

Q1 2026 Market Outlook

Near-term outlook for risk assets stays positive

Q4 2025: Quarterly Market Recap

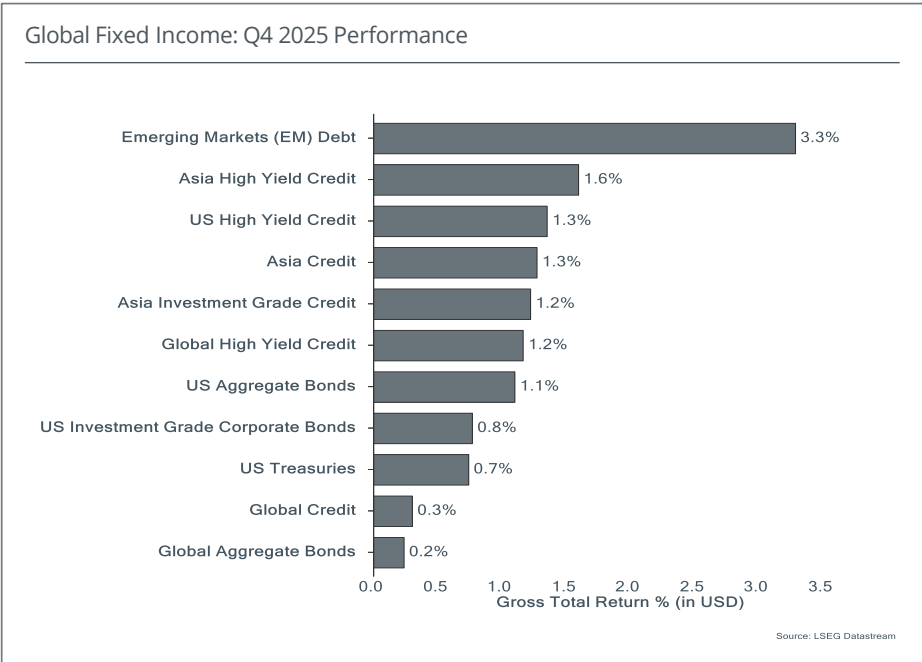
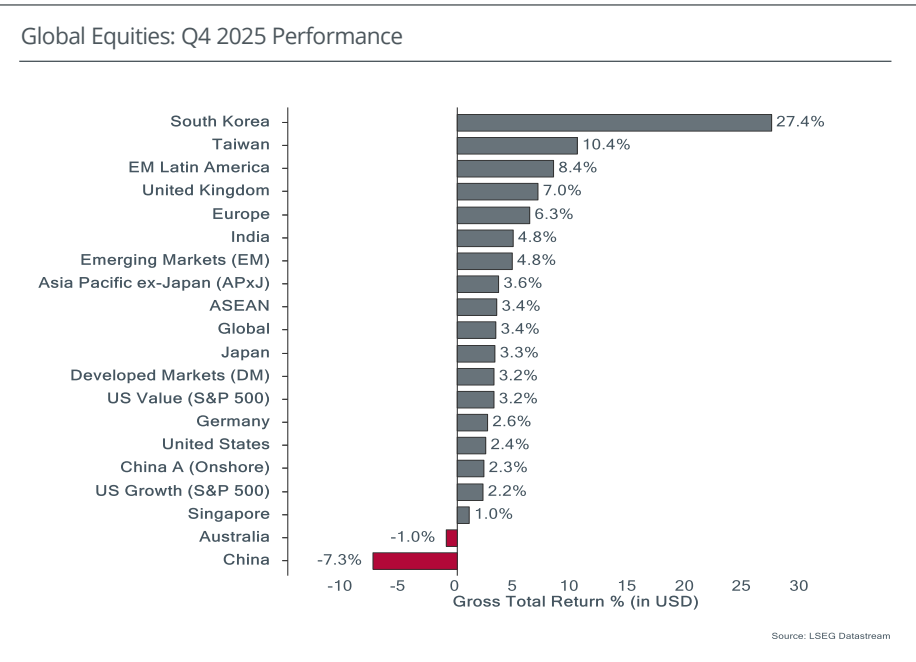
Global markets advance despite AI valuation concerns and US government shutdown

Equities

Global equities gained in the final quarter of 2025, supported by broad-based earnings and a shift towards a more accommodative monetary policy. The MSCI All Country World Index, a proxy for global equities, advanced 3.4% with the Federal Reserve (Fed) cutting rates 50 basis points (bps) during the period. US equities gained 2.4%, driven by resilient earnings and strong Artificial Intelligence (AI)-related momentum. European equities advanced 6.3%, supported by steady ECB rates and a 25 bps cut by the Bank of England. Emerging markets rose 4.8%, led by strong performances in Latin America (particularly Chile and Colombia) and Asia. Trade bellwethers Korea and Taiwan benefitted from robust export trends, but Chinese equities retreated 7.3% amid cautious sentiment, as consumer demand, manufacturing and the property sector remained weak despite selective policy support.

Fixed Income

Global fixed income markets saw modest gains in the fourth quarter of 2025, driven by central banks' supportive rate policies, easing inflation, and reduced tariff uncertainty. The Fed's projections for 2026 indicated one more 25 bps rate cut, implying a gradual easing path beyond 2025. Over the quarter, the 2-year Treasury yield declined by 13 basis points (bps) to 3.47%, while the 10-year Treasury yield rose marginally by 2 bps to 4.18%. Global aggregate bonds returned a modest 0.2% while US Treasuries rallied by 0.7%. High yields bonds outperformed both investment-grade corporate and government bonds, as stable default expectations continued to support risk appetite. Central banks across major economies' largely neutral or accommodative policy stance supported credit markets. Emerging markets (USD) sovereign debt was a top performer, supported by attractive all-in yields, Fed easing expectations, and improved investor confidence.



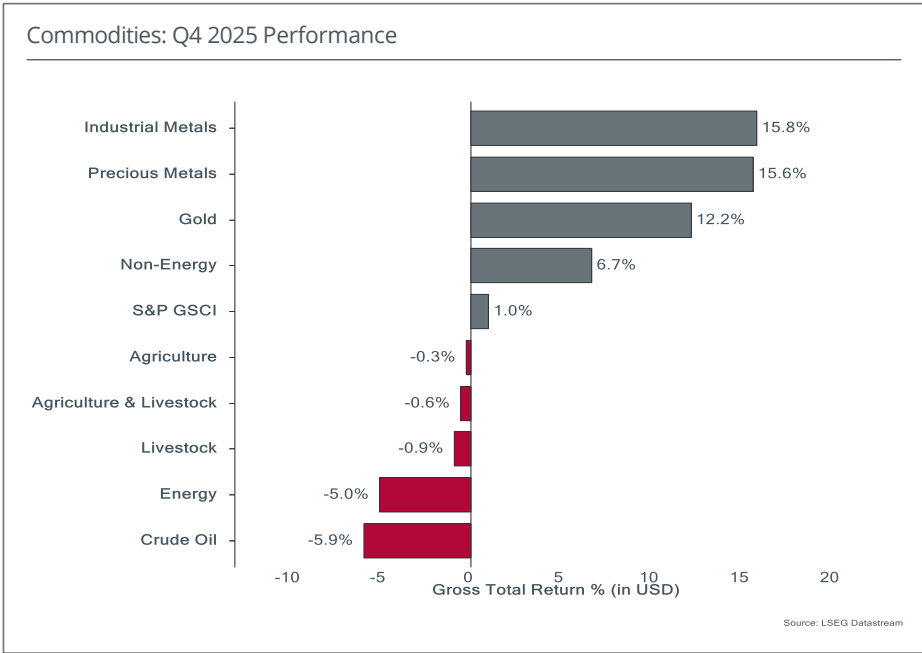
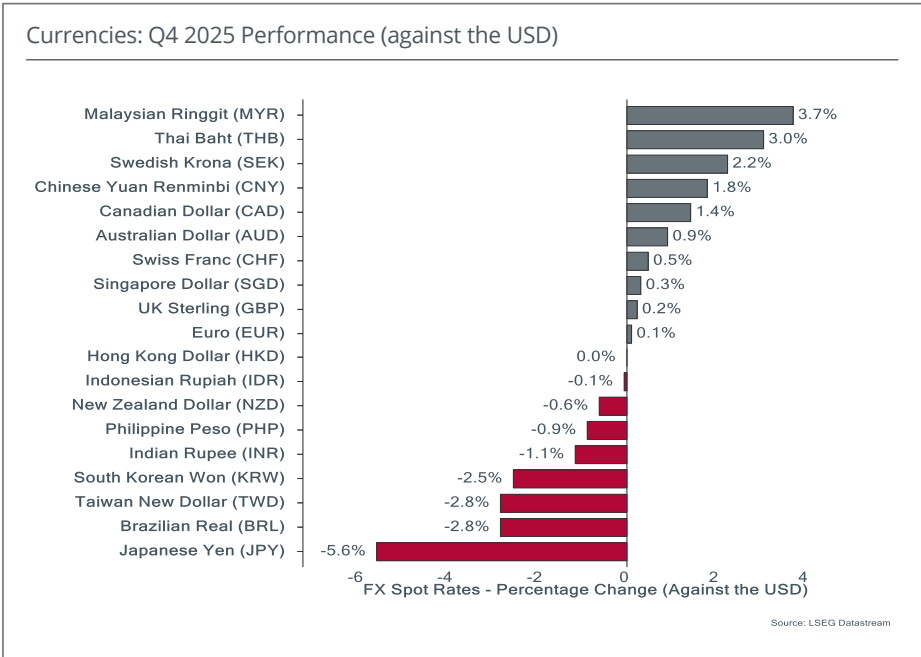
Data source: Eastspring Investments; MSCI; LSEG Datastream. Performance data is provided as of 31 December 2025. Equity returns are referenced by the respective MSCI market indices quoted in USD (gross total returns). Exceptions are the "US Growth (S&P 500)" and "US Value (S&P 500)", which are represented by the S&P 500 Growth (TR) Index and S&P 500 Value (TR) Index, respectively. "DM Equities" is represented by the MSCI World Index. The fixed income markets are represented as follows: "Asia High Yield Credit": J.P. Morgan Asia Credit Non-Investment Grade Index, "Global High Yield Credit": ICE BofA Global High Yield Index, "Asia Credit": J.P. Morgan Asia Credit Index, "US High Yield Credit": ICE BofA US High Yield Constrained Index, "Asia Investment Grade Credit": J.P. Morgan Asia Credit Investment Grade Index, "Emerging Markets (EM) Debt": J.P. Morgan EMBI Global Diversified Index, "US Treasuries": ICE BofA US Treasury Index, "US Investment Grade Corporate Bonds": ICE BofA US Corporate Index, "US Aggregate Bonds": Bloomberg US Aggregate Index, "Global Credit": ICE BofA Global Credit Index, and "Global Aggregate Bonds": Bloomberg Global Aggregate Bond Index.

Currencies

During the quarter, the broad-based U.S. Dollar Index (DXY) increased by 0.6% against a basket of six major currencies. The Malaysian ringgit (MYR) outperformed during the quarter, as robust domestic demand improved market sentiment. The Thai baht (THB) strengthened by 3.0% against the USD, supported in part by surging gold prices given its status as one of the largest physical gold trading and refining centers in Southeast Asia. Despite the Bank of Japan’s rate increase in December, the Japanese yen declined by 5.6% against the greenback over the quarter, amid continued concerns over Japan's fiscally expansionary and spending policies. making it one of the poorest performing currencies during the quarter.

Commodities

The S&P Goldman Sachs Commodity Index (GSCI) Total Return Index, a broad measure of commodity performance, gained 1.0% for the quarter. Industrial metals rose strongly (15.8%) as supply shortages pushed copper to record-high prices. Precious metals also performed strongly, rising 15.6%, as gold and silver continued to benefit from increased reserve diversification by global central banks, and heightened geopolitical uncertainty. In contrast, crude oil and energy lagged, posting declines of -5.9% and -5.0%, respectively, largely due to oversupply and weaker demand.



Source: LSEG Datastream; S&P Global. Performance data is provided as of 31 December 2025. For the “Currencies (against the USD)” chart, the currency performances for the respective currencies are based on the closing spot rates (versus the USD), as calculated by Refinitiv. For the “Commodities” chart, please note the following. Crude Oil: S&P GSCI Crude Oil Index, Energy: S&P GSCI Energy Index, Livestock: S&P GSCI Livestock Index, Gold: S&P GSCI Gold Index, Precious Metals: S&P GSCI Precious Metals Index, Agriculture & Livestock: S&P GSCI Agriculture and Livestock Index, Non-Energy: S&P GSCI Non-Energy Index, Agriculture: S&P GSCI Agriculture Index, and Industrial Metals: S&P GSCI Industrial Metals Index.

Macro Outlook

Growth to be supported by stimulus and AI-related spending

Growth

The ongoing boom in US Artificial Intelligence (AI) infrastructure spending led to US growth surprising powerfully to the upside in the second half of last year. Consensus expectations for at least a 30% growth in AI spending this year, combined with a large fiscal boost from the One Big Beautiful Bill Act's tax cuts in the first of 2026 plus the lagged impact of Fed rate cuts point to US GDP growth of 2% or just above this in 2026. The slowing in US job creation is the main risk to this positive US growth outlook, but we see an increasing chance that sustained economic growth will drive a bounce in US employment.

In Asia, exporting chips as a result of the US AI boom is likely to drive GDP growth of 2.0% in Korea and 3.4% in Taiwan. Malaysia also benefits from the AI theme both through exports and through double digit growth in construction, thanks to its build out of data centers. We expect GDP growth of 4.5%.

In contrast to the US, China's GDP growth slowed from over 5% in the first half of 2025 to 4.5% in the fourth quarter with weakening momentum in consumption and investment. However, we forecast 4.8% GDP growth for 2026, driven by government stimulus. The first wave of this stimulus began with increases in relending quotas and cuts to lending rates for targeted loans by the Peoples' Bank of China (PBOC) on January 15. We expect the PBOC to ease further via a policy rate and reserve ratio cut likely in the second quarter. Most importantly, we expect the government to announce new fiscal stimulus in March, largely targeting infrastructure spending and investment in key "new economy" sectors.

Japan's economy ended last year with rising indicators of corporate capex growth and an outlook for a bounce in exports this quarter. If Prime Minister Takaichi gains seats in Japan's parliament in the upcoming snap election, she is likely to be able to push through larger fiscal stimulus. Similar to China, the stimulus measures will probably focus on strategic industries as well as military spending. We expect Japan's real GDP to grow close to 1.0% this year.

GDP in Asia's other large economy, India, is likely to grow 6.6% this year. Last year's interest rate cuts appear to be stimulating credit growth and, with this, a recovery in urban car sales. We expect a broader recovery in consumer durables and perhaps property in the coming quarters. We also continue to expect India to reach a trade deal with the US that lowers its tariffs and facilitates a further recovery in exports.

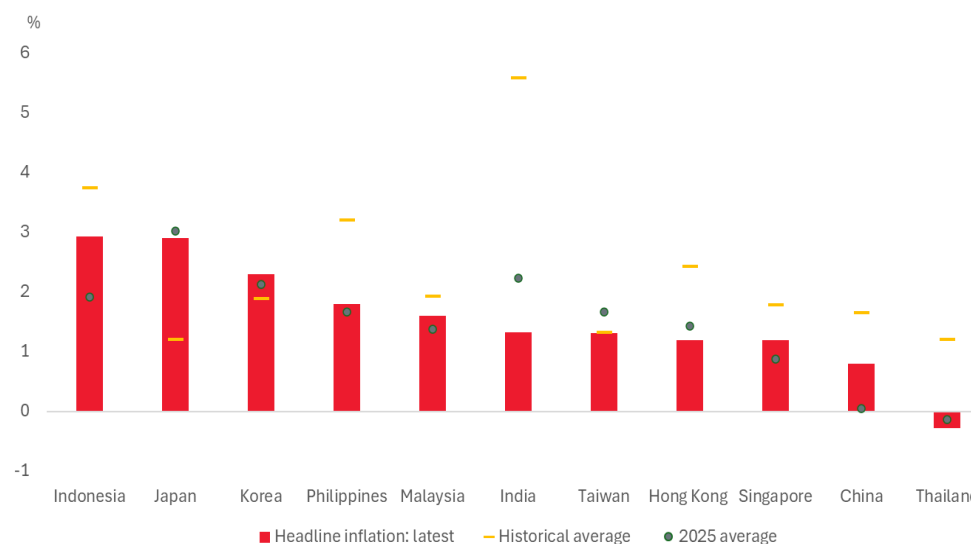
Inflation

US inflation looks likely to remain close to 2.7% at the core level this year. Gradual pass through of tariffs into goods inflation is being offset by disinflation in US housing. The slight bias of risk in the near-term is that housing dominates, pulling core inflation down to 2.5% or just below. However, sustained robust growth and Fed cuts argue against inflation falling back to the Fed's 2% target even in 2027, in our view.

Away from the US, the global inflation cycle has probably bottomed as growth stabilised and commodity prices found a floor. Disinflation in Europe has stopped and inflation in Japan remains sticky. In Asia ex-Japan, inflation has bottomed in almost all economies. We expect modest increases in inflation to historical averages in almost all economies. China is the main exception - although inflation is likely to remain at 1% or just above in the first half of the year, we expect it to roll off in the second half.

India is the economy that is likely to experience the largest increase in inflation, from close to nil in October last year to 3.6% this year. As we note below, although this level of inflation in India will not be problematic per se, it will probably shift the Reserve Bank of India's monetary policy bias away from rate cuts and currency depreciation.

Asia inflation has bottomed though remained below historical average



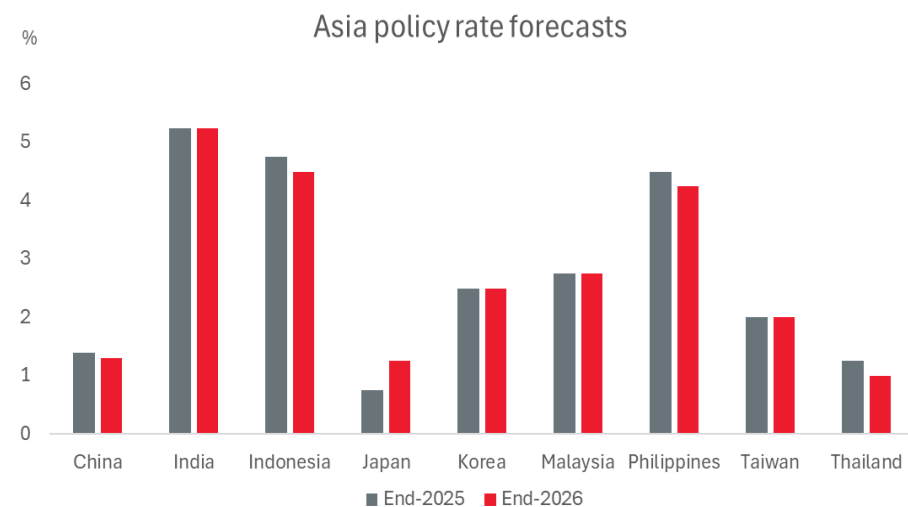
Source: CEIC. January 2026

Monetary Policy

The global monetary policy cycle is close to a bottom. Markets still expect the US Federal Reserve to cut the Fed Funds rate by 50 bps this year, but confidence in this magnitude and particularly timing has fallen. In the near term, any cuts likely require renewed weakness in US employment and a rise in the unemployment rate to 4.5% or above. If US employment bounces and the unemployment rate remains below 4.5%, further Fed cuts will probably be deferred until the appointment of the new Fed Chairman from June.

In contrast, stabilization of inflation close to 2% and better economic growth imply to us that the European Central Bank will keep its policy rate unchanged this year. Meanwhile, the Bank of Japan (BoJ) has signaled that it will continue to raise rates gradually and we expect 50 bps by year-end. A strong win for Prime Minister Takaichi in Japan's snap election in February might pull BoJ hikes forward slightly by making larger fiscal stimulus more likely.

In Asia ex-Japan, we expect a final 25 bps rate cut only in Indonesia, the Philippines, and Thailand, and a 10 bps cut in China. Inflation looks to have bottomed in most economies in the region and is likely to rise somewhat this year. We do not expect inflation to increase to problematic levels in any of the region's economies, but somewhat higher inflation combined with stable growth argues against further policy rate cuts.



Source: Eastspring. 20 January 2026.

Currency Outlook

The USD has started the year defying consensus expectations for weakness. A rise in interest rate differentials in the USD's favour has been the main support for its modest recovery. Our bias continues to be for the dollar to weaken, but we think this may need to wait for a more dovish Federal Reserve policy from a new Fed Chairman in the second half of the year. To be sure, we think stronger US growth in the first half of 2026 could sustain US interest rate support for the dollar through the spring (March to May).

In Asia, the bottoming of the inflation cycle is likely to gradually shift Asian central bank policy away from currency weakness as an adjustment to tariffs toward currency stability or modest strength as the year progresses. China's government appears to want to guide the Chinese yuan into the upper half of its range since 2022 on a China Foreign Exchange Trade System Renminbi (CFETS) index basis. This index tracks the yuan's value against a basket of major-trading partner currencies, rather than against the US dollar alone. Concern in Japan and Korea over currency weakness seems to have risen and we expect policy to increasingly resist further depreciation over the next several months. Singapore's central bank may shift to a mild steepening of the SGD basket policy bands in the summer (June to August).

The Indian rupee (INR) remains on a depreciation trajectory, largely aimed at offsetting the impact of US tariffs. We see two potential drivers of a policy shift first to INR stability and then to some degree of INR recovery. The first would be if India is able to reach a trade deal with the US that lowers tariff rates. The second is the likely increase in Indian inflation from the summer. Higher inflation close to the RBI's target rate of 4% would re-introduce a cost to INR depreciation in the form of imported inflation risk.

We expect the USD to depreciate 3-5% on a DXY basis in 2026



Source: LSEG. 16 October 2025.

Assessment of Key Risks

Key Areas	Likelihood	Magnitude of Market Impact
<p>Two US risks stand out. One is that the US labour market weakens further pushing up the unemployment rate. Weaker jobs and a higher unemployment rate would risk forcing consumers to shift from cutting savings rates as they did in the second half of 2025 to cutting consumption in order to rebuild savings rates. A second key risk would be any pull back from AI infrastructure spending by the large US tech companies. This would risk a fall in equity prices that could transmit into a negative wealth effect for US households, reversing one of the key drivers of last year's stronger than expected consumption growth. This scenario would also risk a fall in semiconductor chip prices that would threaten earnings estimates for Korea and Taiwan.</p>	Medium	High
<p>Key upside risks include a recovery in US job creation that pushes US growth above 2.5% at the cost of renewed inflationary pressure. This scenario would probably force markets to reduce expectations of Fed rate cuts, hence pushing US bond yields higher. A higher US interest rate structure would support the USD and potentially weaken financial flows to emerging markets.</p>	Medium	Medium
<p>Geopolitical instability. We continue to monitor the potential for stress emerging from China-Taiwan cross-strait relations.</p>	Low	High

Data source: Eastspring Investments (Singapore) Limited. Views are as of 20 January 2026. Please note that the information provided here is subject to change at Eastspring's discretion without prior notice.

Asset Allocation Views

Positive on equities but diversifying away from pricey US equities

Markets defied expectations in 2025 as they climbed to record highs amid volatility. We continue to hold a broadly constructive view on risk assets over the near-term, tactical investment horizon (i.e., 3-month), as the economic data remain supportive for now, and anticipated Fed rate cuts should help to counter some of the expected US GDP growth moderation in 2026.

Notably, non-US equities outperformed US equities in 2025. Asia and Emerging Markets (EMs) appear well positioned in 2026, supported by fiscal and monetary stimulus, as well as policy favouring a weaker US dollar. We continue to view equities favourably over the tactical horizon. However, we favour

allocating more to undervalued equity markets that provide diversification to higher-priced US equities.

For US credits, spreads look tight, but valuations appear better on a yield basis. We believe investors will continue to add US fixed income exposure given attractive all-in yields, albeit at a slower pace than in recent years. Emerging markets (EM) sovereign debt had one of the strongest performances among global fixed income sectors in 2025. We believe EM debt offers attractive carry and can continue to benefit from global interest-rate dynamics, a weakening US dollar, and strong investor demand for higher-yielding hard-currency assets.

Asset Allocation Views

					● Underweight	● Neutral	● Overweight	↑↓ Upgrade/downgrade in view from previous quarter		– No change
Asset	3m		12m		Rationale					
Global Equities	●	–	●	↑	<p>We continue to maintain our constructive outlook on global equities over the near-term, given a still supportive backdrop of macroeconomic fundamentals. While we are constructive on equities overall as an asset class, from a cross-regional standpoint our current tactical preference leans toward other undervalued pockets of the global equity market (e.g., Europe, Emerging Markets, Asia), diversifying away from more richly valued US equities.</p> <p>Looking further ahead, with a 12-month horizon and beyond, we have upgraded our outlook to broadly positive on global equities. We anticipate that additional monetary stimulus - specifically, further Federal Reserve (Fed) rate cuts expected in the first half of 2026 - will likely have a favourable effect on corporate earnings. In our view, these supportive factors should outweigh the potential risks associated with late-cycle market dynamics, thereby providing continued momentum for equities. US consumption, a key engine of US growth, remains a key factor the team is monitoring.</p>					
US Government Bonds	●	–	●	–	<p>The team maintains a tactically positive outlook on US government bonds (i.e., US duration). This stance is supported by the expectation that the Fed has room to cut rates further, particularly as signs of labour market weakness, decelerating growth momentum, and easing inflation pressures continue to emerge.</p> <p>For the longer-term outlook, we maintain our neutral view on US duration. We believe it is likely that the interest rate cycle will have reached a point of stability by the latter part of 2026, which limits the case for adopting a more bullish position at this time.</p>					
Cash	●	–	●	–	<p>We continue to hold a neutral stance on cash, prioritizing flexibility and liquidity to enable a swift response to emerging opportunities and/or risks (as they arise).</p>					

Data source: Eastspring Investments (Singapore) Limited. 3m = 3-month view. 12m = 12-month view. Asset class views are as of 7 January 2026 and should not be taken as a recommendation. The information provided here is subject to change at the discretion of the Investment Manager without prior notice.

Asset Allocation Views (cont.)

Asset Allocation Views					
Global Equities	3m		12m		Rationale
US	●	↓	●	↑	<p>Recognizing that US market valuations remain elevated and are increasingly presenting a headwind to future returns, the team recently shifted its tactical view on US equities from positive to now neutral overall. At the same time, the team remains constructive on equities overall, actively seeking opportunities in other, more undervalued areas of the global equity market, while diversifying away from the US.</p> <p>As per the rationale provided in the “Global Equities” section of the table on the previous page, given a 12-month horizon and beyond, we upgraded our outlook to broadly positive on global equities.</p>
Europe	●	↑	●	–	<p>Tactically diversifying away from US equities, the team recently adopted an outright constructive stance on European equities. This tactical upgrade is driven primarily by the market’s improving earnings growth, lower AI/Tech sector concentration, and a relatively attractive dividend yield, amongst other factors.</p>
Emerging Markets (EMs)	●	–	●	↑	<p>In line with the team’s current tactical preference for non-US markets, emerging markets (EM) continue to present relatively attractive valuations, and, when combined with a stable or weakening US dollar and other supportive factors, can continue to attract inflows to the asset class.</p>
Asia Pacific ex-Japan	●	–	●	↑	<p>The Asia region is fast becoming a hub for global technology and industrial innovation. Bifurcation exists between exporters of AI/tech and everything else, whereby AI capex seemingly favors the global trade bellwethers of Korea and Taiwan, which demonstrated strong performances in 2025. That said, Asian markets still offer attractive entry points at current valuations. Asia’s domestic demand strength is expected to remain intact due to several factors: favourable demographics, foreign direct investment (FDI) boosted by a more multipolar world, increased penetration of financial services (as GDP increases), amongst other factors.</p>
Government Bonds	3m		12m		Rationale
US	●	–	●	–	<p>The team maintains a tactically positive outlook on US government bonds (i.e., US duration). This stance is supported by the expectation that the Fed can cut rates further, particularly as signs of labour market weakness, decelerating growth momentum, and easing inflation pressures continue to emerge.</p> <p>For the longer-term 12m outlook, we maintain our neutral view on US duration. We believe it is likely that the interest rate cycle will have reached a point of stability by the latter part of 2026, which limits the case for adopting a more bullish position at this time.</p>
Europe	●	–	●	–	<p>The European Central Bank (ECB) likely remains on hold, waiting for recent rate cuts to feed through to the economy while inflation is close to target, as disinflationary forces emerge. To this end, we anticipate yields on European government bonds to remain range-bound over the near-term. French government bonds (OAT) yields appear attractive, but we remain cognizant of continued political and fiscal uncertainty. In the UK, pressure on UK gilts yields should eventually recede as fiscal tightening impacts the economy; weak UK labor market data is likely to increase expectations for further Bank of England (BoE) rate cuts. Our overall constructive short-term outlook on European government bonds is largely influenced by our favourable outlook on UK gilts at this moment.</p>
Singapore	●	↓	●	–	<p>The team tactically downgraded its stance on Singapore Government Securities (SGS) bonds to neutral overall, as both growth and inflation economic indicators surprised to the upside recently. These upside surprises have sparked market speculation that the Monetary Authority of Singapore (MAS) may need to consider tightening its policy in response.</p>
<p>Data source: Eastspring Investments (Singapore) Limited. 3m = 3-month view. 12m = 12-month view. Asset class views are as of 7 January 2026, and should not be taken as a recommendation. The information provided here is subject to change at the discretion of the Investment Manager without prior notice.</p>					

Asset Allocation Views (cont.)

Asset Allocation Views

Credit	3m		12m		Rationale
US High Yield	●	—	●	—	High yield market indicators remain supportive when considering generally positive rating trends, a low distress ratio and a below average default rate. Spreads are tight but yields look more attractive with yield-to-worst around the 6.5% level.
US Investment Grade (IG)	●	—	●	—	US investment grade bonds are richly valued as the option-adjusted spread (OAS) level remains compressed. We acknowledge that US investment grade bonds can still offer a decent yield (i.e., sub-5%), contributing to an attractive overall total return with the higher carry helping to buffer against potential spread widening. The team will continue to monitor for AI capex-related issuance and its potential impact on the OAS.
Emerging Markets (USD) Bonds	●	—	●	—	Looking outside the US-based markets, we maintain a preference for EM sovereign (USD) bonds given the still attractive carry profile for EM bonds. EM bonds continue to gain from spread compression alongside risk-on market sentiment. EM bonds tend to benefit from a weakening USD as it makes USD-denominated debt relatively cheaper for non-US entities to service. EM local currency bonds are a means to help diversify against the USD while remaining attractive as “carry” trades; EM local bonds also stand to benefit from deflationary pressures outside of the US, allowing EM central banks to respond with policy rate cuts.
Asian Credit	●	—	●	—	Inflation looks to have bottomed out in the region but is unlikely to rise to problematic levels. We are close to the end of the rate cutting cycle in Asia with only a few economies expected to cut rates marginally in 2026.

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Look to Asian bonds for income and diversification

2026 has kicked off with an ouster of the Venezuelan president, and a US Justice Department criminal investigation into Federal Reserve (Fed) Chair Jerome Powell. While markets have remained relatively calm at the point of writing[1], given the strong rally in US equities in 2025, 2026 should be a year where investors relook at portfolios, rebalance and diversify. Asian bonds can potentially provide investors with income, stability, and diversification.

It may surprise some investors that Asian bonds outperformed developed market bonds in 2025 aided by central bank rate cuts, lower risk-free rates, tightening credit spreads and a weakening US dollar. Meanwhile, concerns over stubborn inflation, persistent fiscal deficits and rising government debt weighed on the performance of many developed market bonds and their currencies.

In 2026, Asia is expected to grow faster than developed economies on the back of fiscal and monetary stimulus.[2] In most countries in Asia, inflation is below both central bank targets and historic averages, while real policy rates are above historic norms. This mix provides room for Asian central banks to keep rates stable in 2026, which should support total returns.

The global Artificial Intelligence (AI) infrastructure build-out is also expected to drive economic growth in the region, as Asia exports semiconductors, power generation equipment, batteries, and builds data centres. Asia's resilient economic growth in 2026 should support the region's credit markets. In addition, tighter bond supply amid resilient demand supports Asian bonds' favourable outlook in 2026.

With bond yields having fallen in 2025, there should be opportunities to increase bond duration in the new year if yields spike higher. We look for cross-currency basis opportunities i.e. buying non-USD bonds and hedging them to USD for USD based portfolios. This strategy can enhance yield, increase portfolio diversification and reduce volatility.

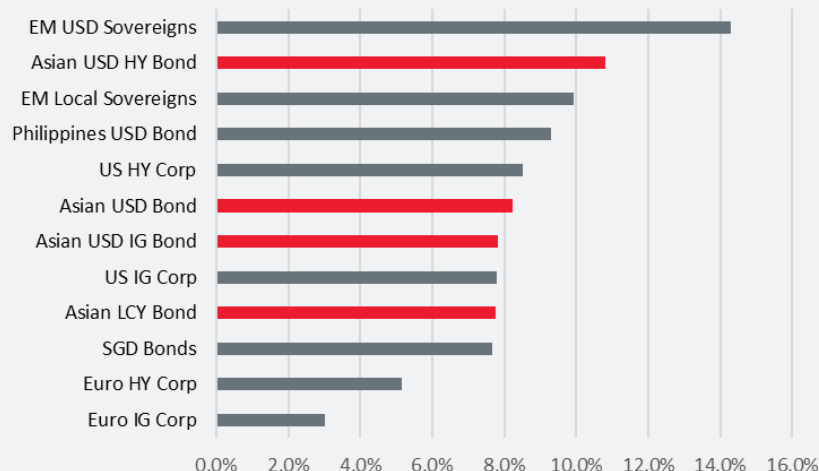
While we expect the USD to weaken in 2026 which should support Asia local currency bond returns, the timing may be less straightforward. As such, an active bond strategy that incorporates dynamic foreign currency management should be more effective in adding alpha.

Going into 2026, shifts in supply chains and trade flows could introduce some uncertainty around how various economies and companies would respond. Active credit selection becomes even more critical in such an environment.

With Asia's stronger growth outlook, supportive monetary conditions, and structural demand drivers, the region's bond markets are well-positioned to deliver attractive income and potential capital gains in 2026 and beyond.

Source: Eastspring Investments. [1] 13th January 2025. [2] World Economic Outlook, Oct 2025.

Asian bonds outperformed developed market bonds



Source: Bloomberg. Bloomberg in USD terms. Eastspring Investments as of 29 December 2025. Please note that there are limitations to the use of such indices as proxies for the past performance in the respective asset classes/sector. The chart above is included for illustrative purposes only and may not be indicative of the future or likely performance of the markets. IG: Investment Grade, HY: High Yield, EM: Emerging Markets, LCY: Local currency.

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