Market Outlook

July 2026

Diversification: A Smarter Way to Navigate Market Uncertainty

As we enter the second half of the year, market sentiment has become more cautious. U.S. and Asian equities, which led gains in the first half, have started to pull back, while investors are rotating into assets that previously lagged. This is a reminder that no market rises indefinitely.

Despite the recent market rotation, we believe the long-term growth of artificial intelligence (AI) remains a key driver of investment returns. Technology companies continue to offer relatively strong earnings visibility, particularly those involved in AI infrastructure. Major U.S. chip designers, South Korean memory chip makers, and Taiwanese semiconductor foundries are among the most direct beneficiaries of ongoing AI investment.

At the same time, several uncertainties could create market volatility. A more hawkish U.S. Federal Reserve could raise concerns about tighter monetary policy. In addition, the U.S. midterm elections later this year may bring tariff issues back into focus. Any new tariffs on AI-related or advanced technology products could increase market uncertainty.

In this environment, where opportunities and risks coexist, investors may benefit from maintaining a diversified portfolio across equities and bonds. Diversification can help reduce the risks of concentrating investments in a single asset class or region. For example, an allocation to high-quality or investment-grade bonds can provide a more stable source of income and help cushion portfolios during periods of market stress.

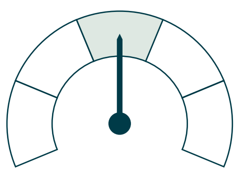
Source: Bloomberg

12-Month Outlook

Slightly Positive

US Equity

ESG (Low Carbon)



Neutral

European Equity

Asian Equity

China/HK Equity

Global Bond

Cash

Equities

Slightly Positive — US Equity

▲ Upgrade

- The US labor market and economy remain resilient. Although the Federal Reserve has adopted a more hawkish stance, we expect it to keep policy rates unchanged for the rest of this year, subject to inflation developments
- Corporate earnings and capital expenditure—particularly in AI infrastructure—remain strong. The AI theme remains intact, but investors continue to be selective in identifying AI beneficiaries
- Geopolitical tensions in the Middle East have eased. However, unexpected negative news could still trigger short-term market volatility

Neutral — European Equity

■ No Change

- The European Central Bank raised interest rates by 25 basis points in June. As geopolitical tensions in the Middle East have eased, the outlook for the European economy has improved, supporting further monetary policy tightening by the central bank
- Corporate earnings in the region are improving, although the pace of upward revisions continues to lag other developed markets

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
- Market opportunities across the region are becoming more differentiated. Certain non-technology sectors, such as financials and healthcare, are expected to benefit from sector rotation and the spillover effects of AI
- 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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