

18 May 2026

Key Takeaways:

- Our strong equity stance rewarded: S&P 500 EPS up ~27-28% y/y, led by AI infrastructure and semiconductor demand amid heavy hyperscaler capex. However, post-ceasefire rally pushed equities to highs and overbought signals, rising inflation, and higher bond yields challenge valuations and momentum sustainability.
- We expect no rate cuts in 2026. Rising yields and elevated leverage is increasing market fragility, while geopolitics and US-China tensions maintain an uncertain macro backdrop.
- Recommendation: prepare to buy dips during consolidation; focus on the AI infrastructure stack, select emerging markets, onshore China, "new" ESG-linked themes, reduced credit duration, and select alternatives.
- Risks: further bond yield increases compress valuations. Potential slowdown in hyperscaler spending could disrupt AI supply chain and trigger broader equity repricing.

Another opportunity round the corner

We began the year overweight equities and stayed that way through the Iran conflict. The thesis was straightforward: when headlines are loud, focus on earnings. First-quarter reporting validated that view. S&P 500 earnings are tracking roughly 27-28% y/y growth, with beat rates well above historical averages. The sectors tied to the AI build-out—semiconductors and the infrastructure stack—delivered the bulk of that upside. When hyperscalers are collectively guiding towards capital expenditure running into the high hundreds of billions of dollars this year, suppliers do not need perfect conditions; they need execution.

Figure 1: Technical levels on S&P500



Source: Bloomberg, UOB Private Bank

Since the ceasefire, markets have repriced quickly. The S&P 500 has pushed to fresh highs—briefly clearing the 7,500 level in mid-May—and momentum indicators are now firmly in overbought territory.

Markets do this after they survive a scare—celebrating first, interrogating later. The problem is that the next questions are awkward.

Figure 2: Inflation fears hitting bond yields



Source: Bloomberg, UOB Private Bank

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No rate cuts for 2026; Bond yields crimp equities

With 1Q largely done, attention is drifting back to inflation. US producer prices rose 1.4% m/m and around 6% y/y in the latest print, reminding investors that pipeline pressures are not yet anchored. If inflation is sticky, the Federal Reserve does not need to hike tomorrow to tighten conditions; it only needs to sound less accommodative. Bond markets have already started to reprice that risk, with the US 10-year yield moving higher into the mid-4% range. In this light, we forecast no rate cuts for 2026. Rising yields are a quiet tax on equity multiples, and they tend to puncture momentum trades before investors notice the shift.

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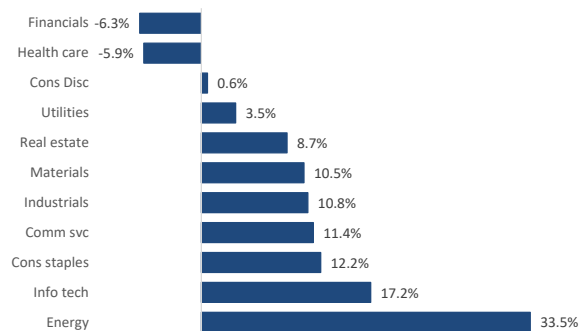
Figure 3: Leverage on US equities



Source: Bloomberg, UOB Private Bank, FINRA

Leverage adds a second layer of fragility. When risk assets rally for long enough, investors begin to borrow against the good times. You can see this most clearly in pockets like South Korea, where equity indices have tested record levels alongside elevated retail participation and margin activity. These are not inherently unstable conditions—but they do not absorb shocks well. This is not a crash call. It is a reminder that the market is no longer priced for bad surprises.

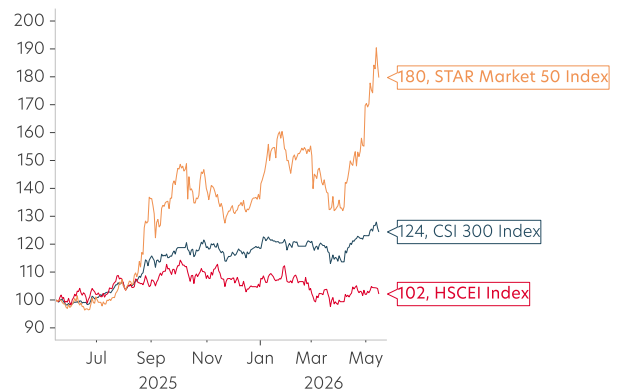
Figure 4: Sector performance year to date



Source: Bloomberg, UOB Private Bank

Geopolitics still matters at the margin. Trump’s recent visit to China, flanked by a high-profile group of US CEOs whose combined net worth runs into the hundreds of billions, did not deliver an olive branch on tariffs or technology restrictions. Nor did it produce anything resembling Chinese cooperation on the Iran problem. The operating backdrop therefore remains one of managed rivalry, not sudden détente.

Figure 5: China H vs A shares vs STAR index



Source: Bloomberg, UOB Private Bank

On China, we stay constructive but refine implementation. We liked H-shares, particularly platform companies, but they have lagged as capex ramps and near-term margins are questioned. We are not sellers. However, incremental China allocation should shift towards onshore A-shares, where exposure to semiconductors, advanced manufacturing and automation better aligns with domestic policy priorities.

Get capital ready for deployment

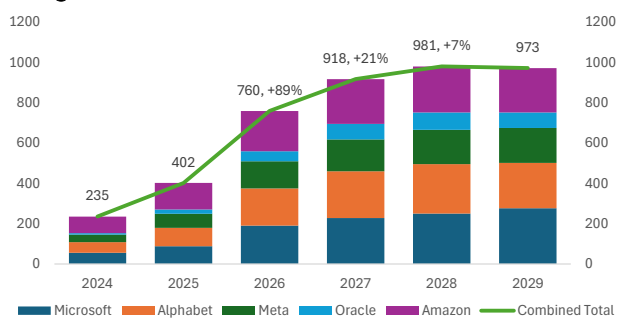
For investors who missed the rally—especially those who did not buy during the Iran headlines—this is the constructive part. We expect consolidation: a period where prices digest gains, leadership rotates, and pullbacks become opportunities again. In practical terms, your dip to buy is likely coming. Prepare a list, define levels, and scale in rather than attempting to time a single entry. We continue to like the AI theme around the AI infrastructure stack which includes GPU → XPU → CPU, memory, optical interconnects & photonics, cooling/thermal and power/grid. Beyond US centred AI, we still like emerging markets like South Korea, Taiwan and China (tilting toward more onshore than offshore). The “new” ESG (Energy, Security & Geopolitics) will benefit rare earths, strategic materials and a revival in renewable energy. Fixed income duration has been reduced to 4-5 years as inflation fears come back. In alternatives, long/short strategies, infrastructure and real estate are our preferred plays.

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Looking ahead, second-quarter earnings begin in July, and the bar remains firm. Consensus still expects solid growth, supported by AI demand, resilient margins, and ongoing pricing power in selected sectors.

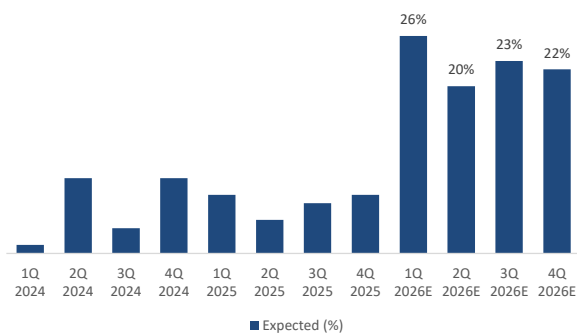
The key risks to this “accumulate the dip” stance are clear: a further rise in bond yields that compresses equity multiples. Less likely but more damaging is a slowdown in hyperscaler spending that forces a repricing of the AI supply chain that has led this market. However, we do not see this panning out until 2027.

Figure 6: Hyperscaler USD760bn spending is like a big stimulus



Source: Bloomberg, UOB Private Bank

Figure 7: Strong S&P500 EPS growth estimates



Source: Bloomberg, UOB Private Bank

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