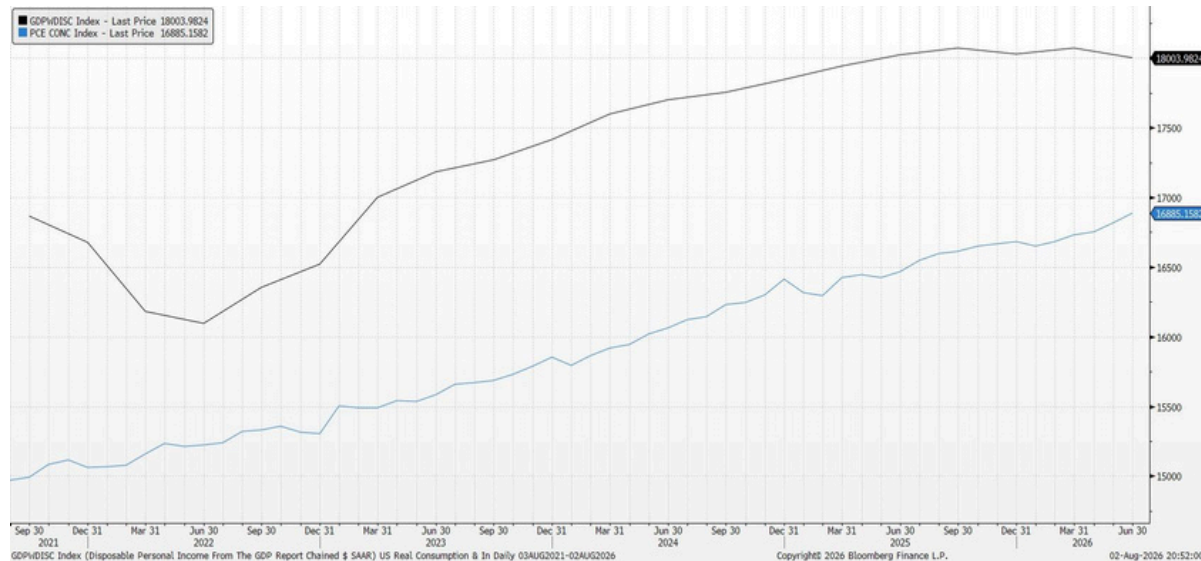


MARKET OUTLOOK

AUGUST 2026



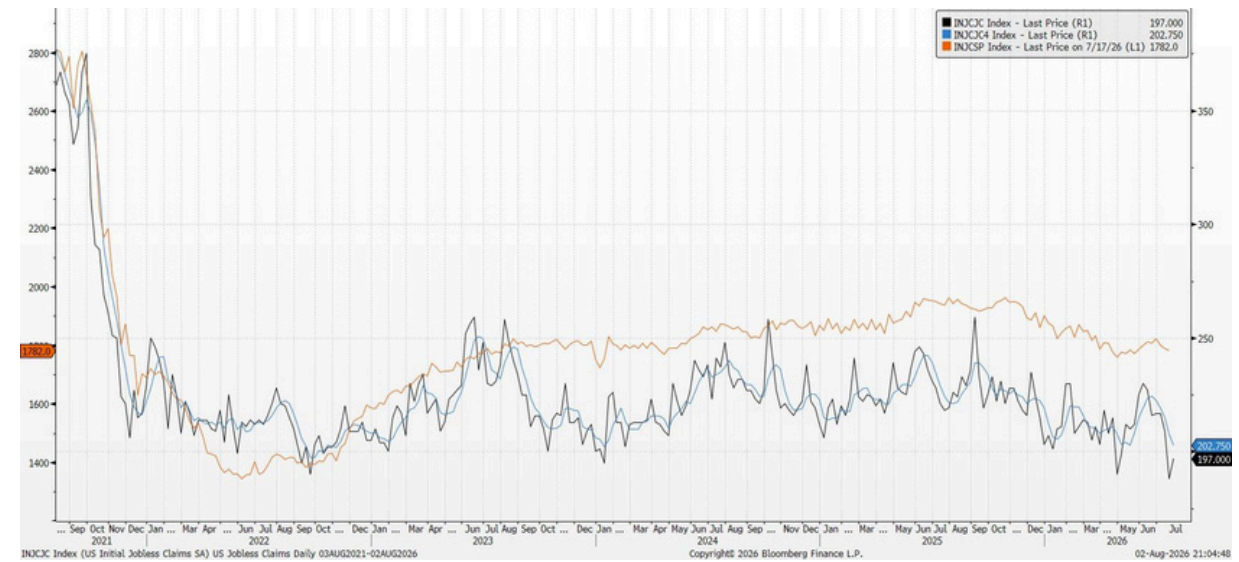
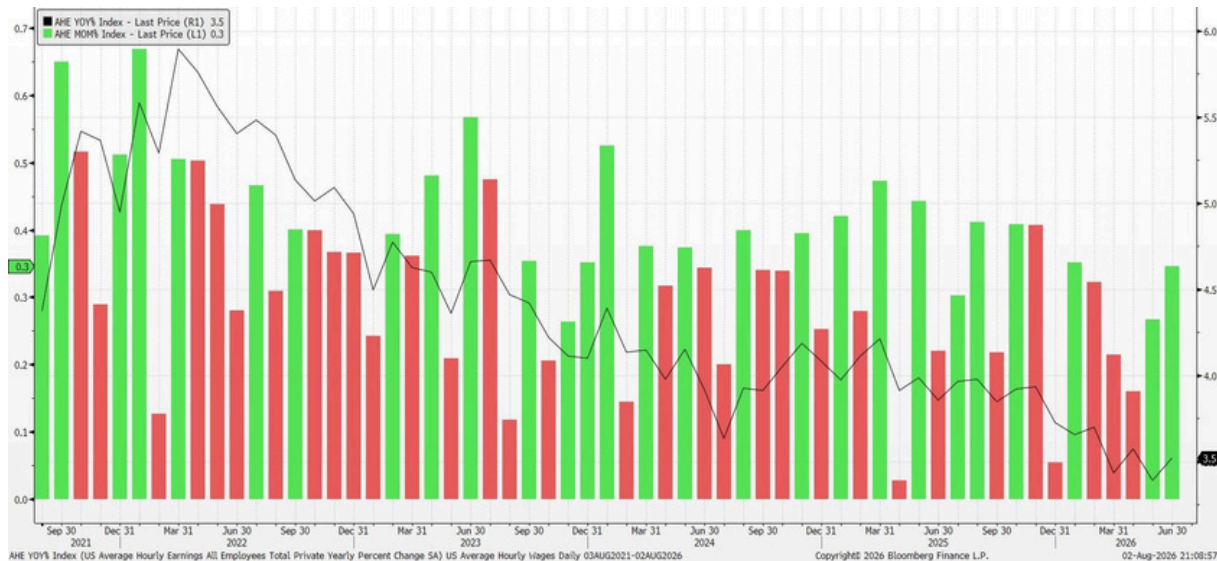
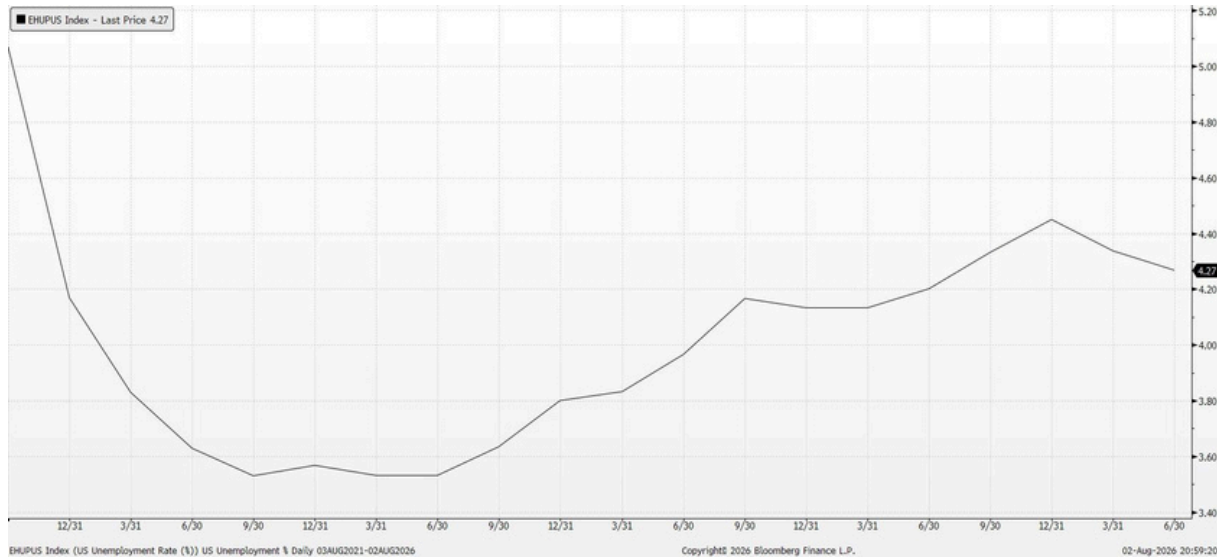
Cooling US Inflation & Strong Consumer Spending



Highlights:

- US PCE YOY eased from 4.1% to 3.7% and Core PCE YOY eased from 3.4% to 3.3% in June 2026
- PPI and Core PPI YOY % also indicate that inflation has slowed down, but not low enough to avoid inflation pass-through to Consumers
- It is unlikely that the Core PCE will be within Fed's inflation target of 2% in 2026
- US Consumer spending is strong with real consumption and real disposable income rising (values in USD Billions)

Resilient US Labor Market



Highlights:

- US Unemployment at 4.2% and close to Fed target indicating US may be close to the full employment levels
- Initial unemployment insurance claims rose to 197,000 in the latest week, but the four-week average fell to its lowest level. Continuing claims declined for second straight week. These numbers underscore the labor market's resilience
- Wagegrowth of 3.5% also indicates a stabilizing labor market and may help in cooling inflationary pressures

Tailwinds (+)	Headwinds (-)
US	
✓ Economy still resilient with GDP growth for 2026 expected at 2.1-2.4% ✓ Jobs data confirms close to full employment ✓ Economic activity data still strong including consumer spending ✓ AI driven CAPEX to have positive impact on overall economy & specific sectors ✓ US economy less exposed to energy price shock as US is net energy exporter	❑ Inflationary pressures expected from second round of oil shock ❑ Fed may hike rate at least once by 25 bps in 2026 if there is energy driven inflation ❑ Higher fiscal spending & inflationary pressure to keep long term yields higher ❑ Inflation still above Fed's 2% target & not expected to come down in 2026
Europe & UK	
✓ Increasing corporate margins in Europe ✓ Fiscal support and defence spending in Germany ✓ Slowing Inflation in Italy to 2.8% from 3.0% ✓ ECB suggests core industrial manufacturing likely picking up ✓ Eurostat preliminary GDP figures beat expectations with Q2 growth expanding by 0.4% QoQ ✓ UK headline CPI recently slowed to 2.6% in June from 2.8%	❑ Inflationary pressures a concern with higher energy prices ❑ ECB to hike again by 25 bps in Sep 2026 if there is energy driven inflation ❑ Unemployment levels still high ❑ Iran & Ukraine-Russia war more detrimental to European economy ❑ US trade tariffs can be a concern ❑ UK fiscal uncertainty & GDP growth concerns
Asia Ex-Japan	
✓ China and other tech-heavy economies like Taiwan, South Korea to drive growth ✓ China liquidity injection by PBOC to support growth ✓ China fiscal spending to support growth ✓ Strong domestic growth in India - Continuing strong exports to drive Taiwan economic growth in 2026	❑ Higher Crude prices are a challenge for oil importing countries like India ❑ US trade tariffs are another challenge for Asian countries ❑ ASEAN countries facing the brunt of higher energy prices with higher fuel costs and freight costs
Japan	
✓ Wage growth and employment levels supportive of economy ✓ Fiscal spending in Japan ✓ Policy makers to push for more domestic investments ✓ Manufacturing PMI indicates strong underlying activity	❑ BOJ to hike rate one more time in 2026 to tame inflation & support JPY ❑ Higher inflation expectations in Japan ❑ Higher rates in Japan may attract capital back to Japan & may impact global liquidity ❑ Increasing fiscal deficit is a concern for Japan

Highlights:

- Supply side constraints to bother markets
- Inflationary regime may remain for longer
- Higher debts/ demand for capital, fiscal spending and inflationary pressures to keep rates higher for longer
- US and Global growth may move higher with broader adoption of AI/Tech with more innovation and learning loop from AI
- Geopolitics critical in deciding who captures value from AI gains & governments push to control supply chains, technology, energy and defense
- Dwindling oil reserves unlikely to return soon even if Iran war ends soon
- US and Asia Ex-Japan macros supportive of the economic growth

US Benchmark Rates to trouble bond markets



Highlights:

- With Fed decision to hold rates, US 10Y real yields and nominal yields moved higher indicating markets disagreement with the Fed decision
- Real yields moved higher to 2.47% and increased faster than nominal yields indicating inflation expectations are coming down
- Initially US 2Y nominal yields fell, but later the 2Y, 10Y and 30Y benchmark yields have moved higher with yield curve steepening
- Higher real yields can be a challenge for equity markets if there are any earnings disappointments going forward
- Higher real yields would also impact USD and keep it more range bound

US Equities - Case for diversification



Highlights:

- S&P500 performance and ex-Mag7 stocks (S&P493) performance indicate US equity rally widening with Q2 2026 earnings announcements
- S&P500 equal weighted index outperforms S&P500 market weighted index indicating broadening of rally across different sectors



Equities	Overweight
Asia ex-Japan Equities	Overweight
Emerging Market Equities (Non-Asia)	Neutral
Europe ex-UK Equities	Neutral
Japan Equities	Neutral
North America Equities	Overweight
UK Equities	Underweight

Fixed Income	Neutral
Asia USD Bonds	Neutral
DM IG Government Bonds	Neutral
DM HY Corporate Bonds	Neutral
DM IG Corporate Bonds	Neutral
EM Local Ccy Government Bonds	Underweight
EM USD Government Bonds	Overweight

Commodities	Neutral
Gold	Neutral
Other Commodities	Neutral

Alternatives	Neutral
Digital Assets	Neutral
Hedge Fund Strategies	Overweight
Private Debt	Neutral
Private Equity	Neutral
Private Real Assets	Neutral

Cash	Underweight
Cash	Underweight

Notes:

- Overweight – Higher allocation compared to Strategic (Long-term) Asset Allocation
- Neutral – Same allocation as Strategic (Long-term) Asset Allocation
- Underweight - Lower allocation compared to Strategic (Long-term) Asset Allocation

*DM – Developed Market; IG – Investment Grade; HY – High Yield (below investment grade); EM – Emerging Markets; LocalCcy–LocalCurrency

Sub-Asset Class & Preferred Equity Sectors

Asset Class	Sub-Asset Class	Tactical Views	Rationale
Cash	USD Cash	Underweight	Inflation can be a drag on real returns; Underperforms other asset classes over time; Reinvestment risk as central banks cut rates
Fixed Income	EM USD Government Bonds	Overweight	Attractive yields; Improving EM fundamentals and credit ratings; Fed easing and weaker USD supportive
Fixed Income	EM Local Ccy Government Bonds	Underweight	US Trade tariffs; Currency risks; Local inflation and fiscal slippage risk; Lower liquidity; FX volatility
Equities	North America Equities	Overweight	Earnings growth potential; AI growth story; Resilient economy; Strong buybacks and healthy corporate balance sheets
Equities	UK Equities	Underweight	US Trade tariffs; Stagflation risks; Weak domestic growth; Fiscal constraints and tax uncertainty; Limited technology exposure
Equities	Asia ex-Japan Equities	Overweight	Attractive valuations; Earnings growth; Easing oil prices for oil importing countries; Wider AI adoption; Semiconductor and tech hardware upcycle
Alternatives	Hedge Fund Strategies	Overweight	Good portfolio diversifier; Low correlation to traditional assets; Downside protection in drawdowns; High dispersion and volatility create alpha opportunities

Preferred Equity Sectors

US
Technology
Financials
Communication Services
Industrials
Utilities

Europe Ex-UK
Financials
Industrials

Asia Ex-Japan
Technology
Communication Services

Highlights:

- EM Government Bonds sector in general has higher duration.
- Better to keep exposure to less than 10 years bond within Investment Grade sector
- Bond exposures and risk can be better managed using broader and global bond funds
- Broader exposure to US equities preferred with broader adoption of AI by corporates across different sectors
- Benefits of AI capex to benefit sectors like Utilities, Industrials and Infrastructure
- Asia Ex-Japan Equities have attractive valuations compared to US equities
- Long-Short equities and Market Neutral Hedge Funds are preferred due to expected dispersion in equity market returns
- Increase in equity market and bond market volatility expected in H2 of 2026
- Uncertainty of Fed policy, increased term premium in benchmark rates and concerns around AI capex and earnings negative surprises for Q3 and Q4

Asset Allocation Guidelines

Sr.No.	Asset Class	Sub-Asset Class	Views	Conservative	Balanced	Aggressive
1	Cash	USD Cash	Underweight	4	3	2
2	Fixed Income	DM IG Government Bonds*	Neutral	22	9	3
3	Fixed Income	DM IG Corporate Bonds*	Neutral	15	8	4
4	Fixed Income	DM HY Corporate Bonds	Neutral	4	2	1
5	Fixed Income	EM USD Government Bonds	Overweight	9	5	3
6	Fixed Income	EM Local Ccy Government Bonds	Underweight	0	0	0
7	Fixed Income	Asia USD Bonds	Neutral	9	4	2
8	Equities	Emerging Market Equities (Non-Asia)	Neutral	0	0	1
9	Equities	North America Equities	Overweight	20	31	39
10	Equities	Europe ex-UK Equities	Neutral	4	5	7
11	Equities	UK Equities	Underweight	1	1	1
12	Equities	Japan Equities	Neutral	2	2	3
13	Equities	Asia ex-Japan Equities	Overweight	5	6	6
14	Commodities	Gold	Neutral	5	5	5
15	Commodities	Other Commodities	Neutral	0	0	1
16	Alternatives	Hedge Fund Strategies	Overweight	0	4	4
17	Alternatives	Private Equity	Neutral	0	4	6
18	Alternatives	Private Real Assets	Neutral	0	5	5
19	Alternatives	Private Debt	Neutral	0	6	6
20	Alternatives	Digital Assets	Neutral	0	0	1
TOTAL				100	100	100

Sr.No.	Asset Class	Views	Conservative	Balanced	Aggressive
1	Cash	Underweight	4	3	2
2	Fixed Income	Neutral	59	28	13
3	Equities	Overweight	32	45	57
4	Commodities	Neutral	5	5	6
5	Alternatives	Neutral	0	19	22
TOTAL			100	100	100

*DM – Developed Market; IG – Investment Grade; HY – High Yield (below investment grade); EM – Emerging Markets; Local Ccy – Local Currency

Notes:

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Major Currency Pairs

Currency	Bias	Current Levels	3-6 months	6-12 months
DXYIndex	Rangebound	99.80	103.00	98.00
GBP/USD	Range bound GBP	1.35	1.35	1.37
EUR/USD	Range bound EUR	1.15	1.14	1.17
USD/JPY	Stronger JPY	157.57	162.00	153.00
AUD/USD	Stronger AUD	0.70	0.70	0.73
USD/CHF	Range bound CHF	0.81	0.82	0.78
USD/SGD	Stronger SGD	1.28	1.29	1.26
USD/CNY	Range bound CNY	6.75	6.74	6.69
USD/INR	Range bound INR	95.38	96.00	96.00
USD/CAD	RangeboundCAD	1.40	1.39	1.38

Highlights:

- USD to remain stronger with higher benchmark yields, real yields and risk off scenario and if energy driven inflation becomes stickier
- EUR to move downwards if energy shock realizes for Europe due to Iran war
- AUD expected to appreciate in next 12 months and is a high conviction idea
- BOJ hawkishness to support JPY after initial weakness against USD
- CHF to remain range bound due to broader USD strength. But eventually expected to appreciate against USD
- Policy support from MAS and PBOC to keep SGD and CNY stronger against USD
- Trade deficit and higher crude import bills may keep INR weaker against USD though some support may come in with FCNR deposits
- CAD to remain range bound, but may appreciate slightly if oil prices remain higher

KeyTakeaways

- Add Global Equity exposures for diversification
- Take benefit of Equity market volatility
- Take benefit of Bond market volatility and higher benchmark yields and avoid longer duration exposures
- Gold may face headwind with higher real yields and stronger USD
- Diversify allocation to outside Tech sector equities like Communication Services, Financials, Utilities and Industrials
- Markets outside US are less crowded with attractive valuations and earnings growth potential
- Bond markets not agreeing to Fed narrative with long term yields to remain higher with US 10y real yields also moving higher
- Role of active investments increases due to wider dispersion across macros, asset classes, markets and sectors
- Infrastructure and Utilities to benefit from AI spending, energy constraints and inflation linked cash flows.
- Private markets to benefit from AI Capex boom through indirect exposures like infrastructure
- AUD is a high conviction currency expected to appreciate in next 12 months



Route to Market

- Global Equity Mutual Funds and Global Equity ETFs
- Fixed Coupon Notes (FCNs), Option strategies and Accumulator notes
- Auto-callable Range Accrual Notes and less than 10 years to Maturity Investment grade bonds.
- Gold ETFs, FCNs linked to Gold ETF and doing Premium Currency Investments (PCIs) linked to Gold.
- High conviction stock ideas from sectors like Communication Services, Financials, Utilities and Industrials directly or through FCNs and Accumulator notes
- Private Equity, Private Credit and Infrastructure funds through large asset managers
- Listed Infrastructure companies using Mutual Funds/ ETFs
- Investment Grade AUD bonds with less than 10 years to Maturity with target exit of 18 to 24 months.

- Geopolitical concerns and further escalations in Middle East war
- Energy supply concerns and higher Crude prices beyond USD 100 for a prolonged period to impact second round of inflation effects globally
- US Tariff related uncertainty and surprises
- Higher US benchmark yields with US 10Y crossing levels of 5.00% impacting valuations and increasing borrowing costs
- Tech companies not able to monetize AI Capex spending and any earnings disappointments
- Hawkish Fed and other central banks if inflationary pressure again builds up
- Tight credit market dislocation with spreads blowing up with stress in the economy
- Build up of stress in Private credit spilling over to Public markets

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Data Source: Bloomberg, US Bureau of Economic Analysis, Trading Economics

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