

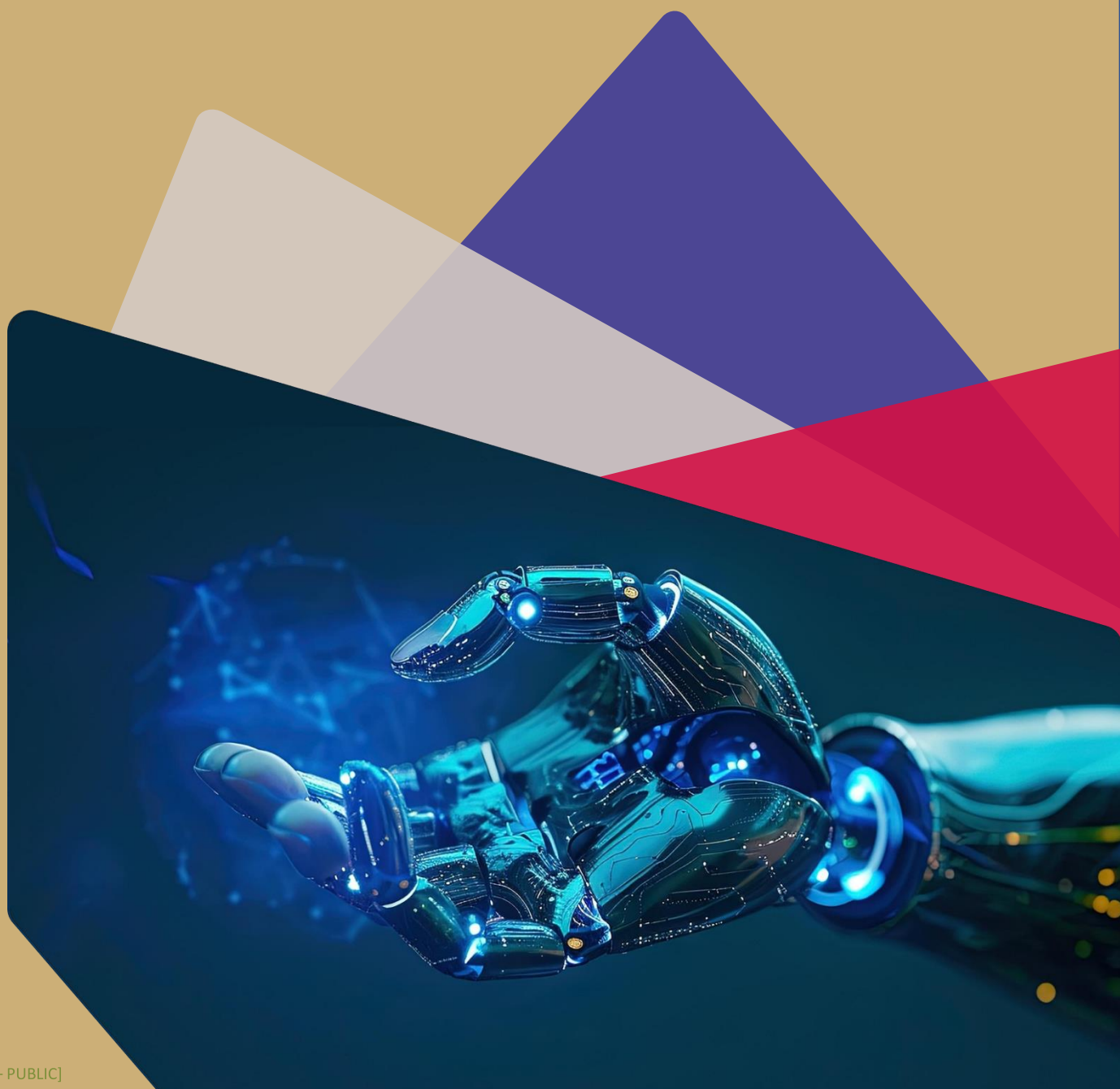


HEALTHIER, LONGER,
BETTER LIVES

AIA Investments

“Lenses Through a New Paradigm”

— 2026 Global Market Outlook



EXECUTIVE SUMMARY

THE GLOBAL ECONOMIC LANDSCAPE REMAINS SUPPORTIVE OF RISK ASSETS IN 2026 AS SOLID ECONOMIC FUNDAMENTALS, ARTIFICIAL INTELLIGENCE (AI) INVESTMENT TRENDS, COUPLED WITH A RATE-CUTTING CYCLE FROM THE U.S. FEDERAL RESERVE THAT WILL EASE THE PATH FOR INVESTORS AHEAD. HOWEVER, WE NEED TO REMAIN MINDFUL OF THE EMERGING RISKS AND TAKE A DISCIPLINED APPROACH IN OUR PORTFOLIO CONSTRUCTION.



Shrikant Bhat

CEO, Investments-Linked and Pensions Business

“Following a year dominated by a confluence of uncertainties in policies, rates, inflation, government shutdowns, geopolitical tensions, and the sustainability of AI capital expenditure, the environment is shifting towards a more favourable setting for risk assets. Driven by a supportive policy mix, resilient global growth, and the transformative impact of AI that will lead to an unprecedented transformation and growth in productivity.”

Three interconnected trends – AI revolution, Geopolitical Fragmentation, and Diverging Inflation – are defining a new market paradigm that will reshape investors’ portfolios and requires fresh lenses towards opportunities ahead. We anticipate:

Equities

U.S. equities, in particular, are projected to continue its upward trajectory, albeit at a slower pace but still outpacing global pace, supported by an expansion of fiscal, monetary, and regulatory policy mix, coupled with innovative leadership in AI. However, selectivity is critical given rich valuations and narrow concentration in U.S. tech.

Fixed Income

U.S. investment grade bonds present attractive all-in yield without taking on unnecessary duration risk. The synchronized shift by major central banks, led by the U.S. Federal Reserve – from inflation control to policy normalization to prevent an economic slowdown, will lend support for bond prices.

Solid economic fundamentals, including a Fed rate-cutting cycle, healthy consumer demand, and strong corporate earnings, pave the way for another year of solid returns. However, the longer-term effects of heavy Capital Expenditure (Capex) spend and rising debt to fund AI investments, could put additional stress on credit markets, especially among weaker borrowers. Any shift in the Fed’s easing narrative, due to factors such as a higher-than-expected inflation, could also significantly disrupt market sentiment. As such, success will depend on capturing the upside of structural transformations while adopting flexible risk management strategies.



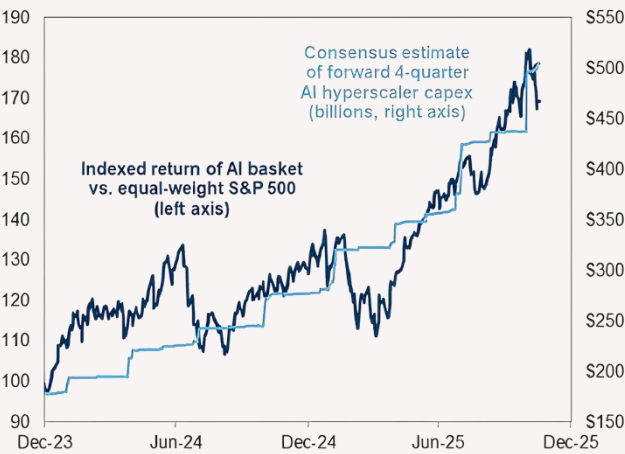
INVESTING IN THE AI REVOLUTION



The AI investment cycle is catalysing a new wave of capital and innovation into traditional sectors, characterised by massive investment flows, widespread enterprise adoption, and tangible transformations in long-established industries.

The AI revolution is transitioning from a speculative narrative to a tangible, capital intensive build-out phase. Investment opportunities are broadening beyond the initial hardware leaders into infrastructure, enterprise software, and global applications. Since the launch of ChatGPT in late 2022, investors have been increasingly captivated by the potential applications of AI and how it may reshape industries and boost global productivity. Traditional sectors like infrastructure are experiencing record inflows as leading Tech companies have spent billions annually and are expected to continue doing so in 2026 on data centres, utilities, and semiconductor plants.

AI investment spending has helped lift AI-Exposed Stocks and the Overall Market

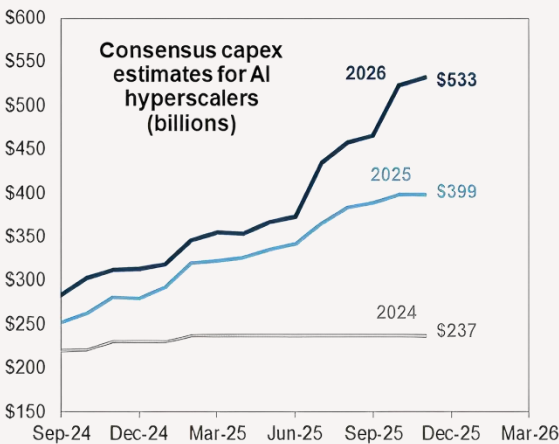


Source: AIA Investments

We anticipate AI to create significant disruption across the industries, particularly in the labor market that may feel greater competitive pressure that is only beginning to unfold. In the near future, evidence points to a more optimistic path in which AI enhances existing jobs than replace by automating tasks. Adoption by companies will be gradual, requiring the rebuilding of data systems that involve huge capital outlays, and meanwhile, human labor will retain key advantages such as decision-making and judgements.



Capex investment cycle remains intact Albeit tapering growth rates

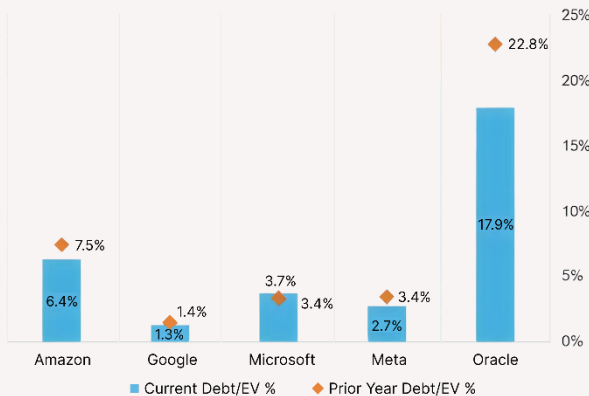


Source: AIA Investments

*References to specific companies (if any) are presented to illustrate our investment philosophy only and shall not be constructed as investment recommendations.

Large-cap Technology leaders and major hyperscalers like Amazon, Meta, Alphabet, and Microsoft, are likely to remain key beneficiaries in this AI race. Despite recent concerns on the sustainability of Capex, these firms continue to report strong growth in annual earnings and remain well-positioned to maintain market leadership through 2026. Consensus capital expenditure estimates for AI hyperscalers are expected to reach \$533 billion through 2026, a 35% increase from 2025. Their scale, profitability, and cloud momentum support the case for continued outperformance.

Debt to enterprise value %
Current debt/EV % mean ex-Oracle: 3.5%



Source: AIA Investments – Past performance is not necessary indicative of future performance.

*Enterprise value

Is AI inflating to a bubble?

While AI capital expenditure is expected to increase in 2026, corporate leverage remains lower than prior year.

Essential enablers of AI that includes power utilities companies, semiconductor manufacturers, and companies supplying the critical backbone infrastructure stand to benefit massively as surging energy demand, persistent

chip shortage, and bottlenecks in key Tech components create attractive investment opportunities across Utilities, Industrials, and Semiconductors.



Lastly, early adopters of AI where companies effectively integrate AI into their operations stand to capture strong value. These companies are already seeing meaningful productivity gain, operational cost savings, and enhanced efficiencies, and are likely to translate these gains into better shareholders’ value.

GEOPOLITICAL FRAGMENTATION



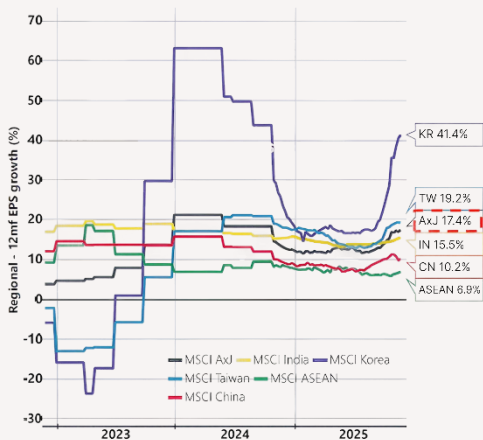
“ Rapid advancements in globalization and long periods of geopolitical stability that global economies have enjoyed over the past decades has come to an end, replaced by an era of competing blocs, heightened conflicts, and protectionist policies. ”

The era of seamless globalisation – defined by expanding trade ties, policy convergence, and a mutual emphasis on efficiency – has given way to a new paradigm of geopolitical fragmentation. This structural shift, characterized by strategic decoupling, competing economic blocs, protectionism policies, and a greater prioritization of security and resilience over cost optimization, marks a fundamental regime change for markets. For investors, investing within this environment requires a reassessment of assumptions and a deliberate effort to identify opportunities emerging from newly formed geopolitical and economic alignments.

The current U.S. tariff framework marks the most significant transformation in trade policy in more than a century, effectively institutionalizing geopolitical fragmentation as a dominant market force. This represents a structural, not cyclical, shift that has far-reaching implications for global investment patterns, supply-chain design, and the long-term inflation trajectory. The higher tariffs, imposed by the U.S. administration on over 90 countries, raising the average U.S. effective rate to about 18% is expected to trigger a series of ongoing negotiations, agreements, and disputes to remain a new norm for the trade outlook.

That said, the impact of tariffs is differentiated across markets where some economies such as South Korea and Taiwan are more insulated from the spillover effects due to their crucial roles in AI and its underlying infrastructure build-up. These AI beneficiaries are projected to deliver stronger 12M forward Earnings Per Share (EPS) growth versus other parts of Asia ex Japan that may bear the heavier brunt of the tariff burden.

Asia ex Japan (AxJ) markets 12M forward EPS growth (%yoy)

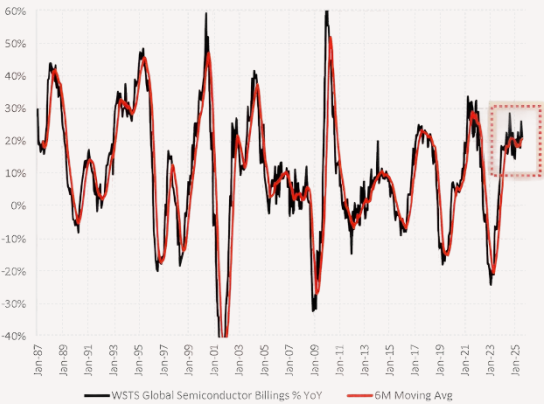


Source: FactSet consensus, Macrobond. AIA Investment, 2025 W48

AI and its underlying infrastructure remain core elements of U.S.-China competition, with the U.S. pursuing a dual track agenda of aggressively accelerating domestic AI innovation and infrastructure while promoting the global adoption of its technology standards. Its policies are now shifting towards a more nuanced approach to export controls, with allowance for some chip sales to China under stricter conditions and taking equity stakes in domestic chipmakers.

On the other hand, the Chinese government is stepping up its effort to exert stronger geopolitical and economic influence with its trading partners and focused on rebuilding relationships with countries such as India to form a strong trading bloc that reduces its reliance on the U.S. The Tech sector, in particular, is one that is critical for China to develop its domestic capabilities and gradually move towards greater self-sufficiency as the government focuses its investments on developing the “new” economy that is characterized on efficiency, innovation, and global competitiveness.

Global semiconductor billings (as of August 2025)



As globalisation is being rewired with major trading partners split into competing blocks, investors should consider creating resilience in their asset allocations, identifying investment opportunities in sectors that benefit from reshoring activities that include Infrastructure, Industrial, and Semiconductors. Market volatility may increase as more of these policies unfold, and lead to an environment of diverging inflation across the regions.

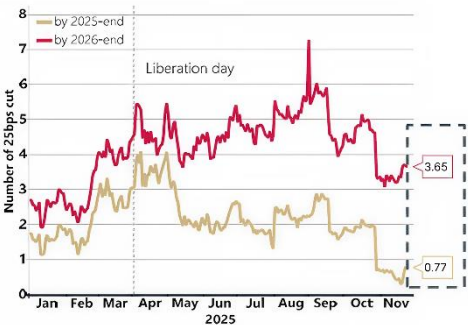
DIVERGING INFLATION



The combination of targeted tariffs, ongoing supply chain realignments, and disparate growth trajectories is driving a sustained divergence in global inflation that could impact the long-term returns in portfolios.

As the global economy enters 2026, it continues to manage the structural aftershocks of last year’s trade conflicts. While the broad escalation of tariffs has somewhat stabilised, targeted sector-specific measure remains likely and will continue to disrupt supply chains. The consequence is a more fragmented global trade environment that will lead to divergence in inflation paths.

Rate cut expectations is expected to drive market sentiments ahead

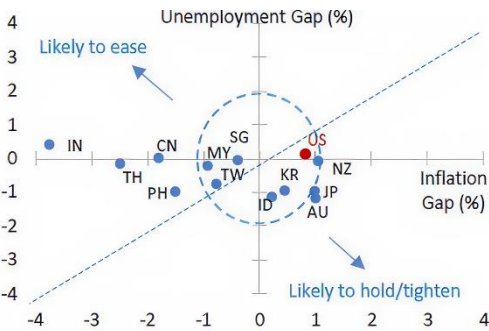


The dovish stance of the Feds that has led to the increasing likelihood of additional rate cuts even with inflation running above target, may however, put into question its institutional independence from political pressure.

In the U.S., inflation is expected to consistently stay above the central bank’s 2% target and hover in the range of 2.5%-3% as persistent tariff-related pressure threatens risks to the upside. Nonetheless, the Federal Reserve (Fed), with its dual-mandate to maintain price stability and full employment, more recently leaning towards the latter, is anticipated to continue its easing policy and reduce the Federal Fund Rate towards the lower 3% boundary over the course of 2026.

In contrast, Europe and a large part of Asia may experience a more subdued price dynamics where inflation in the Eurozone is expected to remain muted, providing more leeway for the European Central Bank to consider its monetary policy based on the region’s growth trajectory in 2026. Across Asia, traditional export sectors may face headwinds from U.S. tariff policy and see uptick in inflation driven by base effects. That said, many Asian central banks have already eased to a large extent in 2025, and may continue in 2026, including China, where targeted fiscal measures may also be deployed to uplift their economy.

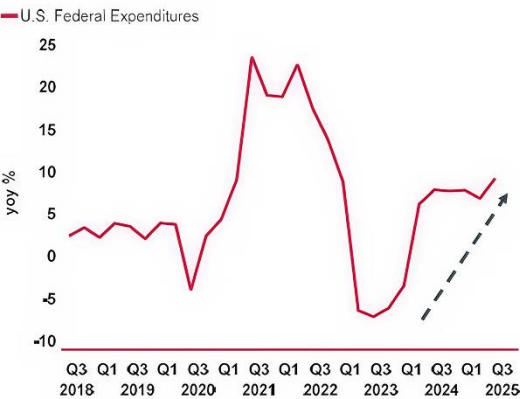
Asia Pacific Central Bank Monetary Policy Stance



Source: Macrobond, AIA Investments. As of Dec. 5, 2025. Inflation gap is defined as the latest CPI minus central bank’s inflation target or mid-point of target range. Unemployment gap is calculated as the latest unemployment rate minus pre-Covid 10-year average.

China’s growth is set to moderate as U.S. tariffs and weak domestic demand weigh on economic activities. The government-led anti-involution policy, that aims at curbing excessive competition, may help stabilise prices with overall inflationary pressure remaining subdued. Policymakers are expected to continue efforts to bolster domestic consumption, with high-tech manufacturing and innovation remaining their core strategic priority.

Fiscal expansion continues to provide positive equity Tailwind



Source: Macrobond, BEA, AIA Investments

Despite the persistent disruptions from global trade fragmentation, overall global growth in 2026 is expected to remain resilient, buoyed by the accelerating AI-driven productivity cycle and supportive fiscal and monetary policies. Inflation will diverge meaningfully – higher in the U.S. while remaining contained in both Europe and Asia that results in an environment of diverging monetary easing. Given the potential for a more disparate inflation outlook ahead, which could alter the Fed’s easing narrative, investors should remain vigilant and adopt agile strategies to manage portfolio volatility across regions and asset classes.

KEY INVESTMENT VIEWS

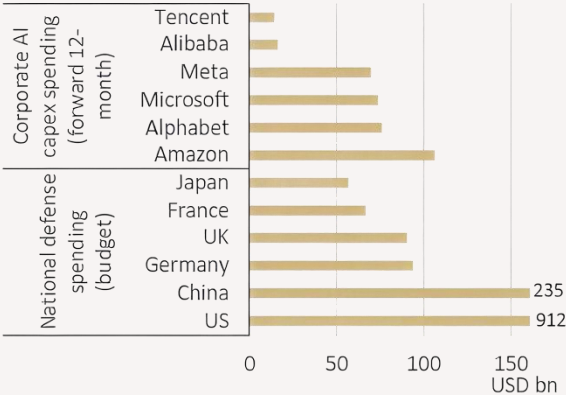


After both equity and fixed-income delivered a decent positive performance across Developed Markets and Emerging Markets in 2025, the global investment landscape for 2026 is transitioning towards a more constructive phase, marked by a rare and powerful confluence of mega forces that include expanding and accommodative fiscal and monetary policies, de-regulatory tailwinds, and an on-going AI capital expenditure super cycle that may potentially expand and benefit more sectors. Against this supportive backdrop that is catalysing a shift in market focus towards stronger growth, it creates a favourable runway for risk assets.

EQUITY MARKET OUTLOOK



Annual investment in AI technology vs National defense



Source: BEA, NATO, MoF, FactSet, Macrobond, AIA Investment

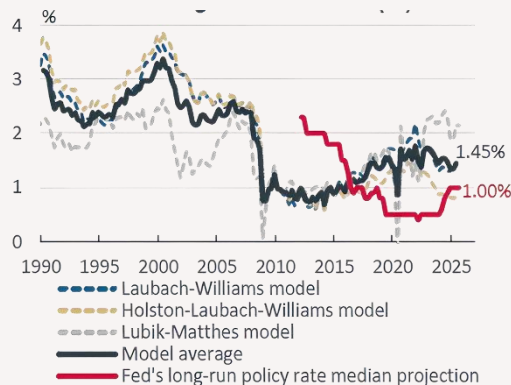
We maintain a moderate overweight in global equities with a bullish tilt towards the Technology sector. In particular, we prefer U.S. equities over European equities supported by continued strong corporate earnings benefitting from market-friendly policy mix, interest rate cuts by the U.S. Federal Reserve, a \$129 billion reduction in corporate tax bills through 2026-2027 from the One Big Beautiful Bill Act, and the AI-driven productivity gains. While growth will likely moderate to around 1.5%-2% in 2026, the U.S. economy is expected to remain resilient supported by AI investment momentum and front-loaded fiscal programs.

In contrast, we maintain our underweight on European equities due to weaker relative fundamentals while technicals remained challenging, especially relative momentum when compared to U.S. equities. With Europe facing softer growth expectations and structural constraints, relative upside remains limited.

In Asia, we upgraded Asia ex-Japan equities to overweight on stronger earnings momentum and improved structural drivers that includes higher AI adoption, improved economic security and governance reforms, and a gradual pick-up in domestic consumption that offer broad opportunities. Earnings are trending higher on the back of robust AI-related demand and improving technicals, with valuations remaining attractive relative to developed markets.

FIXED INCOME MARKET OUTLOOK

“ We maintain an underweight stance on global fixed income for 2026. While the anticipated continuation of the Federal Reserve’s rate-cutting cycle is supportive, the market consensus points to a slower pace of easing, with the terminal rate expected to settle in a 3.0%-3.5%# range by mid-2026. Crucially, this policy path is largely priced in, capping the price upside from declining yields and making core bonds less compelling versus risk assets. ”



Source: Federal Reserve Board (FRB), FRBNY, FRB of Richmond Bloomberg, AIA Investment. Data as of 2025 Q3
R (Long-Term Neutral Rate) +2% inflation target

This dynamic is exacerbated by structural headwinds, as persistently elevated inflation and concerns over high public debt are likely to keep long-end government bond yields in major advanced markets “sticky” and rangebound despite the rate-cutting cycle. Within fixed income, we maintain a neutral stance on U.S. investment-grade credit, favoring its attractive all-in yield without taking significant duration risk, though we acknowledge spreads are still tight by historical standards.

Conversely, we reiterate an underweight to U.S. high yield bonds due to poor relative value, as spreads near historic lows do not adequately compensate for the mature stage of the credit cycle and emerging, albeit isolated, signs of stress. Our positioning reflects a non-recession baseline where bonds provide income but limited capital appreciation, advocating for a selective and quality conscious approach to the asset class.



KEY TAKEAWAYS – LOOKING INTO 2026



Growth



Growth is expected to remain uneven across the regions, with the U.S. continuing its above-potential growth trajectory.

Inflation



Global economies are transiting towards structurally higher inflation compared to their pre-pandemic levels amid supply chain disruptions, elevated public debt, and rapid policy shifts.

Rates



Maintain our view on continued bull-steepening in 2026 as long-end government bond yields are likely to remain sticky given a higher inflation outlook.

Credit



While spreads have widened in recent months, they remain tight by historical standards and below their 5-year average, in-line with our non-recession baseline outlook.

Equities



Developed Market (DM) Equities

U.S. equities should outperform global DM peers in 2026, supported by the ongoing AI driven capital expenditure cycle and proactive policy responses.

Asia Ex-Japan (AxJ) Equities

Improving earnings momentum favor the region, supported by AI cycle and proactive government policies. Valuations remain attractive versus developed markets.

Cash



Underweight cash during a rate-cutting cycle and in favor of potential opportunities in risk assets.

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