

Uncertainty rules

Chubb Wealth[®] Hong Kong: Q2 Outlook

April 2026 issue:

Global outlook
Uncertainty rules

Equities
Repricing resilience
and upgrading China

Fixed income
Are bonds oversold?

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| Welcome

Market swings are a reminder that volatility can arrive without warning



The start of 2026 has seen wild moves as the Iranian conflict triggered a sharp reversal in global equity and credit markets, and the pullback has been a reminder that periods of volatility can arrive without warning. But while the velocity of the 9% fall in the S&P500 from its Jan. 27 peak to March 30 was jarring, the magnitude is not yet unusual: on average U.S. equities see a peak-to-trough pullback of 12% in non-recession years.

While geopolitical events are impossible to predict, history shows that knee-jerk reactions by investors often compound the damage to an individual's wealth. We recommend that portfolio changes should be well thought-out and deliberate, rather than rushed or driven by emotions. Recent events reinforce our view that clients should undertake a regular review of their portfolios and assess whether their investments are aligned with their personal wealth goals, liquidity needs and overall risk profile. While this should be done at least annually, a more frequent review could be required if circumstances change.

This process ensures that an investor can weather periods of volatility and potentially even benefit from them. It is also an area where our investment advisory team can add value to their clients' wealth planning and decision-making. On a related note, we also examine gating features for evergreen alternative funds in this publication – and why they should be seen as an essential risk management feature, rather than a failure in a fund strategy.

We hope that our latest Investment Outlook provides you with useful insights and ideas for the coming months, and we look forward to helping you realize your wealth goals over the longer term.

The Chubb Wealth Team, Hong Kong

Global outlook - Uncertainty rules

Geopolitical events are complicating portfolio decisions

After a strong start to the year for most markets, the Iran conflict and the subsequent surge in oil prices have seen most assets fall. While investor reaction to the conflict was initially muted, sentiment has worsened as the conflict has continued, and both bond and equity markets have fallen. This led to losses of over 6% for a balanced 60% equity, 40% investment-grade credit portfolio in March, similar to that seen in the wake of the Russian invasion of Ukraine in February 2022.

The uncertain nature of geopolitical events such as the Iran conflict makes it hard to assess the outlook. Given this, we believe the best strategy is to consider different scenarios and their likely impact on markets and portfolios.

Out of these three scenarios we believe that an easing in tensions in April is the most likely, as the longer the conflict continues, the higher the cost for all parties. A formalization of the recently announced ceasefire would align with this; however, the path is unlikely to be smooth, and investors need to be aware of the risk and impact of other scenarios on their portfolios.

While there will be an increase in headline inflation in all scenarios, we view supply-driven increases in oil prices as an effective tax on global growth, rather than a source of sustained inflation. In the short term, both households and corporates have limited ability to reduce fuel and electricity consumption, forcing a greater share of income toward energy expenditures and crowding out spending on other goods and services.

The good news is that growth was strong and accelerating as we came into March, and while oil prices will slow growth, we believe that the risk of a recession remains relatively low as long as they remain below USD140. (See Figure 2).

While it is inevitable that headline inflation will increase in the short term, the negative growth impact means that there may not be significant second-round inflationary impact unless there is a more permanent effect on energy supply. Medium-term indicators of inflation expectations – such as five-year, five-year forward inflation swaps, which show the expected inflation rate for a five-year period beginning five years in the future – align with this. Inflation expectations have fallen slightly in March, versus a 50 basis-point rise after the Russian invasion of Ukraine in 2022. (See Figure 3).



Figure 1
 Implications of different Iran conflict scenarios for investors

Scenario	Easing of tensions in April with a gradual resumption of oil and gas shipments	Extension of tensions to mid-year with limited damage to oil and gas production	Escalation/continuation of tensions with significant lasting damage to oil and gas production
Economic impact	Temporary slowdown in growth but no recession. Rapid rebound in H2.	Larger impact on growth but recession avoided.	Stagflation: developed economies fall into recession and inflation remains elevated.
Inflation impact	Short-term spike in headline inflation. Very limited second-round impact.	Some second-round impact but limited.	Inflation rises and remains elevated. Inflation expectations shift higher.
Oil price impact	Oil prices gradually fall but are likely to remain higher than pre-conflict levels.	Oil prices remain elevated (>USD100) but move below USD100 in H2.	Oil prices move above USD140 and remain elevated until year-end.
Interest rate outlook	Rate cuts possible in H2. Treasury yields decline near to pre-conflict levels.	No change in rates until late 2026 or 2027. Treasury yields fall on recession risk.	Threat of rate increases and Treasury yields move higher on risk of further acceleration of inflation.
Equity impact	More modest growth or inflation impact sees equity markets rally as oil prices fall.	Equity volatility remains higher and further 10% downside possible.	Recession and inflation see earnings and valuations fall, further 20% downside possible.
Credit impact	Wider credit spreads attract inflows, and higher-risk credit outperforms.	High-yield spreads increase but actual defaults are limited.	Default rates and spreads materially increase.

We believe that investors with long-term investment horizons should avoid making aggressive knee-jerk asset-allocation changes as these rarely produce good outcomes

Given this outlook, how should investors react? Firstly, we believe that investors with long-term investment horizons should avoid making aggressive knee-jerk asset-allocation changes as these rarely produce good outcomes. Instead, they should remain focused on the medium-to long-term outlook and stress-test these views given the change in market conditions.

As a reminder, some of the key themes we identified in our 2026 Outlook were:

- **Moderate overweight equities**, with risk of higher volatility
- **Overweight emerging market (EM) equities and bonds**
- Look beyond U.S. mega-cap tech companies to **Asian hardware**
- **Overweight higher-yielding assets**, including high-yield bonds and private credit
- **Overweight infrastructure equity** for portfolio resilience and diversification

We maintain an overweight position in equities, as our expectation is that global growth will remain resilient and recession risks are not yet high enough to trigger a sustained drop in equities.

Despite the sharp sell-off in EM equities and bonds, we maintain our overweight position as the structural outlook has not changed, and heavyweight markets such as China, Brazil and Mexico are relatively well-positioned to weather the spike in energy prices.

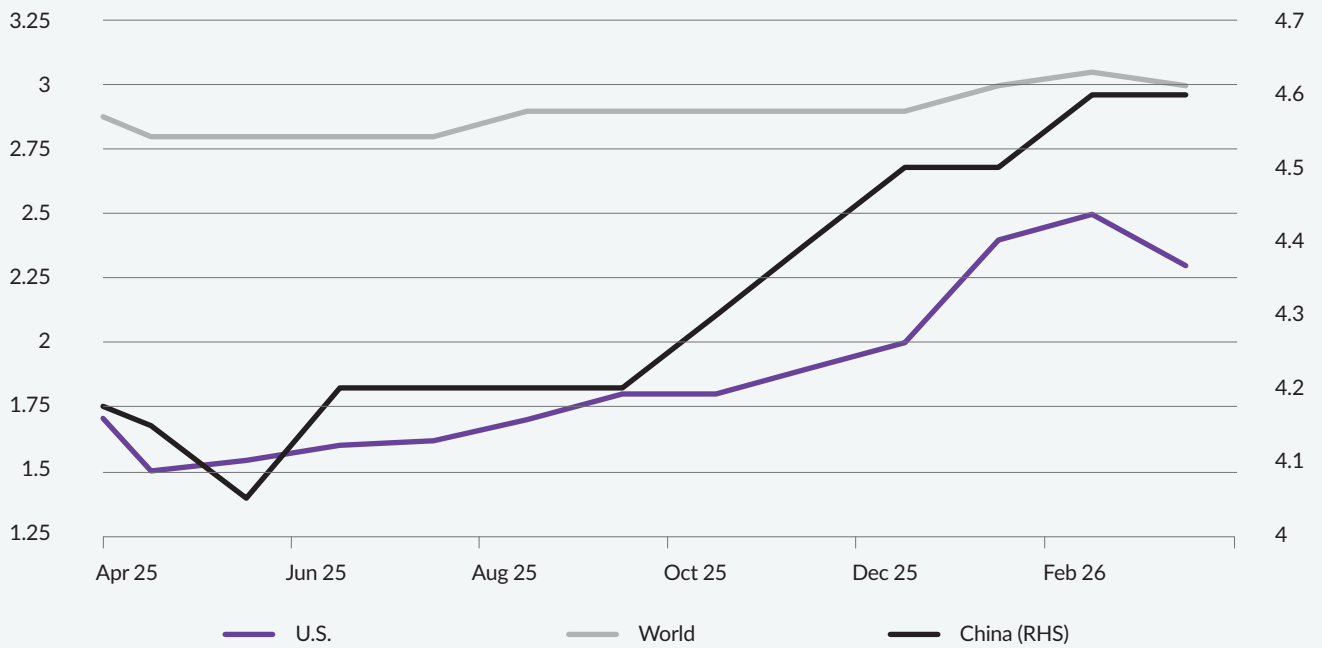
We also maintain our overweight in high-yield bonds. Absolute yields are now above 7.6%, which provides a buffer against continued volatility, and the overweight in infrastructure equity continues to offer diversification benefits and a hedge against a pick-up in inflation.

We do, however, make some adjustments. We reduce private credit to a modest underweight position. While we believe that the underlying credit picture is better than many headlines would indicate, ongoing concerns around AI disruption and outflows from the sector add uncertainty and will impact returns in the near-term. Ultimately, we believe that this will provide attractive entry opportunities, but this is likely to be a story for later in 2026 or 2027.

We move overweight on real estate. Private real estate funds have come through the liquidation cycle that private credit is now facing, and underlying prices have adjusted by 15-40%. Real estate also offers some of the same diversification benefits of infrastructure and has historically outperformed in periods of higher inflation.

Figure 2

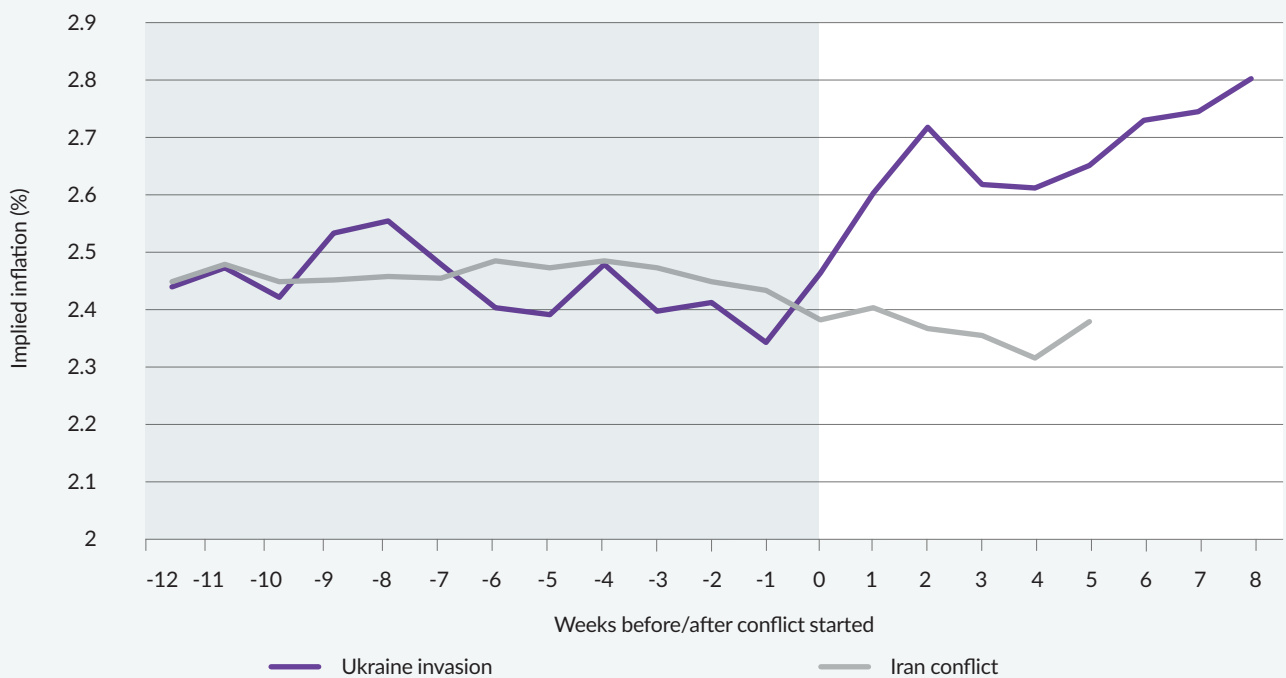
Change in consensus 2026 GDP forecast: U.S., China and World



Source: Bloomberg, Apr. 2026

Figure 3

U.S. 5-Year, 5-Year forward inflation swap



Source: Bloomberg, Apr. 2026

| Equities

Repricing resilience and upgrading China



After a strong start, global equities have fallen almost 10% from their February peak and EM equities over 13%. While the turn in sentiment and the pullback is understandable, the question that investors need to focus on is whether the Iran conflict will trigger an earnings recession or simply slower growth.

Using another historical example, if we compare the current period with the Iraqi invasion of Kuwait in 1990, we see that the performance of U.S. equities is similar, despite a faster increase in oil prices in the current period. However, equities in 1990 then saw a second leg down as oil prices rose further and the United States fell into recession, which saw U.S. earnings fall an estimated 15%. (See Figure 4)

While the oil price dynamics look similar, the underlying economic and corporate health is very different to 1990, in our opinion. The U.S. economy and earnings growth were already slowing before the Iraq War, as the economy was dealing with a credit squeeze related to the savings and loan crisis. The increase in oil prices exacerbated the size of the recession but was not its sole cause.

In contrast, earnings estimates have been rising strongly across all major markets over the last six months. (See Figure 5.) Corporate balance sheets are cash-rich and relatively under-levered. Unless we see a prolonged shutdown in the Straits of Hormuz, we do not believe that we will see an earnings recession.

Given this, we maintain our moderate overweight in equities but make some adjustments to our regional allocation:

We use the 13.2% pullback in Japanese equities (in USD terms) between Feb. 12 and the end of March as an opportunity to upgrade to a small overweight.

Our previous caution was due to our concern that sentiment had run ahead of fundamentals and that tightening by the Bank of Japan could trigger volatility. We have now seen a reset in sentiment and once markets stabilize, the structural reform story in Japan is likely to drive liquidity back into stocks.

We remain overweight EM equities.

However, we hedge our position by reducing our exposure to Asian markets that are more exposed to energy supply disruptions, such as Thailand and India, while favoring energy producers such as Mexico, Brazil and Malaysia.

We upgrade China to a maximum overweight.

This may appear strange as China is the largest energy importer in the world. However, we believe a number of factors make China better prepared to deal with the current energy crisis:

- **Chinese energy consumption** is more dependent on electricity than most other markets, making up an estimated 30% of total energy consumption versus 20-25% in the US and Europe.
- **Coal and renewables** make up 58% and 34% of electricity generation, respectively, limiting the reliance on imports.
- Almost 50% of **Chinese natural gas imports** are via pipelines from Russia and Central Asia on long-term fixed price contracts.

We maintain our preference for European equities versus U.S. equities due to relative valuations and economic momentum.

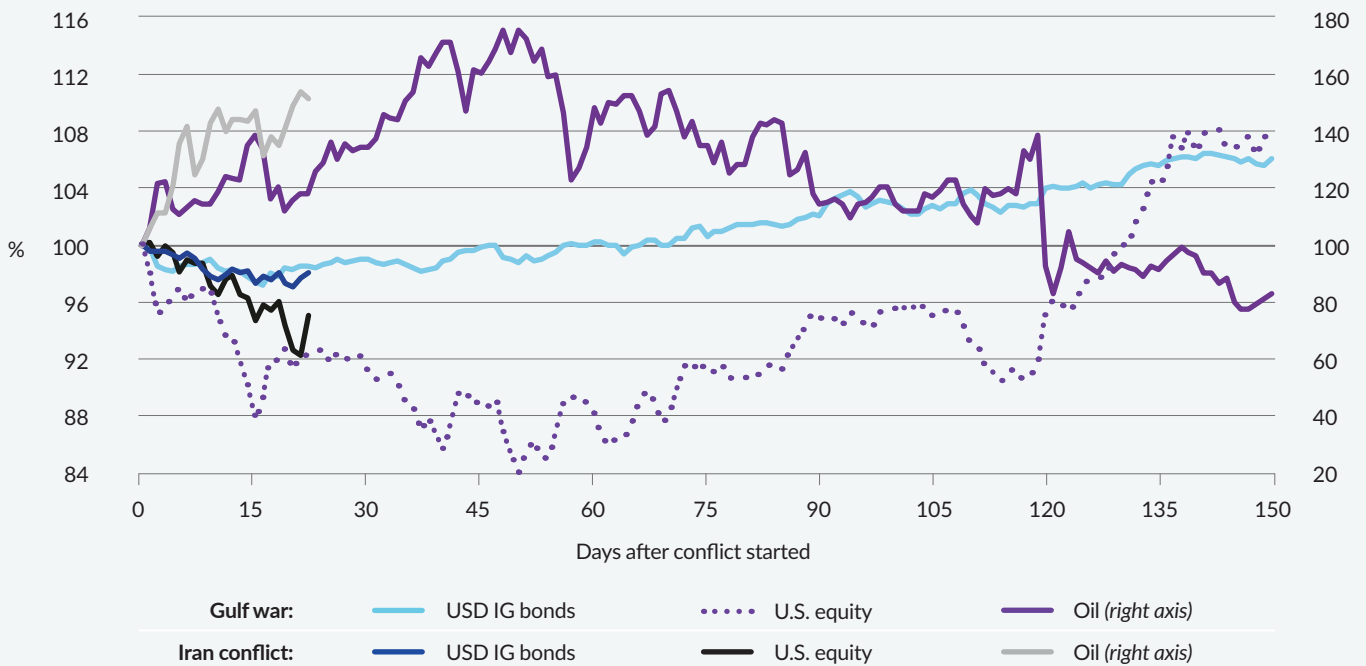
While Europe is heavily dependent on natural gas imports from the Middle East, prices remain well below the levels seen during the Russian invasion of Ukraine. (See Figure 6.) Demand is highly seasonal and falls sharply from April. Going forward, imports would primarily be used to restock storage. This will cushion the impact, so long as supply disruptions do not continue beyond June.

We continue to believe that AI-related demand will drive medium-term growth across a range of sectors and prefer exposure outside the “Magnificent 7” in the United States. (See Figure 7.) The current crisis will also act as a catalyst for an acceleration in investment to build local energy security.

This could take many forms, including nuclear power, renewable energy and electrification, and is likely to benefit China given its technology advantage and dominant manufacturing position in many of these areas such as electric vehicles and battery production, where over 60% of global production is in China.

Figure 4

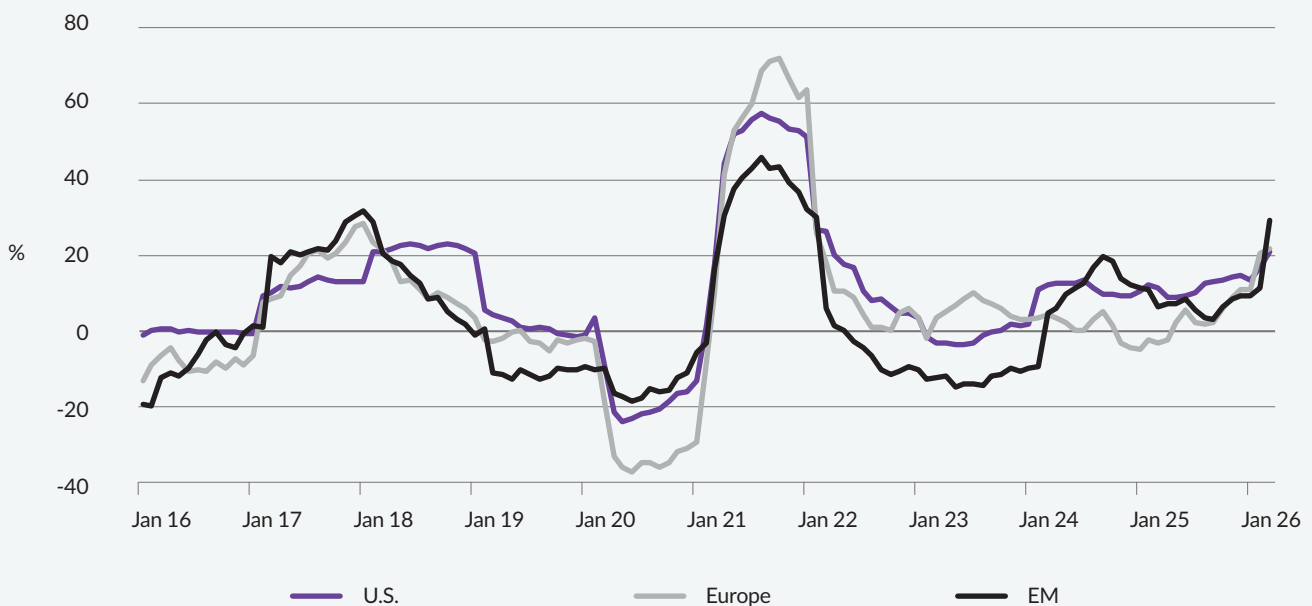
Performance of oil and selected asset classes in the Gulf War and the current Iran conflict



Source: Bloomberg, Apr. 2026

Figure 5

Annual change in 12-month forward earnings per share (EPS)



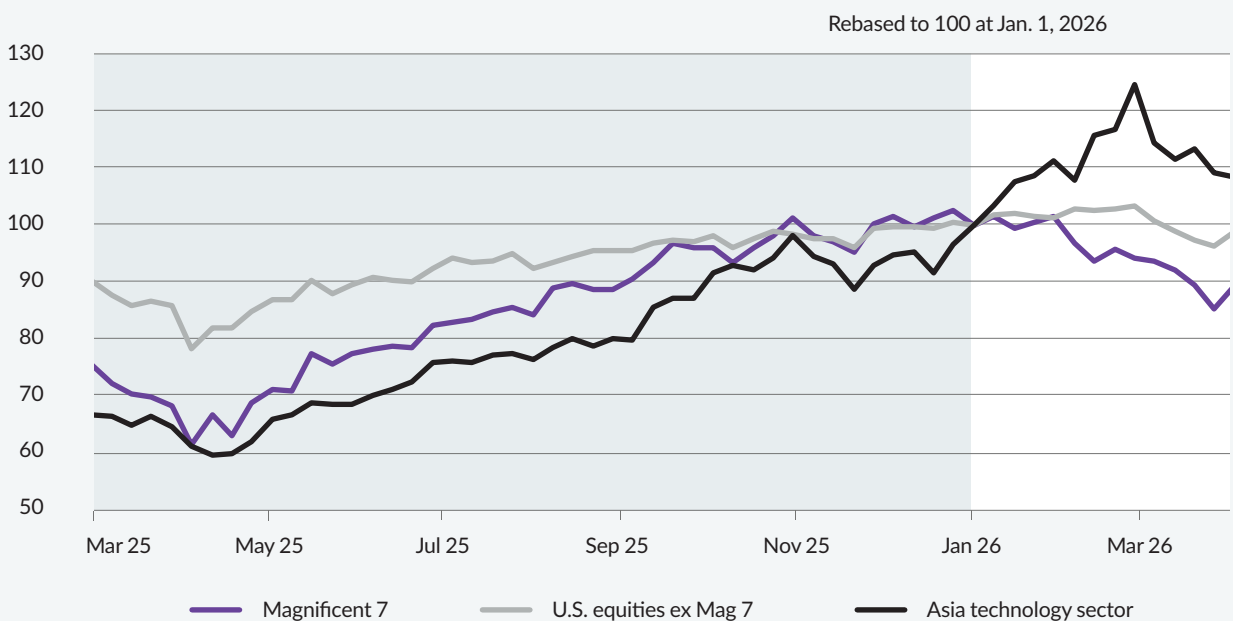
Source: Bloomberg, Apr. 2026

Figure 6
 Dutch natural gas futures price
 (rolling front contract)



Source: Bloomberg, Apr. 2026

Figure 7
 The “Magnificent 7” have underperformed U.S. equities
 and Asian technology this year



Source: Bloomberg, Apr. 2026

Note: Magnificent 7 refers to Meta Platforms, Alphabet, Microsoft, Apple, Nvidia, Amazon, Tesla

| Fixed income

Are bonds oversold?



The bond market reaction to events in Iran has in many ways been more dramatic than that of equities. Bond yields and spreads have surged as investors have grappled with inflation and growth worries. Investors have also changed their outlook for central bank policy. At the start of the year, futures were pointing to two cuts in the U.S. Fed Funds rate by December, but by the end of March, futures were pointing to no cuts. (See Figure 8.)

As we highlighted earlier, our core view is that growth will slow but remain positive, and the inflationary impact will be temporary, meaning that rate cuts may be delayed but are still possible in 2026.

The bigger “tail” risk is a growth disappointment, and to reflect this we adjust our bond allocation and upgrade government bonds from underweight to neutral. We do this on a tactical basis as we believe the 38 basis-point increase in yields in March is overplaying the inflationary risk, and, if economic growth slows more aggressively than expected, we expect government bonds will provide a hedge against default risk and benefit from interest rate cuts.



Figure 8

Futures market pricing of U.S. and European Central Bank rates - January vs end March 2026

% change in rates

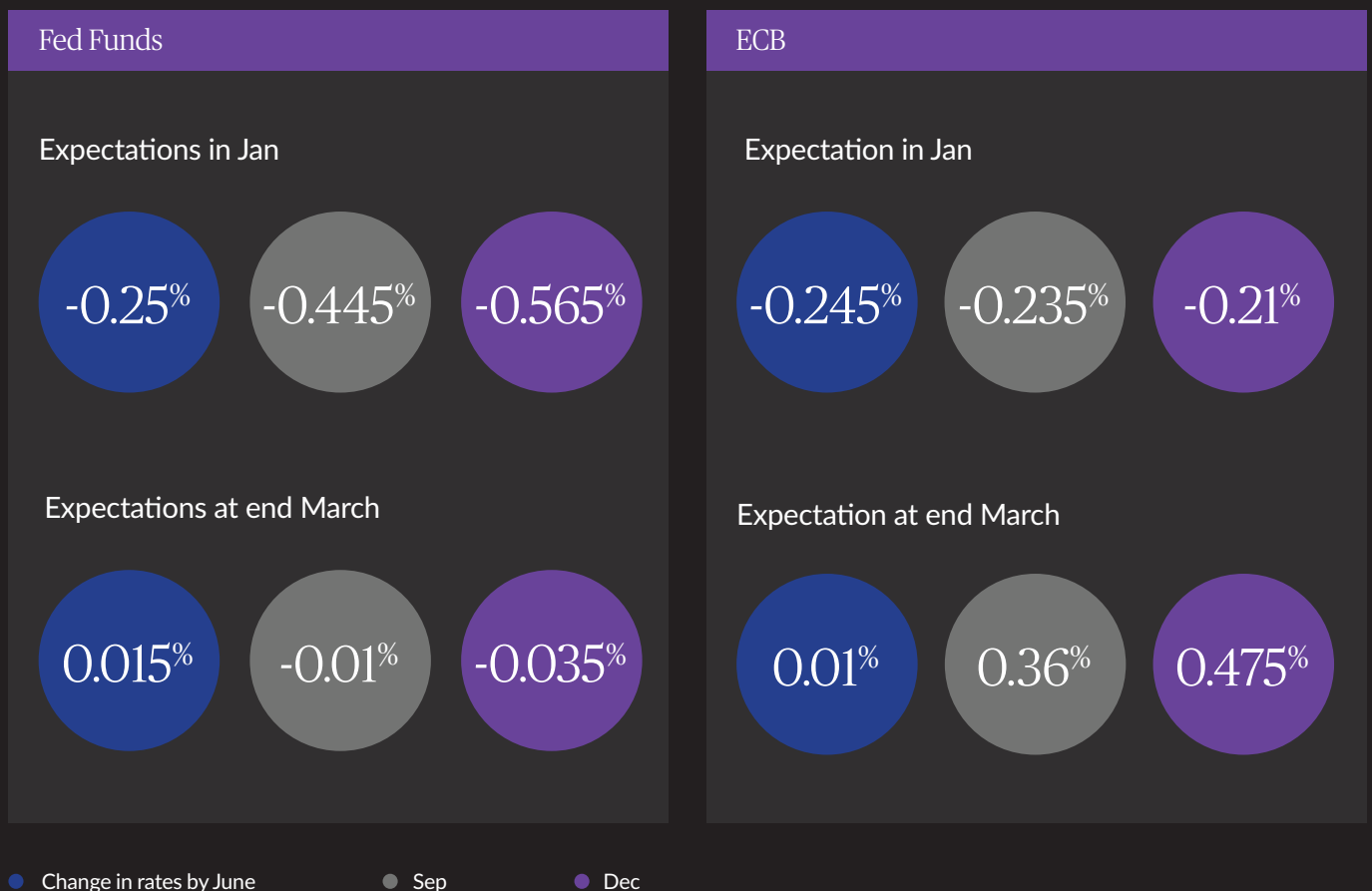
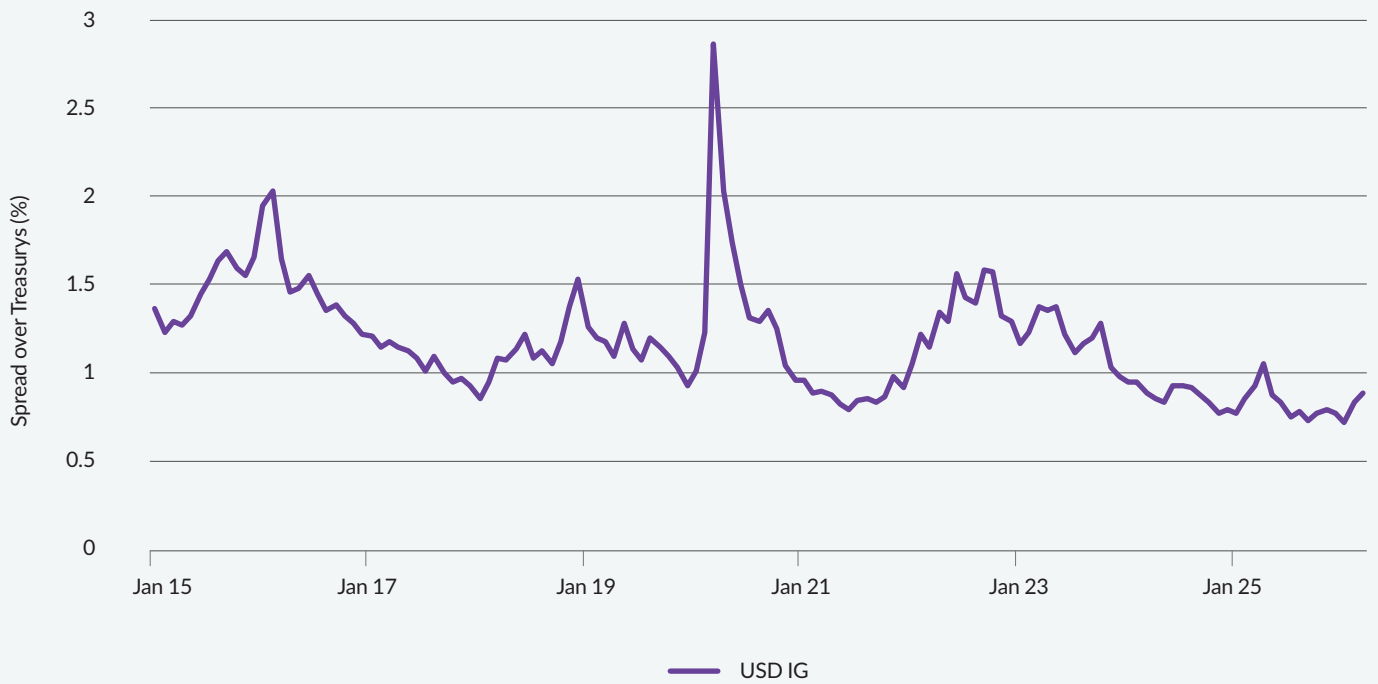




Figure 9
USD investment-grade spreads over U.S. Treasurys



Source: Bloomberg, Apr. 2026

| 7.6%

absolute yield to maturity
on the Bloomberg corporate
high-yield bond index

Source: Bloomberg, April 2026

In the credit markets, we maintain our preference for high absolute yields and remain overweight high-yield and EM bonds. As of end-March, the Bloomberg corporate high-yield bond index has an absolute yield to maturity of 7.6%, above the average since 2010 of 7.1%. If we are correct that growth will hold up, then default risk should remain low and absolute returns should be attractive. The high-yield bond market is also less exposed to the AI exposed software sector than private credit, making up less than 10% of the overall market according to Bloomberg data. Similarly for EM bonds, we see limited default risk unless there is a sustained increase in energy prices.

We remain underweight USD investment-grade (IG) bonds. While yields have increased in line with the overall market, the spread over Treasuries is 89 basis points, well below the long-term average of 118 basis points.

Figure 10

Change in yield to maturity

from Jan. 1 to March 31, 2026

USD leveraged loans

0.88%

USD high yield

0.56%

USD emerging markets debt

0.5%

USD investment grade

0.32%

U.S. 10 year Treasury

0.15%

U.S. 3-month T-Bill

0.05%

Source: Bloomberg, Apr. 2026

| Alternatives

Inflation risk favors real assets

Alternatives, and especially private credit, have been in the headlines for the wrong reasons. Worries over high-profile defaults and the credit risk posed by AI disruption have led to a surge in redemption flows that have triggered gating and redemption limits at a range of private credit funds.

It is hard to estimate how severe AI-related loan losses could be, and for the funds on our platform there has been no material increase in defaults or Payments-In-Kind (PIK) as yet. However, we choose to take a cautious approach and downgrade private credit to a small underweight. Further outflows and some increase in defaults are both very likely. The longer this continues, the higher the likelihood that funds will underperform other credit market alternatives.

We would emphasize that we do not believe that there is anything wrong with private credit as an asset class, and the underlying portfolios have considerably more liquidity than other alternatives. The average duration of loans tends to be five to seven years, and it is common for 20% of the loans held in a fund to mature every year. There is also a flip-side, as funds deploying new capital will benefit from tighter underwriting standards, higher spreads

and the opportunity to purchase discounted loans in the secondary market, which can deliver superior returns. This means that investors looking to deploy into private credit should focus on managers that have a track record of managing defaults effectively and that have launched funds within the last six months.

We also take the opportunity to upgrade real estate to overweight and maintain our positive view on infrastructure equity. Real estate funds have already gone through a similar cycle to the one that private credit is now facing and are therefore much “cleaner” from a liquidity perspective. Real estate prices have also corrected significantly from their peak in 2023. Prices are now stabilizing and are starting to turn positive.

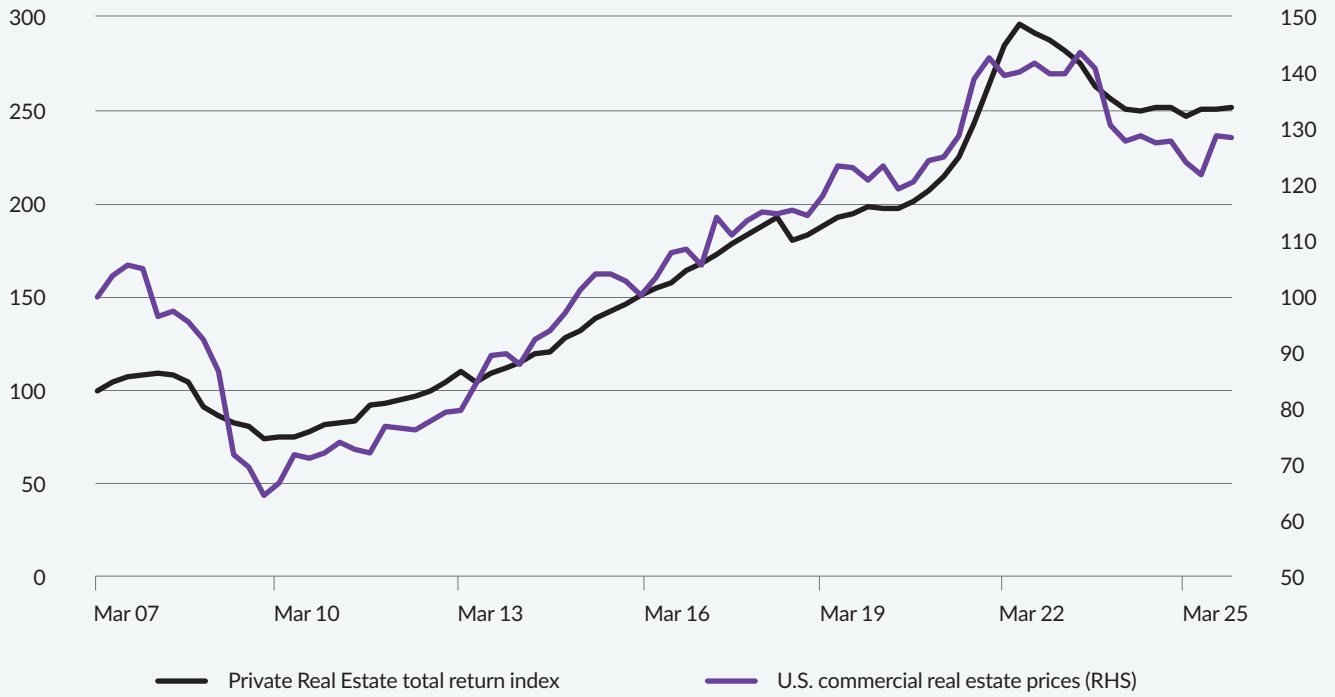
Infrastructure equity and real estate also offer some protection for investors concerned about a more bearish stagflationary outlook, as revenues and physical asset values tend to be positively correlated to inflation. If we look at quarterly asset class returns over the last 17 years, when U.S. inflation was above 2.5% and GDP growth was below 2%, we see that real estate and infrastructure equity have historically outperformed. (See Figure 12.)

Real estate prices have corrected significantly from their peak in 2023. Prices are now stabilizing and are starting to turn positive.



Figure 11

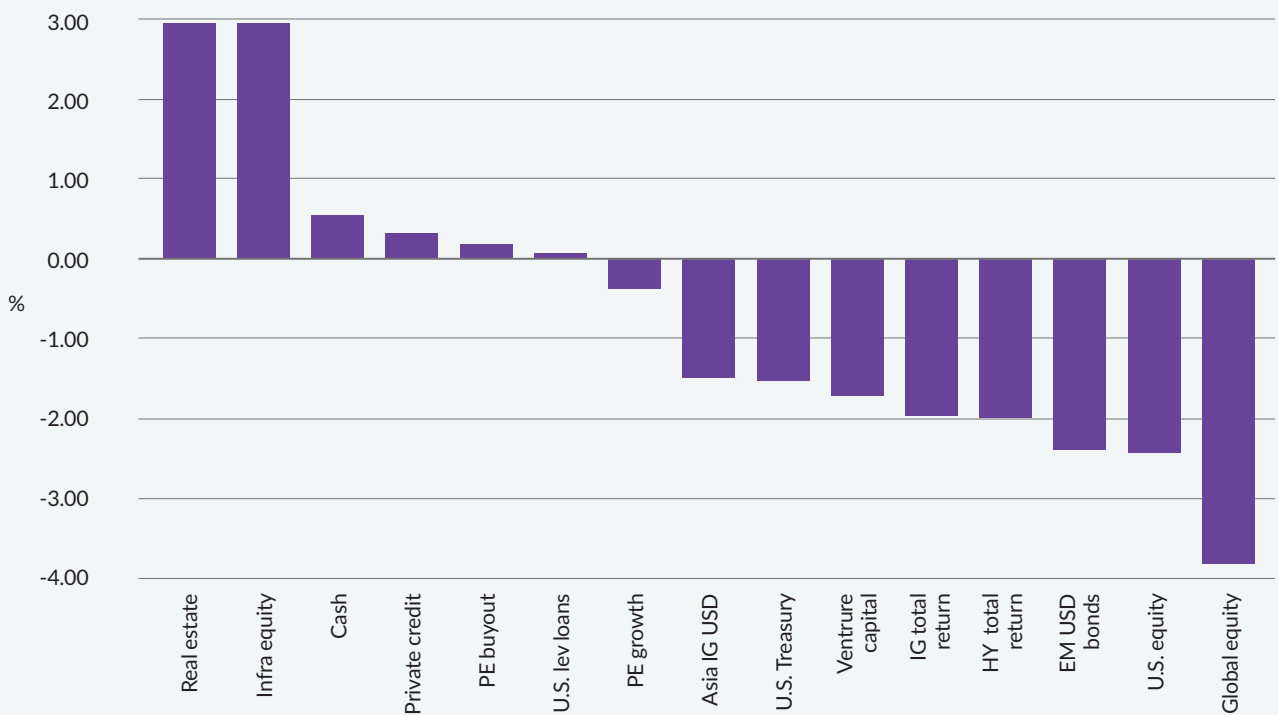
U.S. commercial real estate prices have stabilized



Source: Bloomberg, Apr. 2026

Figure 12

Average quarterly total return during stagflationary periods



Notes: Data since 2009; Stagflation is defined as quarters when U.S. CPI > 2.5% and GDP < 2% (on a seasonally adjusted annual basis)
 Source: Bloomberg, Apr. 2026



In focus

Understanding evergreen liquidity gates

Liquidity gates are a feature of most evergreen funds. They allow managers to limit the amount that investors can withdraw from the fund - usually to no more than 5% per quarter.

These **liquidity limitations** exist because most of the underlying assets of an evergreen fund are illiquid and have maturities between three and seven years. While evergreen funds have a certain portion of their assets in more liquid assets to meet normal redemption requests, forced sales of illiquid assets could lead to significantly worse performance for holders of the fund.

Where **withdrawal requests** exceed the gate limit, requests will be met on a proportional or pro-rata basis to ensure that all investors are fairly treated.

In summary, gating in evergreen alternative funds is a built-in risk management tool, not a failure of the fund. This feature is designed to provide fairness to all investors and to enhance stability of these funds during periods of volatility.

It is important that investors understand this feature of evergreen funds, and that this aligns not only with their risk profile but also their cashflow needs.

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