat currencies or financial systems falters. Its intrinsic value, global acceptance, and scarcity make it a strategic diversifier, offering protection against systemic risks and currency debasement.

We remain **positive on gold** for three key reasons:

- Safe-haven demand:** Persistent geopolitical tensions, fiscal imbalances, and currency volatility continue to drive gold's role as a portfolio hedge
- Institutional accumulation and ETF inflows:** Central banks, especially in China and emerging markets are maintaining strong buying momentum, complemented by steady ETF allocations.
- Momentum and retail participation:** A notable shift from purely institutional flows to retail buying is amplifying price moves, reflecting growing public interest in gold as protection against uncertainty.

Despite recent profit-taking, these **structural drivers remain intact**. Pullbacks are likely to attract renewed buying from both institutional and retail segments, reinforcing upside momentum.

Rising share of gold in global reserves



Source: LSEG Datastream, CIMB CIO (30 Nov 2025)

Past rally in gold prices suggest more upside



Source: LSEG Datastream, CIMB CIO (30 Nov 2025)

Bottom line

We expect **gold to reach USD 4,600/oz by end-2026**, supported by sustained macro risks and strong demand. Volatility will remain elevated, with **sharp two-way swings possible** as speculative flows interact with fundamental buying.



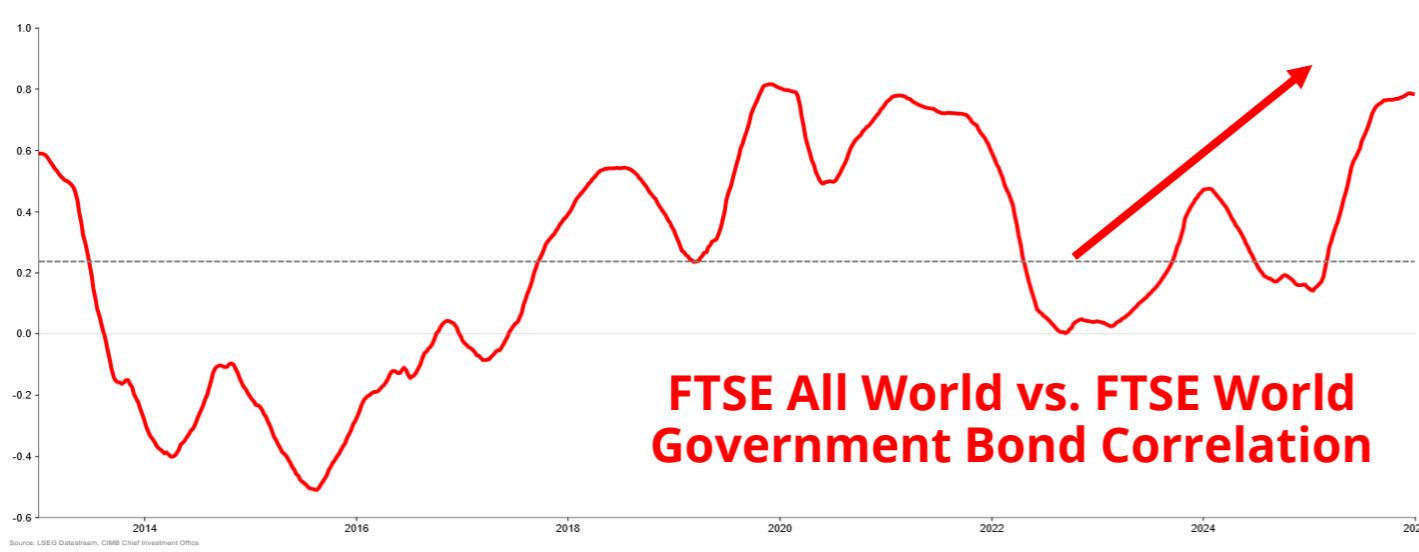
Opportunities Beyond Gold

The Case for Alternatives and Income Strategies

The top 3 questions faced by investors today are:

1. With increased stock-bond correlation and ever-evolving asset correlations, **how can we achieve effective diversification?**
2. In an environment of elevated Equity and Gold prices, how can we **generate consistent, positive returns** that are **uncorrelated with the market?**
3. Given persistent market volatility and uncertainty, what specific strategies can **reduce risks from major drawdowns** while staying invested?

Rising stock-bond correlation is challenging traditional diversification



On this note, we summarise **selected approaches** we believe are **best-positioned based on our key macro assumptions**, as follows:

Discipline, Diversify, Derisk	
Alternatives	Income
<ul style="list-style-type: none"> • Gold • Market-neutral strategy • Private Equity 	<ul style="list-style-type: none"> • Dividend-yielders • Fixed Income
<ul style="list-style-type: none"> • Tailored structured investments • Index call options fund strategy 	

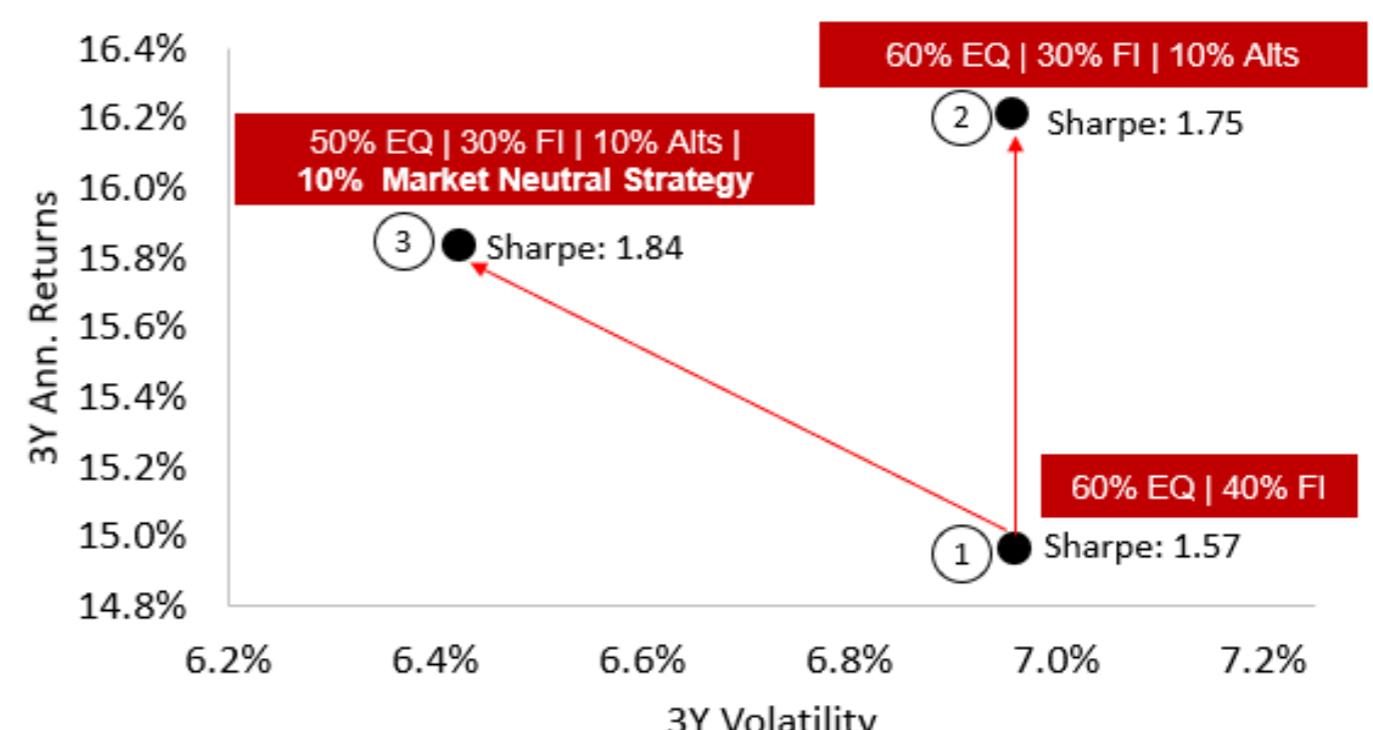
Source: CIMB CIO (10 Dec 2025)

1. Market-Neutral Strategy

Moving into 2026, **we expect equity market volatility to rise and elevated uncertainty and inflation risks to persist**. As such, we believe incorporating a Market-Neutral Strategy is apt - it serves to counter the vulnerability of traditional portfolios to sharp drawdowns by **constructing balanced portfolios** with roughly equal long and short positions, effectively achieving a **near-zero beta to the overall market**.

It isolates and exploits mispricing between specific securities, allowing skilled managers to generate return regardless of the market's direction.

Market Neutral Strategy enhances a portfolio's long-term risk reward



Source: Bloomberg, Morningstar, CIMB CIO (31 Oct 2025)

The **primary appeal** of this approach is to offer a **distinct, hedging strategy to lower portfolio risks whilst preserving returns**.

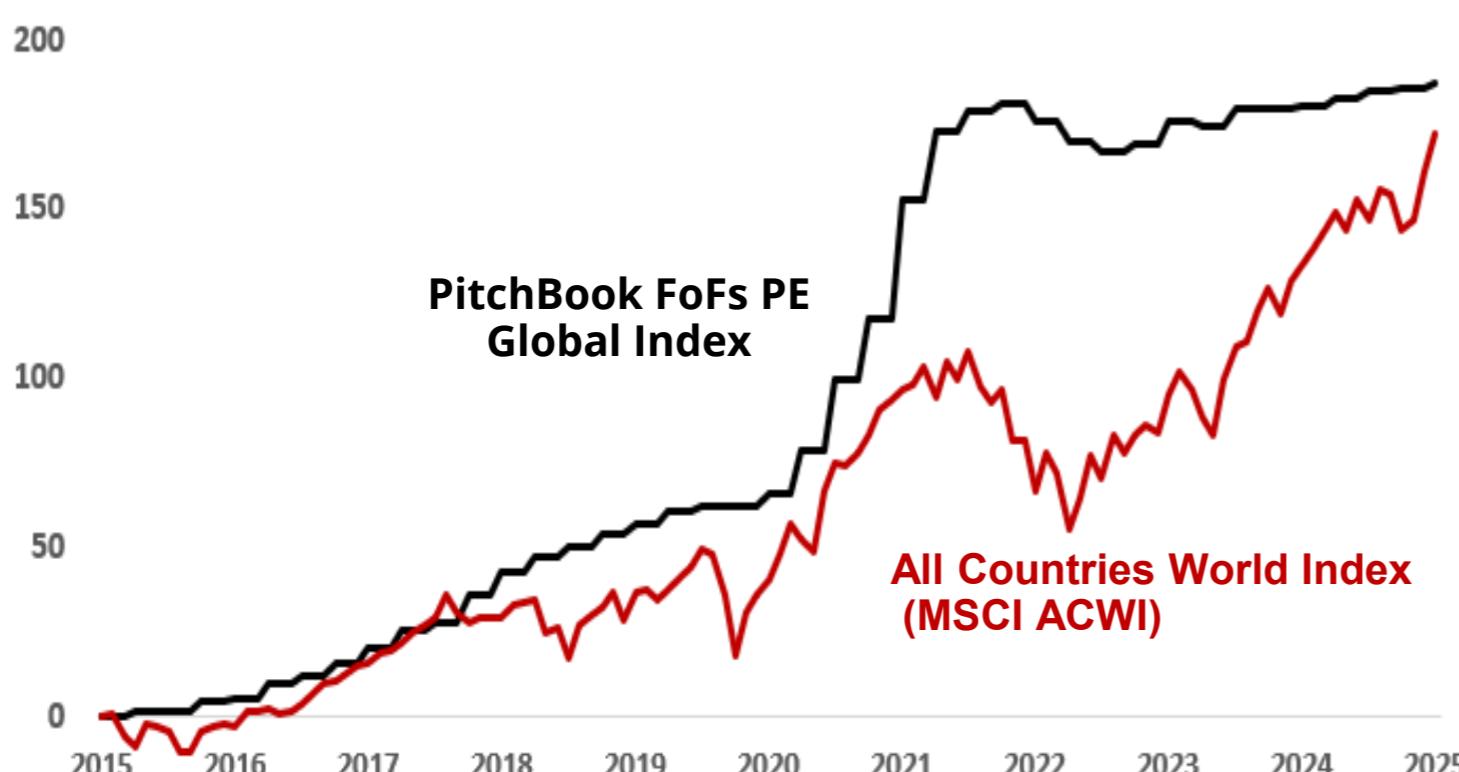
2. Private Equity - Investing Beyond Market Noises

In a world where investment returns are susceptible to market cycles and sentiment, **private equity (PE)**,

1. **lowers a portfolio's correlation**
2. offers **access to opportunities in super-growth phase** prior to public listing in sectors such as technology, healthcare and renewable energy.

Patience is key in savouring **PE's long-term value-add to a portfolio** while an asset manager with proven long-term track record and quality exposure underpins effective diversification and shelter from market noises.

PE has historically outperformed public equities over the long-run



Source: Morningstar, CIMB CIO (30 Jun 2025)

3. Income Solutions

To navigate market risk and uncertainties from diverse range of outcomes, stable income in a portfolio provides a baseline of secure and predictable returns for investors.

We recommend a globally-diversified portfolio approach using three key levers:

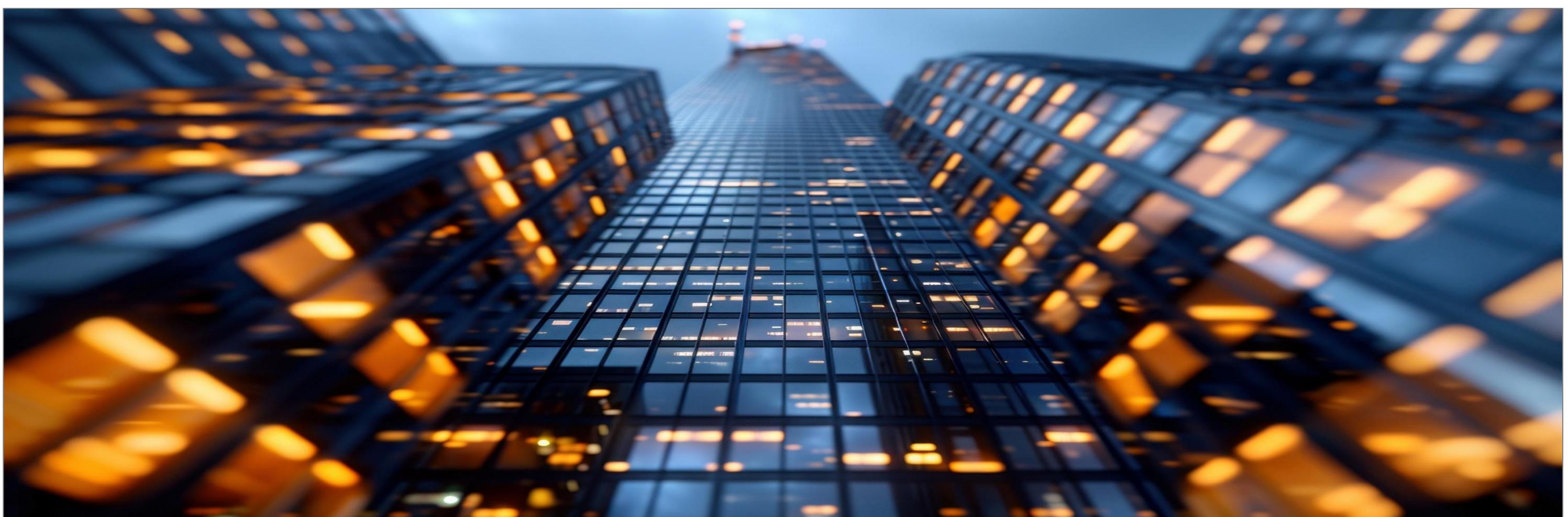
1. **Traditional asset classes:** a) **Dividend-yielders** in defensive and cyclical sectors with strong earnings trajectory and payout visibility b) **Bonds**, with preferred focus on short-mid duration and quality corporates
2. **Index call options strategy** – A fund strategy that aims to reduce market beta while providing better downside protection compared to broader markets. This approach involves selling out-of-the-money index-level calls to generate premium income.
3. **Tailored structured investments** – blend a) **income-generating structures** referencing quality assets, focusing on fundamental drivers with selective opportunistic tilts with b) **principal-guaranteed** structures that do not forego potential excess return to lower portfolio risk

This multi-pronged strategy buffers against inflationary pressures and volatility spikes, while enhancing-adjusted returns through diversification and hedging.

Bottom line

Consistently achieving superior risk-adjusted return require disciplined approach:

- i) **Stay invested in Gold**, an effective hedge against inflation, volatility and geopolitical risks
- ii) **Incorporate hedging strategies and private equity** that lower portfolio volatility while
- iii) **Employ tailored structured investments and selective income strategies.**



Asset Allocation Outlook

	UW	N	OW
Equities			●
US		●	
Eurozone		●	
Japan			●
China			●
ASEAN		●	
Malaysia			●
Singapore			●
Indonesia		●	
Thailand	●		
Fixed Income	●		
Sovereigns	●		
Corporate High Yield	●		
Corporate Inv. Grade		●	
US		●	
Eurozone		●	
UK		●	●
Australia			●
ASEAN		●	
Alternatives			●
Gold			●
Private Equity / Hedge Strategies			●
Cash	●		

Summary: Our Best Ideas for 2026

1. US AI & mid-term elections play	<ul style="list-style-type: none">• Quality US tech stocks• US deregulation and reshoring beneficiaries	<ul style="list-style-type: none">• Global Balanced fund• Global Equity Income fund
2. Asian Renaissance	<ul style="list-style-type: none">• China equities• Japan structured products• SG equities• MY equities	<ul style="list-style-type: none">• China Equity fund• Asian Equity income fund• SG Equity fund
3. USD Weakness	<ul style="list-style-type: none">• Buy AUD, GBP, EUR and JPY• Sell USD on strength	<ul style="list-style-type: none">• Currency-hedged funds• Dual-currency investments (DCI) or FX Options
4. Resilient Income	<ul style="list-style-type: none">• Mid-tenor investment-grade AUD, GBP bonds	<ul style="list-style-type: none">• Global Income funds• Equity-linked investments (ELI)
5. Diversify & Derisk	<ul style="list-style-type: none">• Gold• Principal-guaranteed structured products	<ul style="list-style-type: none">• Market-neutral fund/hedged strategies• Private equity

FX and Gold Outlook

Currency	Outlook	1Q26	2Q26	3Q26	4Q26
DXY ●	USD to weaken on Fed rate cuts, continued uncertainties and de-dollarisation among reserve managers, but unlikely to be a linear move lower.	96.9	95.9	95.0	94.5
EUR/USD ●	Positive fiscal impulse in Germany, improving business sentiment and rising hedge ratios among European investors.	1.19	1.21	1.22	1.23
GBP/USD ●	Cautiously optimistic after fiscal clarity from the Autumn Budget, attention shifts towards the BOE and rate cuts amid softer growth.	1.35	1.36	1.37	1.37
USD/CHF ●	Safe-haven demand remains, while the SNB is constrained by zero lower bound.	0.79	0.78	0.78	0.78
AUD/USD ●	The RBA's hawkish stance, supported by robust economic data, a tight labour market, and rising household wealth are positive for AUD.	0.67	0.68	0.68	0.69
USD/JPY ●	BOJ to normalize rates on sustained wage growth and firm inflation, partly offset by pricing of a fiscal premium under Takaichi.	152	150	149	148
USD/MYR ●	Supported by resilient fundamentals and positive flows, though export competitiveness expected to prompt a cut by BNM.	4.05	4.10	4.13	4.15
USD/CNH ●	Stability priority by the PBOC amid stable macro backdrop to anchor regional volatility.	7.08	7.10	7.10	7.12
USD/SGD ●	MAS to normalize policy by steepening the S\$NEER slope in 2H 2026.	1.27	1.26	1.26	1.26
USD/IDR ●	Expansionary fiscal stance and steady policy rate by BI to be offset by concerns over fiscal slippage and current account deficit.	16,700	16,750	16,700	16,700
USD/THB ●	Weakening external balances with BOT expected to ease policy amid sluggish growth.	33.00	33.00	33.30	33.50
XAU/USD ●	Structurally bullish on safe-haven flows lifted by institutional accumulation and momentum chasing strategies amid backdrop of fiscal dominance.	4,300	4,400	4,500	4,600

●
Negative

●
Neutral

●
Positive

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