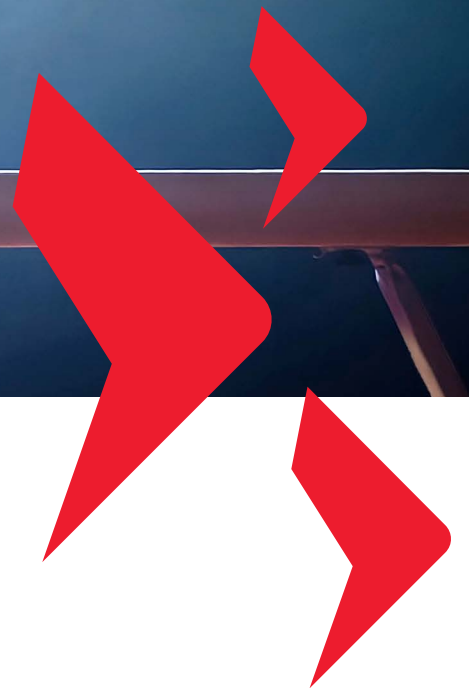




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2026 Market Outlook

Balancing optimism and risk

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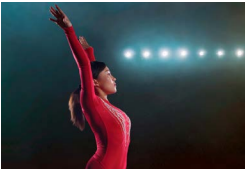
2026 Market Outlook

Foreword

Contents



Foreword	3
2026 Market Outlook	



Policy stimulus to support economies and markets	4
---	----------



Bifurcation demands selective equity plays in Asia and Emerging Markets	12
--	-----------



Monetary easing to anchor bond yields	18
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This year has shown that markets can defy expectations, climbing to record highs even as volatility persisted. Looking ahead, 2026 looks set to start with a constructive backdrop for Asia and Emerging Markets (EMs), supported by fiscal and monetary stimulus, and policy favouring a weaker US dollar. These factors create tailwinds for economic growth and asset markets.

Key themes such as regulatory and corporate reforms, rising consumption, climate transition, and the adoption of Artificial Intelligence (AI) will define the long-term opportunities. The global expansion of AI infrastructure is a significant growth catalyst for Asia. From semiconductors and advanced electronics to data centres, many Asian companies are integral to this ecosystem and stand to benefit significantly.

Meanwhile, all-in yields remain attractive by historical standards, sustaining demand for bonds. High-yielding markets such as Indonesia and India are benefitting from rising domestic participation. Australia and Japan also offer attractive credit opportunities, while the limited supply of bonds in Asia, especially from China, should keep technical factors supportive into 2026. We favour adding duration on rate spikes and exploiting cross-currency basis trades to enhance yield.

However, this constructive backdrop comes with challenges. Geopolitical risks, elevated asset valuations in the US and rising concentration risks in equity markets could trigger sharp market movements. Additional headwinds include potential US dollar strength, housing vulnerabilities in Asia and lingering trade policy uncertainty.

With traditional equity–bond correlations proving less reliable, systematic hedging is key to limit drawdowns while diversified tactical alpha across multiple horizons can add value to portfolios. Leveraging quantitative strategies that integrate complementary, uncorrelated alpha sources, and sustainable investing will be crucial for effective risk management and portfolio resilience.

Ultimately, Asia and EMs are far from homogenous. Capturing opportunities in these markets requires a broad perspective of long-term structural themes and an active management approach to unlock returns.



Vis Nayar
Chief Investment Officer
Eastspring Investments

2026 Market Outlook

Policy stimulus to support economies and markets



Key takeaways

- 2026 is likely to feature softer growth in the United States and Europe, largely offset by fiscal and monetary policy stimulus in Asia.
- The global AI infrastructure build-out will favour Asian countries that export semiconductors, power generation equipment and batteries.
- Amid uncertainty over trade policy and the USD’s path, diversified streams of tactical alpha, hedging and defensive strategies can build portfolio resilience.

According to **Ray Farris, Chief Economist, Eastspring Investments**, the economic background for 2026 is likely to feature slightly softer growth in United States and Europe, largely offset by fiscal and monetary policy stimulus in Asia.

In the **US**, we expect GDP growth to moderate from about 1.9% in 2025 to 1.6% in 2026. The recent slowdown in employment growth and the steadily rising cost of tariffs will be increasing drags on GDP growth in 2026. The US Federal Reserve (Fed) is likely to cut the Fed Funds rate by 25 basis points (bps) at its December meeting, and we expect another 50bps of cuts in 2026. These cuts should counter much of this drag. We do not rule out even deeper cuts because we believe US President Trump will appoint a dovish successor to take over the Fed Chairmanship

from current Chairman Powell in June 2026. Importantly, corporate guidance suggests that business spending on data centres and related power infrastructure should continue to grow through the next several quarters, albeit at gradually slowing growth rates.

We expect the combination of Fed rate cuts and higher US inflation to weaken the USD in 2026.

In **Europe**, fiscal stimulus from Germany, the lagged impact from the European Central Bank’s policy rate cuts in 2025 and improving business sentiment should offset most of the drag on EU exports from US tariffs. GDP growth in the Eurozone is likely to ease modestly from 1.3% in 2025 to about 1.1% in 2026.

GDP growth and inflation forecasts

	2024	2025F	2026F	2027F
GDP growth (% yoy)				
US	2.4	1.9	1.6	1.7
China	4.8	5.0	4.8	4.0
India	6.5	6.8	6.6	6.5
Japan	0.1	1.0	0.7	0.6
Inflation (% yoy)				
US	3.0	2.8	3.0	2.9
China	0.2	0.0	0.5	0.6
India	4.6	2.5	4.2	4.3
Japan	2.7	3.0	1.8	1.7

Source: Eastspring Investments. October 2025.



US Fed rate cuts should drive interest rate spreads against the USD



Source: LSEG Datastream, October 2025.

Further easing in monetary policy will be a key factor supporting Asian economies and markets in 2026.

biotechnology. We also see increased subsidies for domestic consumer goods and some boost to pension and social welfare payments, but the extent of any new, more powerful stimulus for consumption remains uncertain.

Japan's new government also seems likely to increase fiscal stimulus. We forecast GDP growth of 0.7% in 2026, down from an estimated 1.0% in 2025. Stimulus is likely to take the form of reductions in tax on fuel, some transfers to households and local governments, and importantly, government support for strategic industries, particularly defence. This should work with continued growth in corporate capex to offset a likely 25bps interest rate hike by the Bank of Japan.

In Asia, press reports following **China's** 4th Plenum imply that the Chinese government is committed to keeping GDP growth close to 5% through 2030. We expect GDP growth of 4.8% in 2026, fuelled by new fiscal stimulus with investments in strategic industries, particularly technology, transportation, and

We expect the **Indian** economy to grow 6.6% in 2026 following stronger than expected growth of 6.8% in 2025. India's Goods and Services Tax rate rationalisation, personal tax cuts, and corporate tax relief for Micro, Small and Medium Enterprises as well as exporters, combined with another 25bps policy rate cut and easing of credit regulations should help stimulate domestic demand. We expect India to reach a deal with the US in the coming months to reduce its tariff rates.

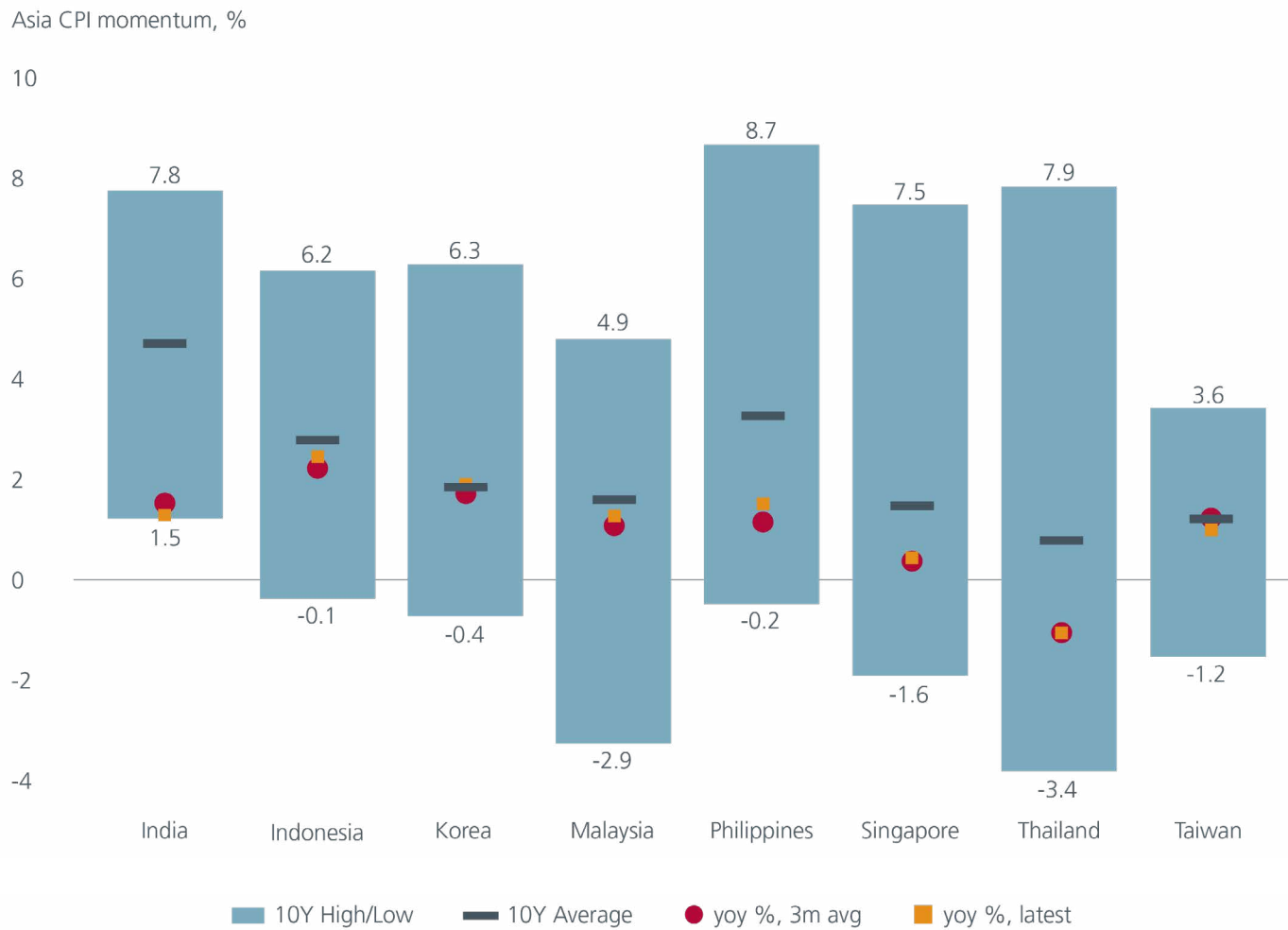
Indonesia, Thailand, and the Philippines have also introduced new fiscal stimulus that began in 2025 and should continue to support growth into 2026.

Greater monetary easing and AI build-out to drive Asia's growth

Further easing in monetary policy will be a key factor supporting Asian economies and asset markets in 2026.

While Fed rate cuts will ease global monetary conditions on their own, the cuts also facilitate further policy rate cuts by other central banks. In Asia, inflation is below both central bank targets and historic averages in all countries except **Taiwan** where it is in line with the central bank's target. In contrast, real policy rates are above historic norms in all countries except Malaysia.

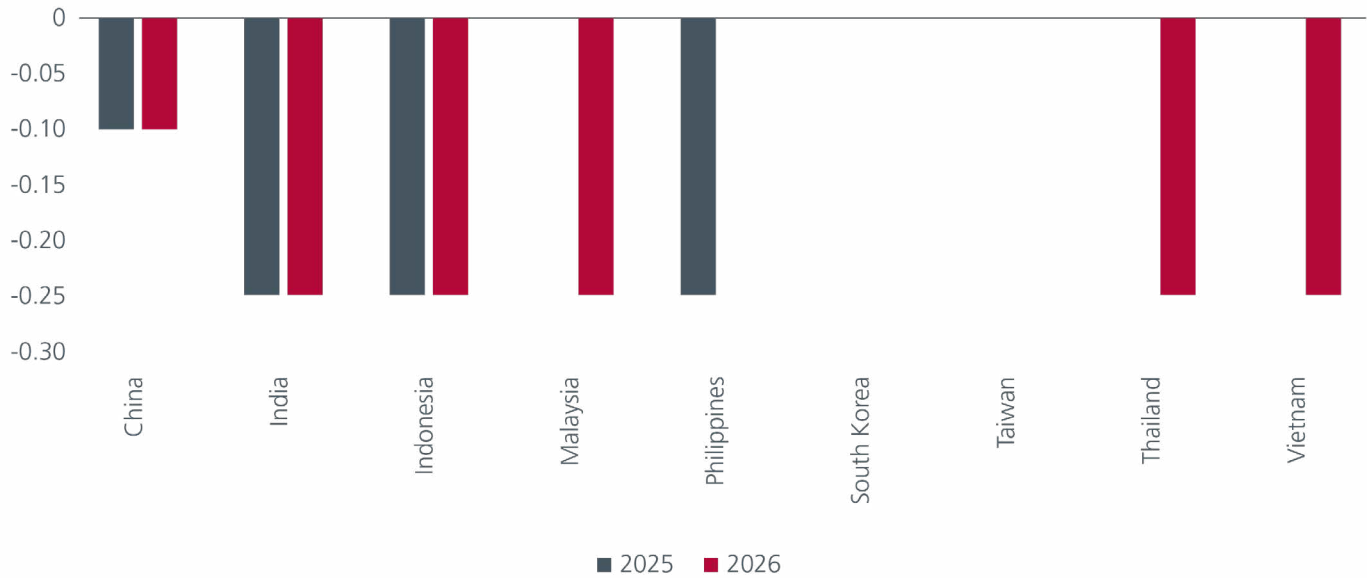
Low Asian inflation creates room for further monetary policy easing



Source: LSEG Datastream, October 2025.

Most Asian central banks are likely to cut rates in 2026

Asia 2026 forecast policy rate change, %



Source: Eastspring Investments. October 2025.

This mix leads us to expect policy rate cuts in China, India, Indonesia, the Philippines, and Thailand. Some countries, such as India, are also easing regulatory restrictions on banks and non-bank financial companies that should lead to stronger lending in 2026.

The global Artificial Intelligence (AI) infrastructure build-out is another growth driver for Asia as it results in an increased demand for semiconductors, electronics, power generation equipment, and batteries. Combined with easing domestic policy, it is helping to drive upward revisions to equity earnings estimates across the region.

Bifurcation across Asia requires an active touch

The global AI infrastructure build-out is also a source of differentiation across countries that are exporters of these products – mainly North Asia including Singapore – and those who are not – much of ASEAN. This bifurcation drives our expectation for greater monetary policy easing in Southeast Asia

aimed at stimulating domestic demand and property, relative to North Asia.

This bifurcation carries important implications for investors. Overall economic growth and its pass through to corporate earnings is likely to be strongest in North Asia. Within this, investors should focus on the beneficiaries of the AI boom and, in China and Japan, sectors that get specific support from governments. Meanwhile, India’s growth is likely to increasingly broaden into a consumption and property recovery. Within Southeast Asia, investors should focus on domestic asset inflation plays. Given this backdrop, we think investors will benefit from careful active management of portfolio exposures rather than simple index investment strategies.

USD’s path and trade policy are key risks

The main risks to our monetary policy and growth forecasts come from the trajectory of the USD and house prices in parts of Asia. If the USD were to begin strengthening against our expectations,

Foreword

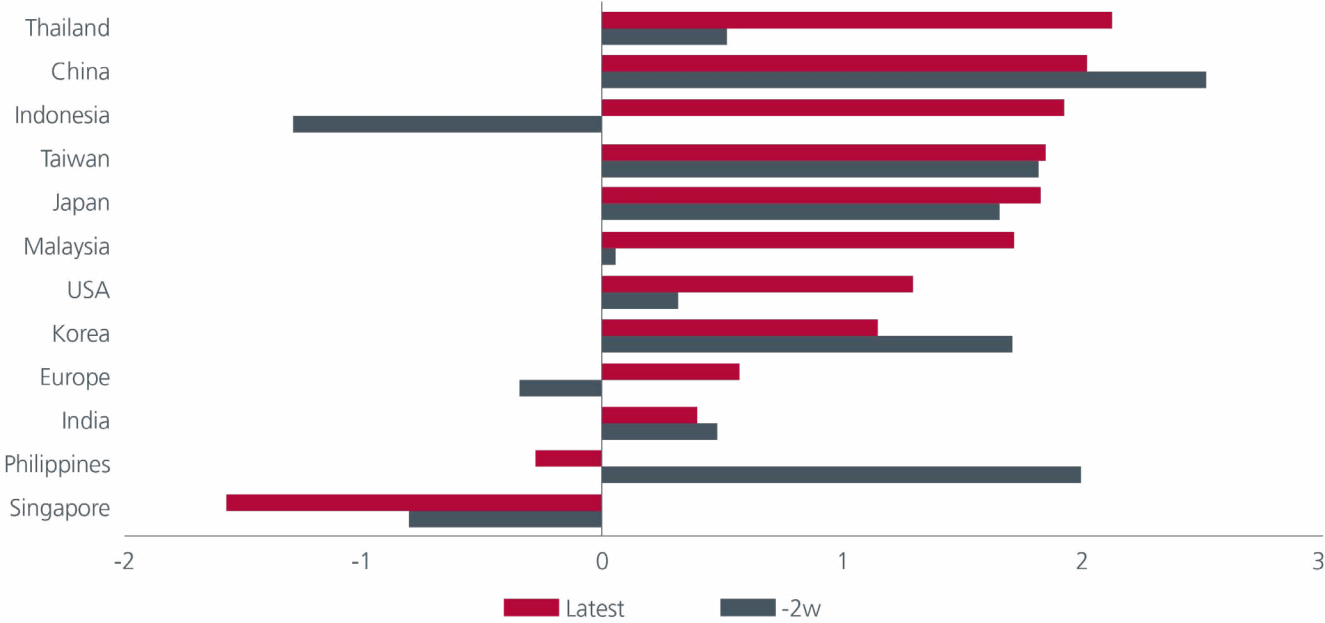
Policy stimulus to support economies and markets

Bifurcation demands selective equity plays in Asia and Emerging Markets

Monetary easing to anchor bond yields

Positive earnings revisions across Asia

MSCI index 12m forward earnings revisions z-scores



Source: LSEG Datastream, October 2025.

most Asian central banks would probably halt policy rate cuts. Meanwhile, central banks in Korea and Thailand have expressed concern about the levels of household debt and house prices and we believe that the latter is also an issue for the Monetary Authority of Singapore.

Meanwhile, trade policy uncertainty is likely to linger and resurface frequently. The reality of the trade deals which Asia has negotiated with the US is that they remain simple frameworks rather than detailed agreements. This means that further negotiation and disagreements in interpretation will be frequent throughout 2026. However, the magnitude of these shocks is likely to be less severe than what we experienced in the first half of 2025. Crucially, ongoing domestic policy stimulus should be working to cushion such shocks.

Diversifying tactical alpha; building resilience

Against this macro backdrop, **Craig Bell, Head of Multi Asset Portfolio Solutions, Eastspring Singapore**, believes that

diversification and risk management remain key in 2026. With the negative correlation between traditional asset classes like equities and bonds proving less reliable, limiting portfolio drawdowns through systematic hedging strategies protect portfolios without significantly compromising long-term returns. Critically, these strategies do not rely on assumptions about correlations across asset classes.

“The negative correlation between traditional asset classes is proving less reliable.”

At the same time, having diversified streams of tactical asset allocation alpha spanning multiple horizons, can add significant

value to portfolios in 2026. Our tactical approach revolves around four pillars.

The first leverages data to identify short-term tactical investment opportunities. For example, assessing key macroeconomic indicators allows us to anticipate changes to market expectations of central bank policy decisions, and take advantage of actionable ideas.

Our second pillar complements our short-term data analysis and relies on rigorous fundamental research to identify secular trends to uncover medium-term tactical opportunities.

Alongside this, we aim to add portfolio alpha in 2026 through carry and convexity alpha streams. Interest rate differentials and central bank pivots should create lucrative carry opportunities across bond and currency markets. We also look to exploit the yield gap that could emerge between Developed and Emerging Market bonds with comparable default risk profiles.

Our convexity pillar seeks to identify opportunities in the options markets which emerge when markets become dislocated. The positions we seek aim to deliver outsized risk-adjusted returns, capturing significant alpha while limiting or eliminating downside.

According to **Ioannis Kampouris, Head of Quantitative Strategies, Eastspring Singapore**, defensive strategies can also build portfolio resilience. Across global markets, concentration risks have become increasingly evident. A handful of stocks now dominate global market performance. Asian markets are also exhibiting rising concentration, mirroring the trends seen in the US and Developed Markets. The effective number of stocks in Asia Pacific ex-Japan is now well below its long-term average. This growing concentration highlights the need for diversification and reinforces the value of active management in navigating such dynamics.

Diversification is essential across industry groups, geographies, and style factors such as value, growth, momentum, low volatility,

quality, and size (small cap). Some of these factors are geared towards alpha generation, while others serve as risk controls, each playing a distinct role in portfolio construction.

In multi-factor equity strategies, selecting factors with low correlations enhances diversification and potentially reduces portfolio risk. Integrating traditional and unconventional data, along with advanced algorithms, has expanded the frontier for discovering orthogonal alpha signals. This has led to a more diversified set of uncorrelated drivers of stock returns. Equally, it is crucial to consider the correlation between alpha factors and risk factors. The lower the correlation between them, the greater the clarity investors can achieve in risk-return analysis, leading to more efficient portfolio construction and optimisation.

As we head into 2026, having a more uncorrelated alpha source reinforces the value of combining complementary factors to help manage risk and enhance portfolio resilience. Defensive strategies like low volatility may lag in narrow speculative rallies but they deserve a core allocation in portfolios due to their ability to mitigate downside risk and deliver consistent returns over time.

Besides defensive strategies, sustainable investing also enhances portfolio resilience by identifying companies with the ability to adapt to shifts in consumer behaviour and industry regulations.

In 2026, **Joanne Khew, Head of Sustainability, Eastspring Singapore**, expects to see continued broad divergence in the demand for sustainable solutions across the globe. However, while the level of demand may differ, the focus on how these solutions perform across market cycles is likely to be universal, alongside ongoing scrutiny of their return and risk drivers. Given the climate transition, we also expect an increased focus on climate adaption and mitigation solutions. This is creating emerging opportunities in the private markets, especially for adaptive and nature-based solutions as well as in managed coal phase-out initiatives. Active funds are likely to remain dominant in the global sustainable funds landscape. However, passive sustainable funds have a growing role in helping institutional investors gain exposure to climate transition and manage their risk against broad market benchmarks.

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Diversification is essential across industry groups, geographies, and style factors.
”

2026 Market Outlook

Bifurcation demands selective equity plays in Asia and Emerging Markets

Foreword

Policy stimulus to support economies and markets

Bifurcation demands selective equity plays in Asia and Emerging Markets

Monetary easing to anchor bond yields

Key takeaways

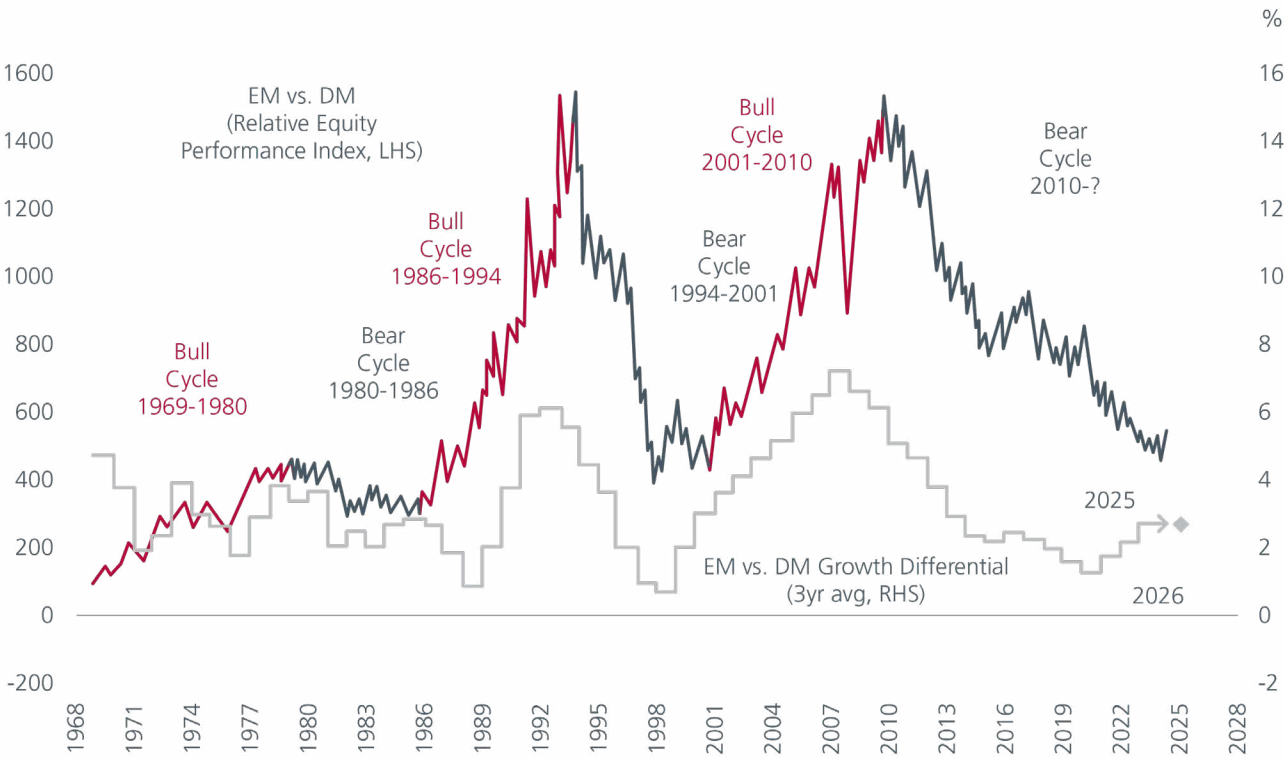
- ▶ US dollar weakness favours Asia and Emerging Markets, but active stock selection is essential for capturing alpha.
- ▶ Government-driven reforms and policy tailwinds are shaping compelling opportunities across China, India and Japan.
- ▶ ASEAN markets offer a blend of value, yield and structural growth, with each economy offering distinct opportunities.



Despite a challenging backdrop in 2025, global equities have largely stayed resilient and delivered robust returns. As we look ahead to 2026, several **key themes** are expected to shape market outcomes. On balance, rate cuts and fiscal stimulus are expected to boost liquidity and support equities. With policy favouring a weaker US dollar (USD), the outlook for Asia and Emerging Market equities remains constructive.

A weaker USD could support higher-yielding Emerging Market currencies and give central banks more flexibility to cut rates. Policy is already loosening in markets like Mexico, Korea, and Indonesia. Looking ahead to 2026, we may reach an inflection point where the growth gap between Emerging Markets (EMs) and Developed Markets (DMs) stabilises or widens.

EMs historically outperforms DMs when the growth gap widens



Source: FactSet, Goldman Sachs Global Investment Research as of 3 September 2025.





A weaker USD could support higher-yielding Emerging Market currencies and give central banks more flexibility to cut rates.



Steven Gray, Head of Global Emerging Market and Regional Asia Value Equities, Eastspring Singapore, sees alpha opportunities in Brazil, Indonesia and Mexico in 2026. The most compelling value opportunities lie in the consumer staples and discretionary sectors which are trading below historical averages, and the financial sector which is trading in line with its 10-year average. We also see increasing opportunities in the attractively valued small-to-mid-cap stocks. These companies are more tied to domestic demand, less exposed to tariffs, and offer higher return potential.

All said, EMs remain highly exposed to global trade and external demand, with many economies deeply integrated into global manufacturing and supply chains. Trade tensions remain, and any setback could weigh on export momentum. Even though EMs trade

at a valuation discount to DMs, earnings could still face pressure if global trade softens, particularly across export-oriented sectors. As we anticipate varied performance across regions and markets, a disciplined approach to valuation and active stock selection is essential.

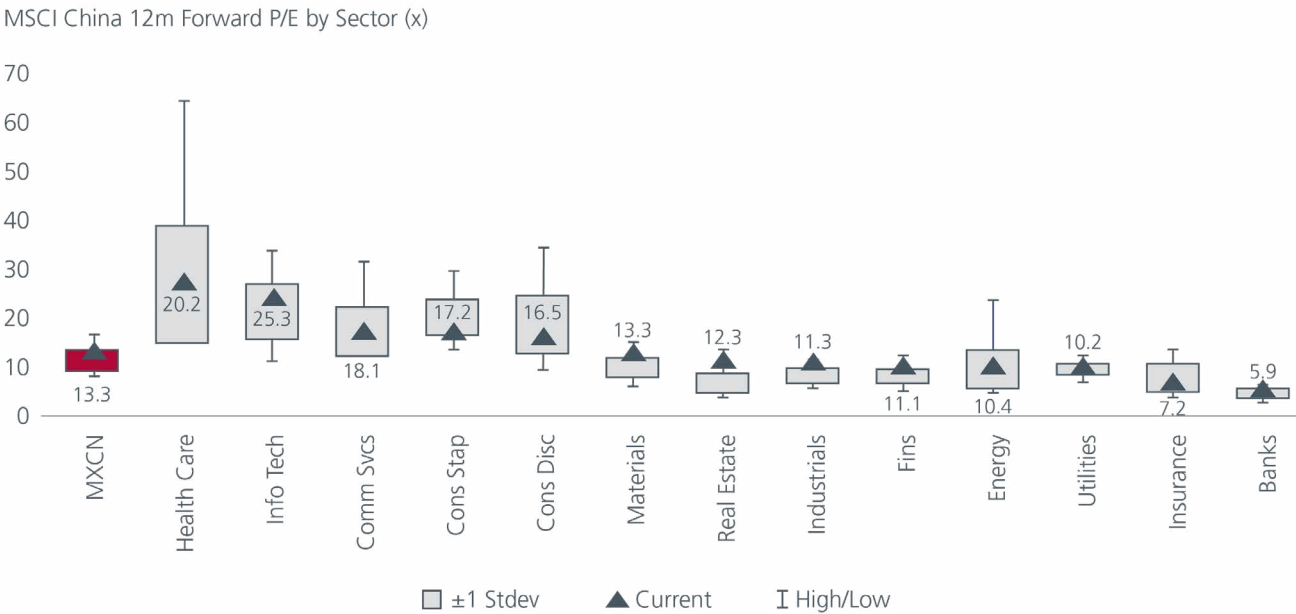
Seize policy-led opportunities in Asian giants

China

Justin Liu, Head of Equities, Eastspring China, expects growth to stabilise in the coming year. He anticipates that the People’s Bank of China will keep interest rates low or possibly implement moderate cuts while fiscal policy will remain expansionary. Sector wise, he prefers Artificial Intelligence related tech names, “Going Global” leaders, as well as those cyclical names that can benefit from the improving demand-supply dynamics (including anti-involution beneficiaries).

Similarly, **Jocelyn Wu, Portfolio Manager, Eastspring Hong Kong,** is focusing on global and national champions, as increasing competition leaves little room for mediocre players. She expects China’s equity market to continue its rally in 2026, though at a slower pace. Valuations remain attractive relative to global peers, with the MSCI China Index trading about 20% below its 2021 peak. With global investors still underweight

Selective MSCI China sectors offer strong entry points



Source: FactSet, I/B/E/S, 5-year data range based on MSCI China, October 2025.

Foreword

Policy stimulus to support economies and markets

Bifurcation demands selective equity plays in Asia and Emerging Markets

Monetary easing to anchor bond yields

and policy expectations modest, China’s high savings rate and low interest rate environment present significant potential for incremental fund flows into the equity market.

Meanwhile, **Yuan Yiu Tsai, Portfolio Manager, Eastspring Singapore,** believes the Chinese equity market in 2026 will be shaped by the outcomes of the 4th Plenum and the 15th Five-Year Plan, both of which prioritise technology, industrial modernisation, and domestic consumption. Consequently, he is constructive on companies poised to benefit from domestic capacity upgrades, automation, and the push for technological integration and green development. He is however prudent on the hyper-growth technology cohort (Artificial Intelligence and semiconductor-related names) given the rich valuations. Meanwhile, the low valuations in the consumer discretionary and staples sectors present a highly compelling entry point, as these segments are direct beneficiaries of policies aimed at boosting household consumption.

Key risks for the China market include ongoing geopolitical tensions, a prolonged property downturn, persistent disinflation, and possible market consolidation.

India

According to **Yuan Yiu Tsai,** the biggest near-term market driver will undoubtedly be the resolution of the US-India trade deal. That

aside we expect earnings recovery in i) financials on the back of a pick-up in credit growth and stable-to-modestly-higher net interest margins, ii) consumer sectors as a result of the cuts in income tax and goods and services tax (GST), iii) IT services sector as expectations are bottoming out, and iv) telecom sector as earnings will likely accelerate if there is a tariff hike. Additionally, the Reserve Bank of India’s continued rate cuts amid benign inflation should boost liquidity and growth.

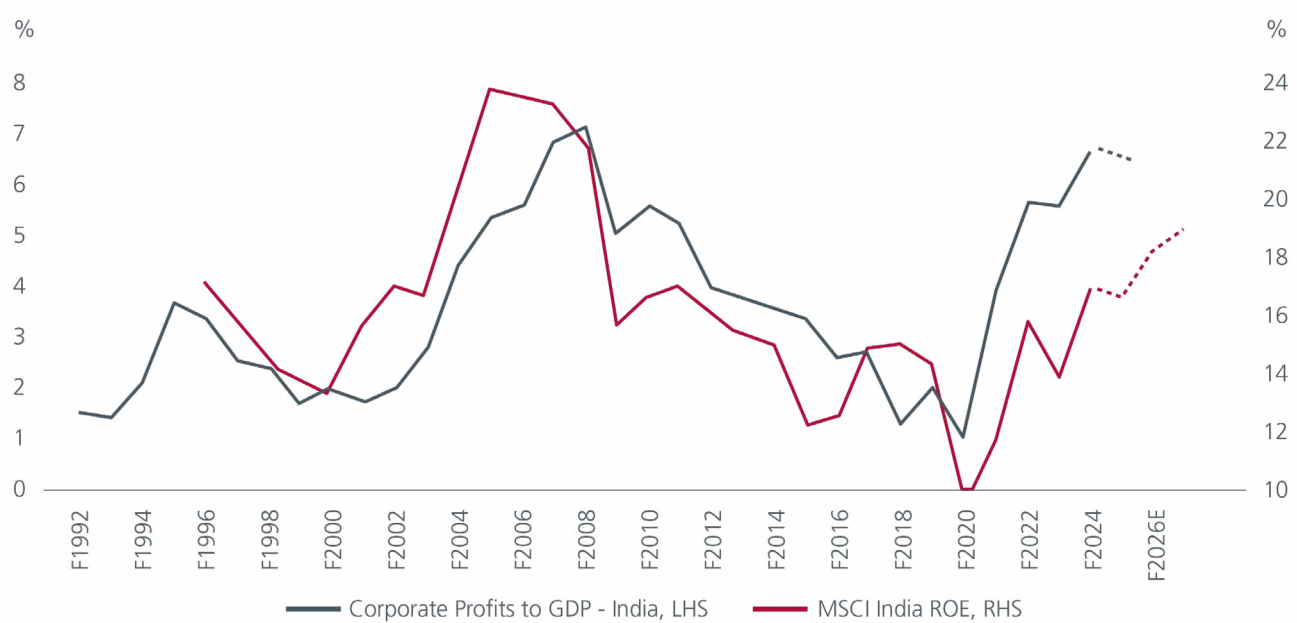
He is predominantly positioned in large caps reflecting their liquidity and reasonable valuation levels. The sectors we are most positive about are financials given their attractive valuations amid a supportive regulatory backdrop. He also likes four-wheelers which should benefit from the GST cuts and the premiumisation trend. Energy should benefit from government reforms and stable oil prices, while lower rates are set to lift property sector sentiment.

However, key risks include weak consumption recovery, sentiment overhang from further delays in the US-India trade deal and liquidity drain from large initial public offerings/placements as well as private equity stake sales.

Japan

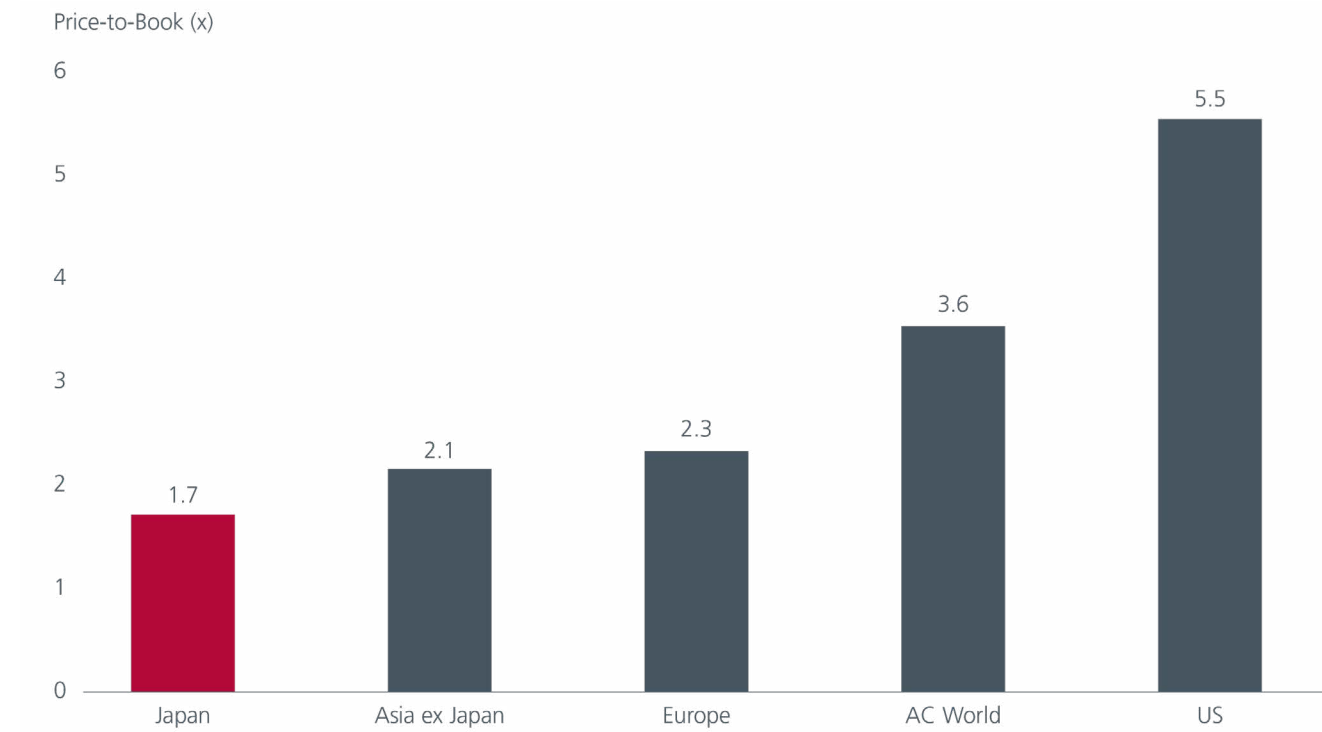
Japanese equities are entering 2026 with a constructive macro and corporate backdrop. **Ivailo Dikov, Head of Japan Equities,**

Corporate earnings recovery on the horizon in India



Source: MSCI, Morgan Stanley as of 4 November 2025.

Japan remains attractively valued versus global peers



Source: Eastspring Investments, MSCI Indices, Refinitiv Datastream as of 30 September 2025.

Eastspring Singapore, believes that the alignment of supportive policy under Prime Minister Sanae Takaichi’s new administration, resilient corporate earnings, and renewed investor interest continue to underpin confidence in the market. While Japanese equities remain attractive globally, with resilient profitability and rising return on equity, valuations now are above their 10-year average.

Market leadership is also concentrated in a small number of large, narrative-driven names (related to digital transformation, defence, and Artificial Intelligence) which have seen outsized gains and now carry high multiples. This is creating both reversal risks and opportunities in some overlooked areas where fundamentals are improving but market sentiment has yet to fully reflect that progress.

For example, large-cap stocks, led by AI and defence, have outperformed small-to-mid-cap stocks, widening valuations to decade highs. This gap creates opportunities for active managers to find underappreciated smaller firms benefitting from reforms, niche leadership, and catalysts – likely to gain recognition as market breadth improves. He also sees opportunities within select

industrials and materials companies positioned to benefit from the cyclical recovery and self-help initiatives, which offer compelling upside potential at current valuations.

Risks include a global slowdown weighing on exports, fiscal expansion stoking inflation and complicating Bank of Japan’s policy normalisation, and on the political front, Takaichi’s coalition faces internal pressure for fiscal discipline, which could slow her agenda. Given these risks, maintaining a disciplined approach grounded in fundamental analysis and valuation is paramount.

Taiwan

According to **Rebecca Lin, Head of Investments, Eastspring Taiwan**, Taiwan’s Artificial Intelligence (AI) industry is poised for rapid growth. The global competitiveness of Taiwan’s semiconductor supply chain, rising demand for edge AI across PCs, autos, and consumer electronics are fuelling corporate profit growth. Led by the technology sector, the Taiwan stock exchange (TWSE’s) earnings are projected to rise 17%–20% in 2026. Key opportunities include AI semiconductors supply chain (foundries, IC testing), AI server components (power supply, cooling systems,

Foreword

Policy stimulus to support economies and markets

Bifurcation demands selective equity plays in Asia and Emerging Markets

Monetary easing to anchor bond yields

high-speed networking) and edge AI materials (memory, wafers, passive components, automotive semiconductors). While tech overconcentration and export dependence pose risks, especially amid US-China tensions and weak Chinese demand, Taiwan remains attractive for long-term investors due to its innovation and sector leadership.

Position for ASEAN’s structural upside

Equity markets in the region have seen heightened volatility and we anticipate more of the same going into 2026. Amid this backdrop, we like economies with strong domestic policy response that could drive structural improvements. This should provide respite from global demand uncertainties.

Daniel Lau, Portfolio Manager, Eastspring Singapore,

highlights that following a strong year-to-date performance, the Straits Times index has re-rated, driven by i) expectations of lower for longer interest rates, ii) stable Singapore dollar (SGD) versus US dollar (USD) and other emerging currencies, and iii) attractive dividend yield ~5%. We continue to hold a sanguine outlook for Singapore equities. Apart from the aforementioned drivers, we believe that the Monetary Authority of Singapore’s SGD5bn Equity Market Development Programme (EQDP), is likely to drive investor interest in the Singapore equity market, particularly in the small-to-mid-cap segment. Since the announcement of the programme, we have seen an improvement in trading liquidity for previously illiquid counters. More than 30 initial public offerings are reportedly in the pipeline for 2026, signalling a potential revival in capital market activity. Key risks that could derail this outlook include a stronger USD if i) the Fed cuts less than expected, ii) US GDP momentum exceeds expectations, and iii) a deeper global economic slowdown impacts Singapore’s open economy.

Michael Chang, Head of Investments, Eastspring Malaysia,

believes Malaysia offers an attractive risk-reward profile for 2026, with expected capital returns of 7% to 8% and dividend yields above 4%. Preferred high growth sectors include construction, building materials and property that will benefit from the Johor-Singapore Special Economic Zone and the expansion of data centres. Other sectors such as healthcare service providers, port infrastructure, real estate investment trusts and stocks that have undergone restructuring and merger & acquisition are also potential alpha picks. In contrast, sectors that are involved in the manufacturing of gloves, petrochemicals and automotives, as well as gaming and breweries are less favoured due to their vulnerability to negative structural market shifts.

Liew Kong Qian, Head of Investments, Eastspring Indonesia,

notes that Indonesia’s low starting valuations offer an appealing entry point with significant upside potential as structural and cyclical earnings recover. For the first time post-COVID, synchronised monetary and fiscal policies are set to support economic growth in 2026 to above 5%. The combined stimulus should boost household demand and drive sales across goods distribution and manufacturing. Bottom-up opportunities persist in various sectors like consumer staples, mining and resources. When top-down growth conditions turn more favourable, the consumer discretionary, financials and materials sectors will benefit. Risks include the potential failure of macroeconomic policies to achieve intended outcomes, or an excessively accommodative monetary stance that could undermine the stability of the Rupiah.

Bodin Buddhain, Head of Investment Strategy, Eastspring Thailand,

expects domestic demand and tourism to be the key growth pillars for Thailand. An accommodative monetary policy should boost liquidity and lower funding costs, while fiscal measures such as infrastructure investment and subsidies will support property and household finances. Retail and domestic services are poised to benefit from stronger household spending. The healthcare and wellness segments are expected to outperform, driven by medical tourism and the return of long-stay visitors from Europe and East Asia. Meanwhile, the financial sector is likely to rebound as interest rates ease and lending activity accelerates. Key risks include political uncertainty, policy shifts, and slowing exports arising from a global slowdown.

Tran Thap Kieu Quan, Head of Investments, Eastspring Vietnam,

emphasises that successfully navigating the Vietnamese market requires agility, discipline, and a deep understanding of both macro trends and sector dynamics. The most attractive sectors are banking, infrastructure, and consumer. Banking benefits from capital growth, regulatory reforms, and digitalisation. Infrastructure and related sectors are driven by rising public investment and demand for construction, logistics, and energy. Meanwhile the consumer sector is supported by higher household incomes, controlled inflation and pro-growth policies. Key risks include slower than expected foreign capital inflows and corporate earnings, and rising interest rates which could tighten liquidity.

2026 Market Outlook

Monetary easing to anchor bond yields



Key takeaways

- ▶ Asian central banks’ accommodative stance, backed by moderating inflation and high real yields, should support bonds in the region.
- ▶ We remain constructive on both US dollar and local currency duration and look to add duration when rates spike higher.
- ▶ Credit selection becomes more critical as tariffs weigh on margins, although cost savings and efficiency-improving initiatives can help mitigate.

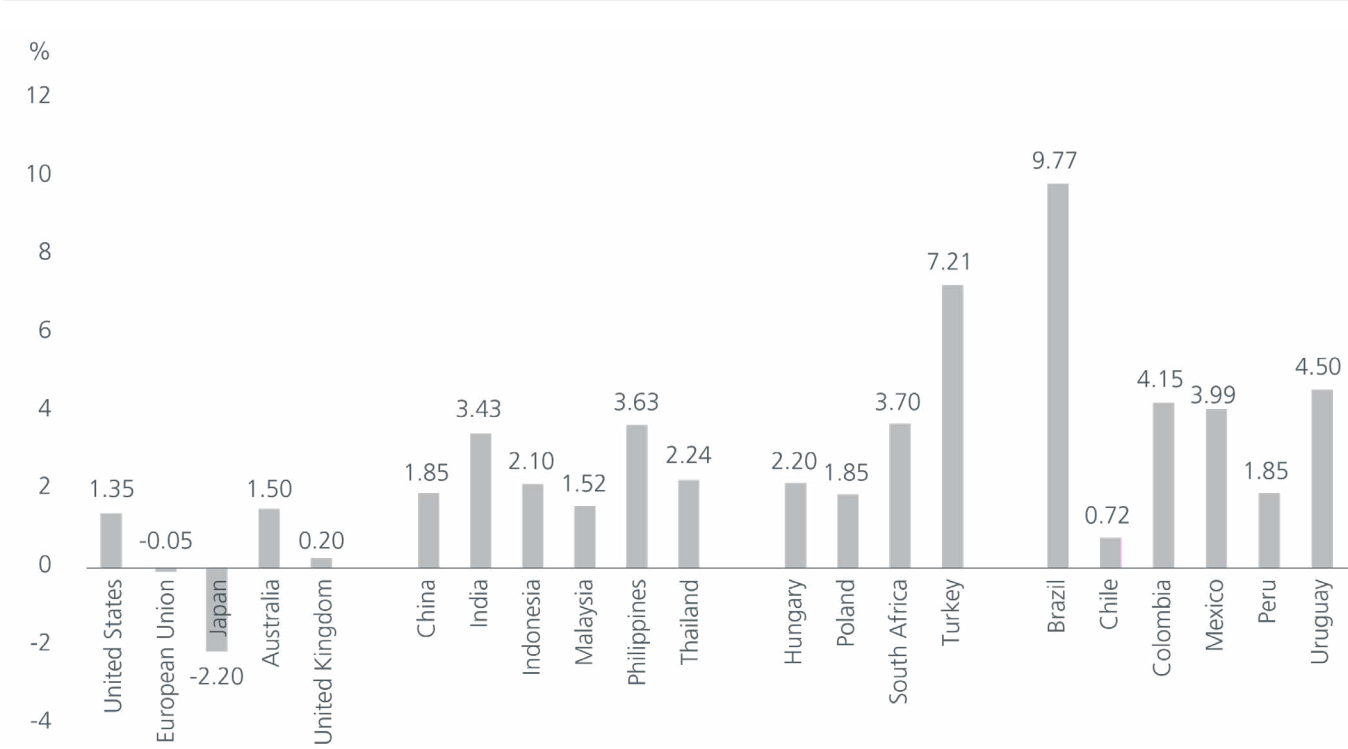


Global growth is likely to continue moderating as late-cycle dynamics take hold and tariff friction weighs on trade and investment. Monetary policy across major economies including Asia and Emerging Markets (EMs) is expected to remain accommodative to cushion these headwinds. **Danny Tan, Head of Fixed Income, Eastspring Singapore**, believes that Asian central banks’ accommodative stance, which is backed by moderating inflation and high real yields, should help support bonds in the region. The US Federal Reserve’s (Fed) rate cuts in September and October, as

well as further anticipated easing, also provide room for Asia and EM central banks to ease without triggering currency instability.

Asia and EM credit spreads are at multi-year tights. Nevertheless, all-in yields remain reasonable by historical standards which should help to sustain investor demand. In Asia, the lack of material bond supply – especially from China – means technicals will likely stay strong heading into 2026,

Real policy rate remains high across Asia and EMs



Source: Eastspring Investments (Singapore), Bloomberg, September 2025.

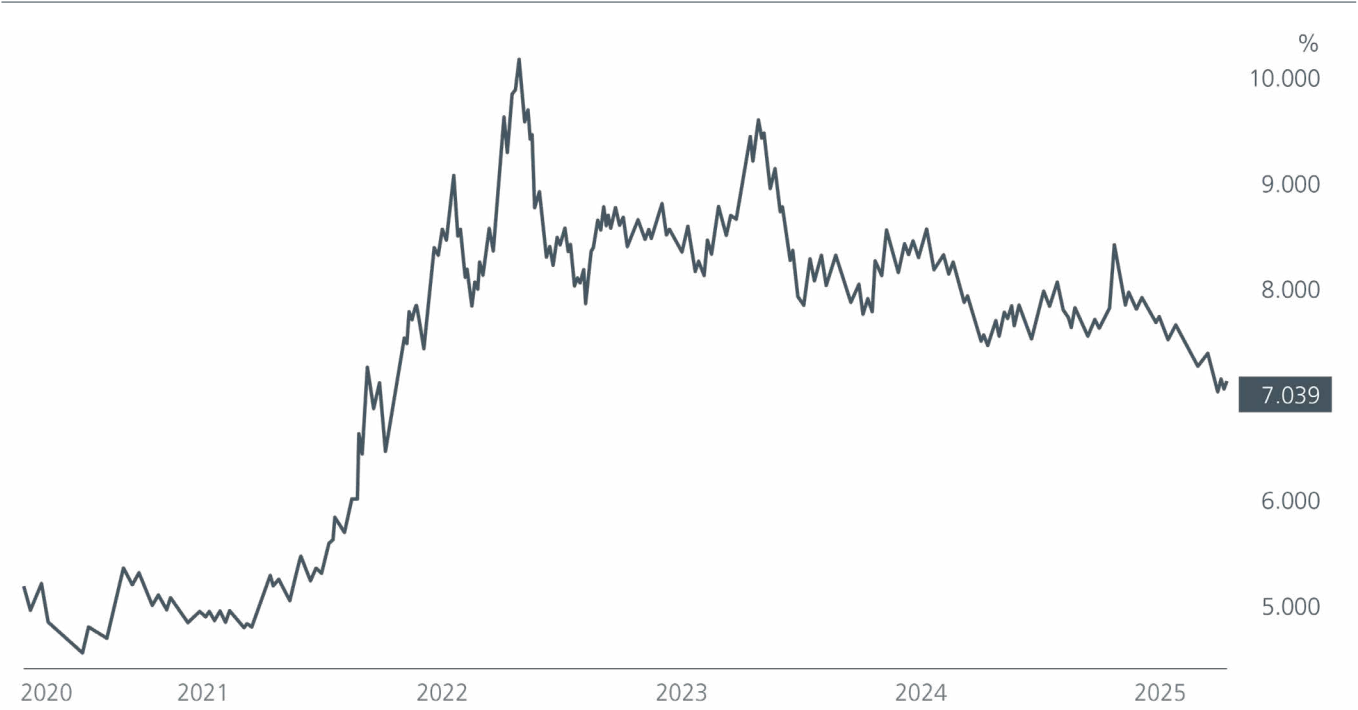
supporting Asian credit spreads. The concerns over fiscal largesse and rising government debt levels across Developed Markets and EMs have also seen term premia being repriced higher across bond curves, improving valuations. We remain constructive on both US dollar (USD) and local currency duration and look to add duration when rates spike higher. We also like cross-currency basis opportunities (e.g. buying non-USD bonds and hedging them to USD for USD based portfolios). This strategy can enhance yield, increase portfolio diversification and reduce volatility. In 2026, shifting expectations over further Fed easing may also introduce volatility in spreads. We stay nimble and look for opportunities to take advantage of such volatility.

“
Selected EM local currency bond
markets have the potential to deliver
double-digit returns in 2026.
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Rong Ren Goh, Portfolio Manager, Eastspring Singapore, is seeing opportunities in selected high yielding bond markets in Asia. He feels that there is an under-appreciation of how the structural rise in domestic investor participation, especially in Indonesia and India, has helped to lower the volatility in these bond markets. Meanwhile, the Australian credit market offers attractive spreads and a steeper credit curve. We are also monitoring the Japanese Government Bond curve, which is meaningfully steeper than some markets and can offer attractive yields on a hedged basis.

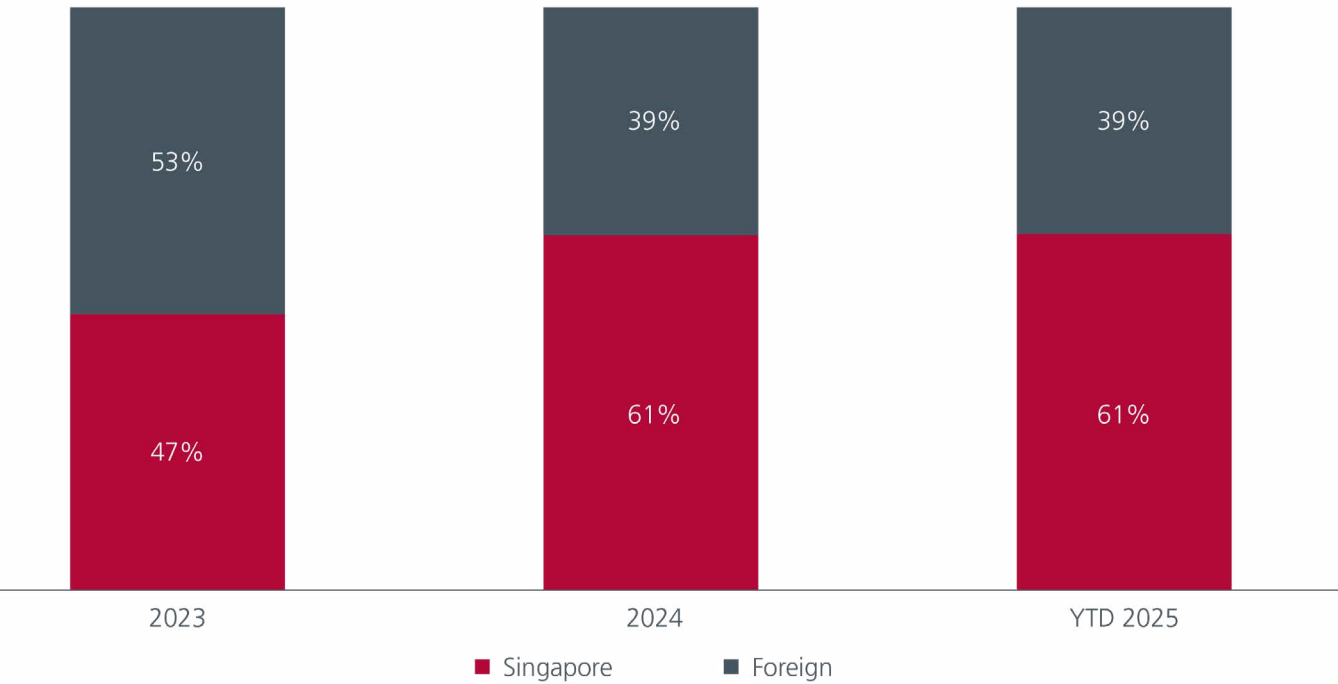
We expect the USD to remain on a weakening trend as its carry advantage erodes, thereby lending support to non-USD currencies. The recent consolidation in EM currencies also sets the stage for renewed appreciation, supporting a bias toward short USD positions. Meanwhile, the Chinese yuan (CNH) is expected to remain stable or grind lower, which should help to anchor Asian currencies. Within EM bonds, **Eric Fang, Portfolio Manager, Eastspring Singapore**, prefers sovereigns over corporates, as the sovereign rating upgrade trend and momentum remain strong. Pairing our fundamental outlook on EM currencies and rates, he believes that selected EM local currency bond markets have the potential to deliver double-digit returns in 2026.

EM yields remain reasonable



Source: Eastspring Investments (Singapore), Bloomberg, October 2025. J.P. Morgan EMBI Global Diversified Blended Yield.

SGD bonds - issuances by domicile



Source: DBS as of 22 September 2025.

Stay selective as tariff impact unfolds

Tariffs have yet to exert material pressure on Asia and EM corporate margins as a result of front-loading activities and the different ways in which tariffs are being absorbed across global supply chains.

We expect some level of tariffs to remain when trade negotiations are finalised. This will likely result in a shift in supply chains and trade flows, introducing some uncertainty around how various economies would respond. China is likely to re-direct more of its exports to other countries, and away from the US, thereby creating disinflationary pressures in these countries. In such an environment, **Clement Chong, Head of Fixed Income Research, Eastspring Singapore**, believes that the risk to corporate margins is tilted to the downside although cost-saving or efficiency-enhancing initiatives can help mitigate. Credit selection becomes even more critical.

Within Investment Grade bonds, we prefer quasi-sovereigns as well as corporates that are operating in defensive sectors such as the internet, telecommunications, banks and utilities. Within Asia Pacific, we find compelling value in Japan and Australia corporates and banks. We also see attractive opportunities in Saudi Arabian banks and Latin American quasi-sovereigns.

The case for a core allocation to SGD credits

The Singapore dollar (SGD) bond market was one of the best performing bond markets in 2025, outperforming the US bond market¹. **Wei Ming Tan, Portfolio Manager, Eastspring Singapore**, expects SGD rates and credits to consolidate after 2025's strong performance. That said, the Fed's easing plus flushed domestic liquidity should limit the upside in SGD rates. We remain constructive on duration and look to add duration when rates spike higher. Against a relatively steep credit curve, we continue to prefer high quality corporate bonds for carry.

¹As of end October 2025.

Singapore has witnessed robust capital inflows, strong deposit and poor loan growth. According to **Benedict Phua, Portfolio Manager, Eastspring Singapore**, this backdrop is likely to prevail, at least over the near future. The search for yield by domestic retail and high net worth investors should support the demand for SGD corporate bonds.

After experiencing net negative supply in 2023 and 2024, SGD bond issuance gained momentum in the third quarter of 2025, resulting in a slightly positive net supply as of end September 2025. The growth and depth of the Singapore bond market has also attracted new global issuers seeking to diversify their funding sources. Overall, technicals are balanced, providing a strong tailwind for SGD bonds.

Following the Monetary Authority of Singapore’s decision to keep its SGD policy unchanged in October 2025, the central bank appears to be in a “wait-and-see” mode amid stronger than expected economic growth and moderating inflationary pressures.

In 2026, Singapore’s economic growth is forecast to slow to a near-trend pace while inflation is likely to rise but will remain below its historical average. Uncertainties from US trade policies could weigh on the Singapore economy and the SGD. However, Singapore’s external position remains robust, while its banks enjoy strong asset quality and healthy capital levels.

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