MARKET OUTLOOK
December 2025

Sun Life Asset Management
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2026 Asset Allocation Strategy

The global economy in 2026 is likely to display modest imbalances in the early part of the year. However, as the year progresses, fiscal expansion policies are expected to deliver tangible results, while the effects of tariffs may gradually subside. The continued rapid expansion of artificial intelligence (AI) will further bolster sustained economic momentum. These dynamics are projected to support equity markets, although elevated valuations highlight the critical need for diversified risk management strategies.

AI hardware providers stand to benefit persistently from substantial capital expenditures by technology firms worldwide on chip research and development, as well as data center infrastructure. This is complemented by the growing adoption of AI across enterprise workflows, which bodes well for the earnings outlook of associated companies. That said, valuations for AI-related equities remain generally elevated, prompting conservative investors to consider awaiting market rotations or modest corrections before scaling up positions. In the context of de-globalization trends, investors are prioritizing diversification across regions, with anticipated capital inflows favoring Europe, Asia, and emerging markets alike. Amid ongoing geopolitical and economic volatility in peripheral regions, incorporating bonds into portfolios can effectively temper overall risk exposure—particularly emerging market local-currency bonds, which are viewed favorably in light of market expectations for a weakening U.S. dollar. Regarding alternative investments, real estate investment trusts (REITs) present opportunities, as the broader property sector could be stimulated by interest rate reductions. With inflation expectations remaining sticky and rental income proving resilient, analysts express optimism for prospects in data centers and infrastructure.

Source: Bloomberg

12-Month Outlook

Positive

- ESG (Low Carbon)

Neutral

- Global Equity
- Global Bond
- Asian Equity
- Cash
- Hong Kong Equity

Neutral

Global Equity

No Change

- We believe the boom in artificial intelligence is not over, nor is it in a bubble phase, as the AI-related industries are benefiting from positive spillover effects. We favor leading technology companies with strong cash flow and sound balance sheets, as they are expected to demonstrate greater stability during market volatility
- Going forward, how the global economy being impacted by tariffs would be in the spotlight, we expect the market is sensitive to the related news and would be volatile
- Valuation of global equity is much higher than the level of the announcement of reciprocal tariffs. Given that the economy is much more resilient than the earlier expectation, we are cautious to sudden market fluctuation triggered by trade negotiations and geopolitical events

Global Bond

No Change

- Bonds provide attractive carry, hard economic data remains strong, and long-end of the yield curve is steepening
- The Federal Reserve's future interest rate path is likely to continue downward, while there is limited room for further rate cuts in Europe and Australia, and Japan may raise rates. We kept a cautious view on global bonds and remained quite selective
- We prefer corporate credit, especially investment-grade bonds with higher credit quality, to government bonds, and believe that the bond asset class helps strengthening risk management for portfolios

Cash

No Change

- Cash is a residual (or balance) of our stance in terms of equities and fixed income
- With expectation of market jitters continuing in the near term, cash remains as a defensive asset to decrease portfolio beta

Hong Kong Equity

No Change

- China's 15th Five-Year Plan focuses on high-level technological self-reliance and leading the development of new-quality productive forces. The government is committed to accelerating the application of AI in the economic and social fields. We favor sectors such as technology, healthcare, and non-ferrous metals

  Chinese CSPs recorded capex despite chip constraints, while government commitment to accelerating AI adoption across economic and social sectors creates substantial opportunities
- Earnings revision breadth continues to improve in Tech sectors. China's semiconductor industry benefits from Capex driven by AI demand and is supported by rising domestic substitution demand
- China's trade truce with the US dials down geopolitical risk, and liquidity injection also played a positive role. Liquidity injection positive. However, the sluggish real estate sector and weak consumer confidence remain dragging factors

Asian Equity

No Change

- We believe AI will be a structural growth theme in Asia, although some export-oriented countries in the region remain troubled by Trump's tariff policies. The path of USD will also cause short-term volatility in stock markets in the region
- South Korea and Taiwan are both benefiting from strong hardware demand driven by AI, particularly for high-bandwidth memory (HBM) and semiconductors, leading to a revaluation of their equity markets. We remain bullish on technology stocks in the region
- India recently lowered the Goods and Services Tax (GST) and previously implemented personal income tax relief, which is expected to reduce the tax burden on households and stimulate consumption. We are observing the effects of these measures; adjustments in household consumption patterns may drive growth in major consumer sectors

Positive

ESG (Low Carbon)

No Change

- Governments reached a consensus at COP30 and pledged to significantly increase investment in clean energy and a low-carbon economy. According to the International Energy Agency (IEA), the total global investment in energy transformation in the future is expected to be calculated in tens of trillions dollars, which will greatly promote the development of industries such as renewable energy, energy storage technology and electric vehicles
- Investors are increasingly prioritizing Environmental, Social, and Governance (ESG) factors. Companies that emphasize ESG and carbon emission considerations tend to exhibit more resilient financial performance
- With increasing volatility in the investment market, low-carbon strategies provide higher downside protection and relatively better returns compared to traditional equity strategies

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