

4Q 2026 Market Outlook

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KEY TAKEAWAYS

- Global growth remains resilient, supported by AI investment and manufacturing. However, high energy, freight and food costs are sustaining inflation as fiscal policy remains expansionary.
- Favour equities over government bonds, but maintain a neutral rather than aggressively risk-on stance. Strong earnings support markets, while higher yields, crowded positioning and pre-midterm volatility call for selectivity.
- Within equities, prefer the US and Asia ex-Japan; remain neutral on Japan and cautious on Europe. Asia ex-Japan offers targeted opportunities in AI hardware, memory, financials and domestic reform, while Europe's improving earnings are offset by energy exposure and political risk.
- In fixed income, prioritize carry, quality and shorter duration. Remain cautious on US Treasuries, defensive in Singapore-dollar bonds, and expect only modest credit-spread widening.

MACRO ENVIRONMENT

The second half of 2026 pits a surprisingly durable expansion against a rising cost of capital. The AI investment supercycle continues to boost trade, manufacturing and capital spending in technology-linked economies, but it is also consuming capital, power and scarce hardware, adding to inflation and issuance. Increased government spending on defence, infrastructure and industrial policy further supports growth. The result is resilient activity, persistent inflation and higher risk premiums in bond markets.

Consensus forecasts global growth of 3.0% in 2026, led by 2.1% expansion in the US, 4.6% in China, 0.8% in the Eurozone and 0.7% in Japan. Singapore is a notable bright spot, with growth projected at 4.7%. Manufacturing has generally outpaced services as AI and defence demand lifts factory activity, while services outside the US recover more gradually.

The US remains the global growth anchor. August payrolls increased by 162,000, unemployment held near 4.1% and retail sales beat expectations. Household balance sheets remain stronger than before the pandemic, while fixed-rate mortgages insulate many homeowners from higher yields. Yet consumption is increasingly K-shaped: affluent households benefit from rising financial wealth, while lower-income borrowers face higher delinquencies and mounting food, fuel and financing costs. Housing is the clearest weakness, as elevated mortgage rates constrain affordability and transactions.

Inflation has therefore overtaken recession as the immediate policy concern. In September, the Federal Reserve raised its target range by 25 basis points to 3.75%-4.00%, with most officials projecting at least one further increase and a higher longer-run policy rate. The message was clear: domestic demand remains resilient, financial conditions are not especially restrictive and inflation has stayed elevated for too long. Tightening by the European Central Bank and Bank of Japan reinforced the global shift away from treating energy shocks as transitory.

Energy is the key macro variable. Disruptions around the Strait of Hormuz, attacks on infrastructure, low inventories and tanker shortages have lifted crude, gas and refined-product prices. Diesel and freight are as important as headline oil because they feed directly into transport, food and industrial costs. A developing El Niño adds further risk to agricultural commodities and emerging-market inflation in 2027. A sustained fall in energy prices could lower yields and refocus attention on slowing growth; a persistent inflationary shock could force central banks to tighten into a late-cycle economy.

Regional divergence is widening. Eurozone activity is stabilising as surveys improve and Germany begins to benefit from fiscal and defence spending, but France's budget and political outlook remain key vulnerabilities. China's two-speed economy persists: exports and advanced manufacturing are resilient, while property, consumption and confidence remain weak. Policy support is becoming more visible, but the shift from production-led to consumption-led growth is still incomplete.

INVESTMENT IMPLICATIONS

Equities

Equities enter the final months of 2026 with earnings stronger than macro headlines imply. Revisions are positive across most major regions, and robust US profit growth has absorbed higher yields. Manageable leverage, strong margins and solid interest coverage support a positive allocation but tempered by elevated valuations.

Near-term volatility is likely to increase. September and October have historically been difficult during US midterm years, positioning is elevated, and markets must absorb higher rates, additional equity and bond supply, and unresolved geopolitical risks. The appropriate response is greater selectivity, not broad de-risking. The broadening trade can persist while purchasing managers' indices remain expansionary, but investors should gradually take profits in cyclicals as fiscal and monetary support fades. Leadership may again narrow to companies with credible AI monetisation and strong balance sheets.

US equities remain supported by strong earnings momentum, high returns on equity and direct exposure to the AI capital-spending cycle. Employment and wealth creation continue to underpin consumption, but value-seeking behaviour and pressure on lower-income households warrant selectivity within consumer sectors. A divided Congress after the midterms would limit major legislation and has historically favoured markets, while a clean sweep by either party could produce larger shifts in taxation, regulation and fiscal spending.

Europe offers improving earnings but less macro resilience. New orders are rising, revisions are positive, and the region should benefit from global growth, AI investment and higher fiscal spending. Banks, industrials and technology are better positioned than traditional defensives in a higher-rate environment. However, elevated gas prices, French fiscal risk and political uncertainty ahead of 2027 weaken the case for a broad overweight. German domestic cyclicals and selected small- and mid-cap companies provide more targeted exposure to the investment-led recovery.

We are positive on Asia ex-Japan but at selective markets. Taiwan remains central to AI computing, with strong earnings revisions and rising hardware margins, although valuations are demanding. Korea offers exposure to memory, financials, holding-company reform, and leaders in nuclear power, defence, shipbuilding and electrical equipment; memory supply is expected to stay tight for longer than previously assumed. India's outlook remains positive as consumption, private capital spending, credit growth and foreign inflows strengthen, though oil and currency risks require monitoring. In China and Hong Kong, we favour a barbell of AI and robotics leaders, exporters, energy-security plays, banks, healthcare and high-dividend state-owned enterprises.

Singapore stands out as a dividend-and-growth market. AI infrastructure demand is accelerating electronics exports, while safe-haven inflows, strong financial institutions and government-led market reforms provide further support. Preferred areas include financials, communication services and healthcare, as well as companies exposed to specialised machinery, semiconductors and domestic value-unlock initiatives.

We are neutral on Japan. Fundamentals are healthy but valuations are not cheap. Earnings revisions have strengthened across exporters and domestic sectors, supported by AI hardware, construction, banks, price increases and corporate reform. Equities valuations above historical levels and relative to Japanese bonds.

Fixed Income

Fixed income offers attractive income but less reliable portfolio protection. More frequent supply shocks, wider fiscal deficits and rising capital needs are reshaping bond markets. At the same time, some traditional long-term buyers are reassessing US government debt as private capital shifts toward equities and corporate securities. These forces point to a structurally higher term premium.

We remain cautious on fixed income, favouring cash and an underweight duration position. Credit is also unattractive given the risk of wider spreads, elevated refinancing costs and persistent supply pressure.

Singapore-dollar bonds remain relatively defensive, supported by manageable long-end government supply and the high cost of hedging US-dollar assets. However, pressure from global yields and potential inflation pass-through argue against extending duration aggressively. We therefore favour a defensive stance in SGD bonds and remain neutral on Singapore Government Securities relative to Treasuries.

RISKS

The primary risk is a prolonged supply shock. Renewed escalation in the Middle East or the Russia-Ukraine conflict could keep oil, gas, diesel and freight costs high, forcing central banks to tighten even as growth slows. This would be the most damaging outcome for equity valuations and long-duration bonds.

The second risk is fiscal credibility. Heavy sovereign issuance is competing with the financing demands of AI, defence and infrastructure. A disorderly selloff in long-dated government bonds would tighten global financial conditions, strain indebted borrowers and test whether strong earnings can continue to offset a rising discount rate.

Third, AI investment must increasingly demonstrate adequate returns. Hyperscaler spending is relying more on external financing, free cash flow has weakened, and funding is expanding from bonds into structured and off-balance-sheet vehicles. The larger risk is not the volume of issuance itself, but a loss of confidence in monetisation. Regulatory or community resistance to Data Centres would further raise execution risk.

Finally, political developments could amplify market volatility. The US midterms may reshape policy on taxes, regulation, appointments and foreign affairs. France faces wider sovereign spreads and a polarised 2027 election, while German regional results could delay reform. In China, further export-led stimulus without stronger domestic demand would prolong global trade tensions. These risks favour balanced portfolios, disciplined position sizing and sufficient liquidity to exploit market dislocations.

All data are sourced from Lion Global Investors and Bloomberg as at 31 August 2026 unless otherwise stated.

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