Market Outlook

June 2026

Sun Life Asset Management

Mixed Assets Help Manage Risk as Market Volatility May Rise in 2H

After rallying strongly in April and May, AI-related equities pulled back in June due to stronger-than-expected macroeconomic data, valuation normalization and geopolitical factors. Looking ahead to the second half, we expect uncertainties to rise and market volatility to increase. However, there is no need for excessive concern. AI-driven earnings growth is still in the early stage of investment and realization. Bloomberg data showed that the forward price-to-earnings ratio of Nasdaq Composite Index was about 24.8x as of June 8, below its five-year average of 27.3x. In a more uncertain environment, risk management should remain a priority. Investors can consider avoiding overconcentration in a single high-risk asset and instead diversify. A mixed asset portfolio can help improve risk-return trade-offs.

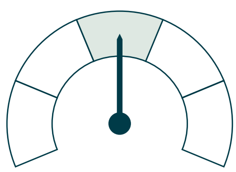
According to Bloomberg data, a 60% equity and 40% bond portfolio demonstrated strong downside resilience during market stress. During the 2018 US-China trade tensions and the 2020 COVID-19 pandemic, for example, such a portfolio limited drawdowns to -10% and -13%, respectively, outperforming pure equity portfolios, which fell -15% and -21%. Bonds not only provide diversification benefits because they typically have a negative correlation with equities, but also offer a relatively stable income stream during volatile periods, helping support more consistent long-term returns.

Source: Bloomberg

12-Month Outlook

Slightly Positive

ESG (Low Carbon)



Neutral

US Equity

European Equity

Asian Equity

China/HK Equity

Global Bond

Cash

Equities

Neutral
US Equity

No Change

- The geopolitical tensions in the Middle East remain fluid. Expect some "bumps in the road" and short-term price swings as markets react to breaking news
- The US job market and economy are surprisingly resilient. However, the Iran conflict may weigh in on macro economy and delay the Fed's rate cut
- Corporate profits and CapEx remain strong, especially in AI infrastructure. But investors remain selective on AI beneficiaries

Neutral
European Equity

No Change

- The ECB raised its benchmark deposit rate to 2.25% in June, while simultaneously revising its 2026 GDP forecast down to 0.8% (from 0.9%) and lifting its HICP inflation forecast to 3.0% (from 2.6%)
- It suggested the backdrop for European equities is one of modest growth, elevated geopolitical risk, and selective opportunity

Neutral
Asian Equity

No Change

- We view AI as a structural growth theme in Asia. South Korea and Taiwan, in particular, are capitalizing on robust hardware demand, which remains a primary catalyst for short-term earnings growth
- The inflation outlook for Asia has edged higher. Some regional central banks have already shifted toward hiking rates. Expect further policy tightening if price pressures persist
- The trajectory of the USD is expected to remain a key source of short-term volatility across the region

Neutral
China/HK Equity

No Change

- China set a GDP growth target of 4.5%-5% in 2026. While recent growth was buoyed by strong exports, domestic consumption remains lagging
- Market dynamics show a rotation from high-growth technology sectors into undervalued, high-dividend stocks. A 'barbell Strategy' can balance structural risks while delivering stable returns. On one side of the barbell, focus should remain on the "AI+" theme, which is poised to become a key engine driving "New Quality Productive Forces" and the commencement of the "15th Five-Year Plan"

Thematic Equities

Slightly Positive
ESG (Low Carbon)

No Change

- The US-Iran conflict has exposed the global dependence on fossil fuels, which accerlates the investment demand for low-carbon transition
- In an increasingly volatile market, low-carbon strategies are demonstrating superior resilience, offering stronger downside protection and more attractive risk-adjusted returns compared to traditional equity strategies

Fixed Income & Cash

Neutral
Global Bond

No Change

- US core inflation could remain sticky due to potential supply shocks. US rates may stay range bounded as the interest rate outlook becomes uncertain
- Corporate credit valuations are currently high, though fundamentals are expected to remain benign. We believe allocating to high-quality, investment-grade bonds will enhance portfolio risk management

Neutral
Cash

No Change

- With expectation of market jitters continuing in the near term, cash remains as a defensive asset

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