A bumpy road ahead

Chubb Wealth® Hong Kong: Q3 Outlook

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CHUBB®

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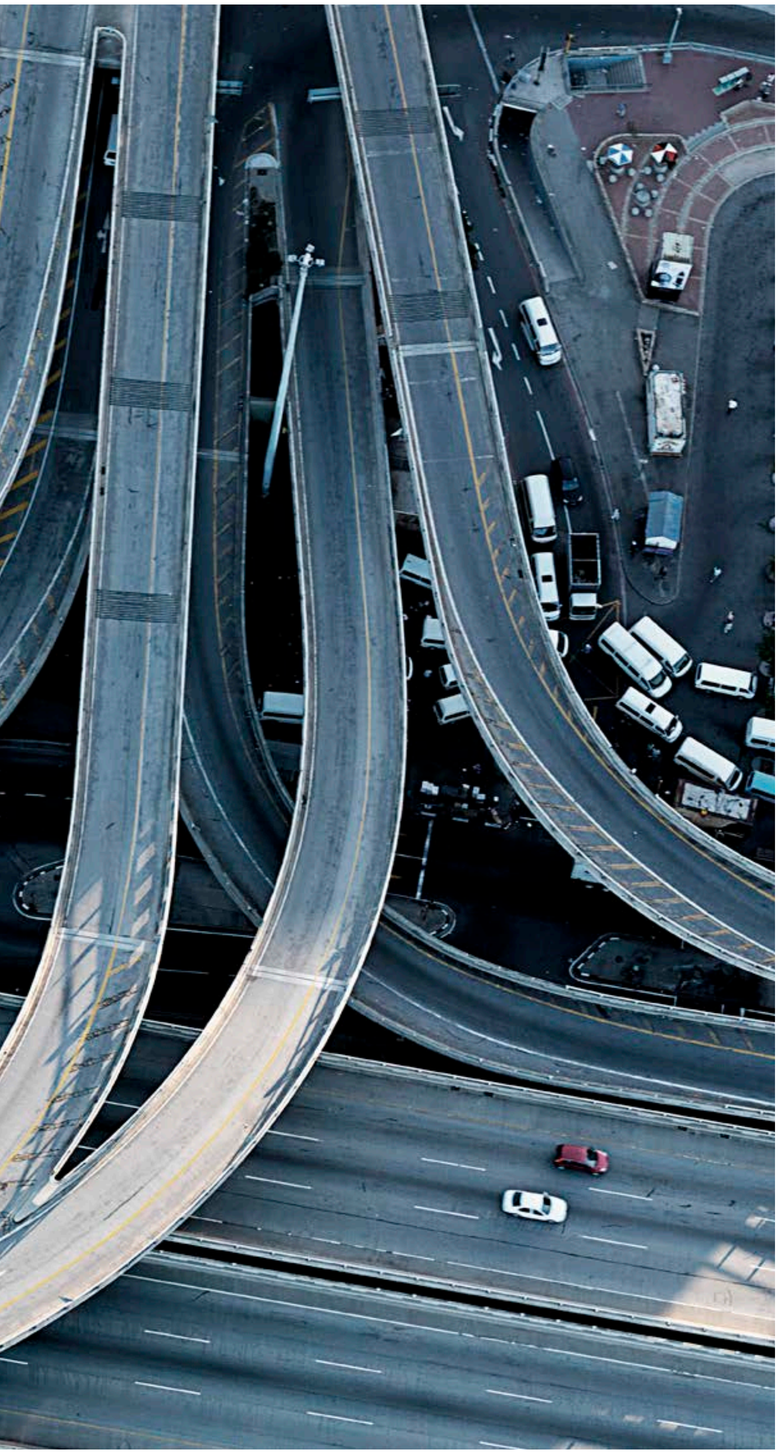
Welcome



A fragile truce between the U.S. and Iran in June was swiftly broken, with the two sides once again locked in conflict. Given the increased risk of the global economy entering a negative, stagflationary cycle, we are being more cautious and downgrading equities to neutral from overweight.

The reality is that, even in a best-case scenario, it will take many months for tanker traffic through the Strait of Hormuz to normalize, and considerable risks remain. Equities, however, have already looked through this geopolitical risk and are focused on artificial intelligence (AI) spending and the positive impact this has had on corporate earnings. This leaves little room for error and leaves us wondering what the next catalyst for expensive equities will be.

We believe that the summer is a good opportunity for clients to assess their ability to weather potential volatility in their portfolio and refocus on structural growth drivers of returns. At the top of this list is infrastructure, which we believe should now be seen as an essential building block in most portfolios rather than a nice-to-have allocation.

We also launch our coverage of hedge funds with a modest overweight and focus on strategies that can help protect portfolios during periods of volatility and uncertainty.

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 - A bumpy road ahead

Reducing risk with a balanced asset allocation strategy

The twists and turns in geopolitics and economic policy have been a lot for markets to absorb this year. If investors were told that a conflict in the Middle East would trigger a spike in oil prices and inflation worries, few would have forecast that the S&P 500 and Nasdaq would hit new highs in June.

However, the surge in earnings growth, primarily linked to the ongoing AI technology super cycle, trumped this uncertainty and has seen consensus 2026 earnings growth for U.S. and global equities increase since January by 10 and 11 percentage points, respectively.

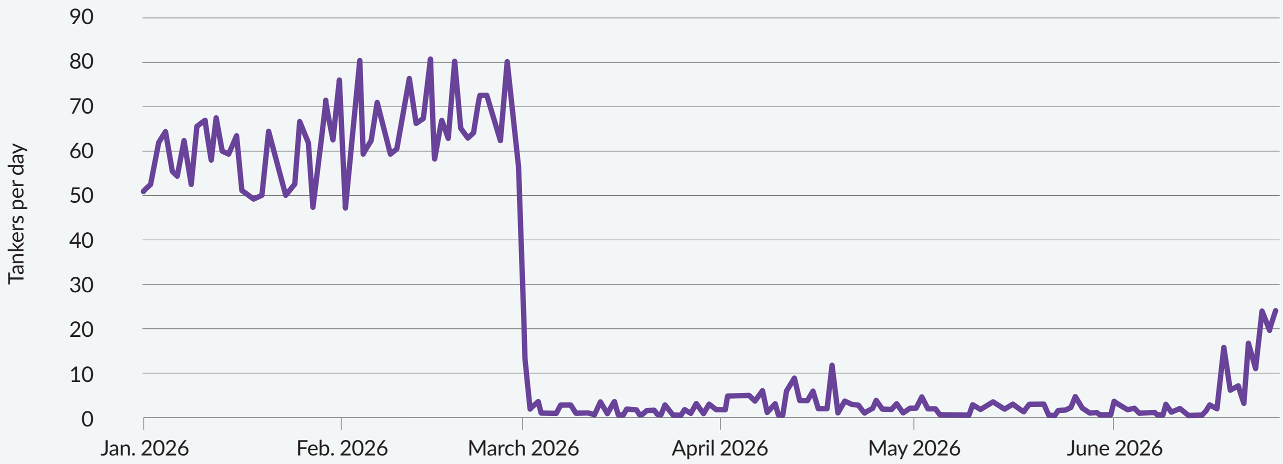
More recently, a reduction in tensions between the U.S. and Iran and the signing of an interim memorandum of understanding have triggered further upside for equities. Oil prices fell back below USD70 per barrel on the hope that energy exports through the Strait of Hormuz will resume in the second half of the year.

While the worst-case scenario that we mapped out in our Q2 Outlook appears to have been avoided, we are concerned that the outlook is more uncertain than markets are reflecting. Economic growth is expected to remain positive due to AI-related capex and government spending; however, growth momentum has slowed sharply and the bar for further upside surprise is now significantly higher.

We are concerned that a recovery in growth momentum may be weaker than hoped for, as it is likely to take many months for the flow of oil from the Middle East to resume fully. The clearing of mines, rebuilding of pipelines, restarting of refineries and restocking of reserves will be a slow process. Furthermore, it is not yet clear what a new normal would look like, as there are reports that Iran and Oman are aiming to introduce tolls on tankers passing through the Strait of Hormuz.

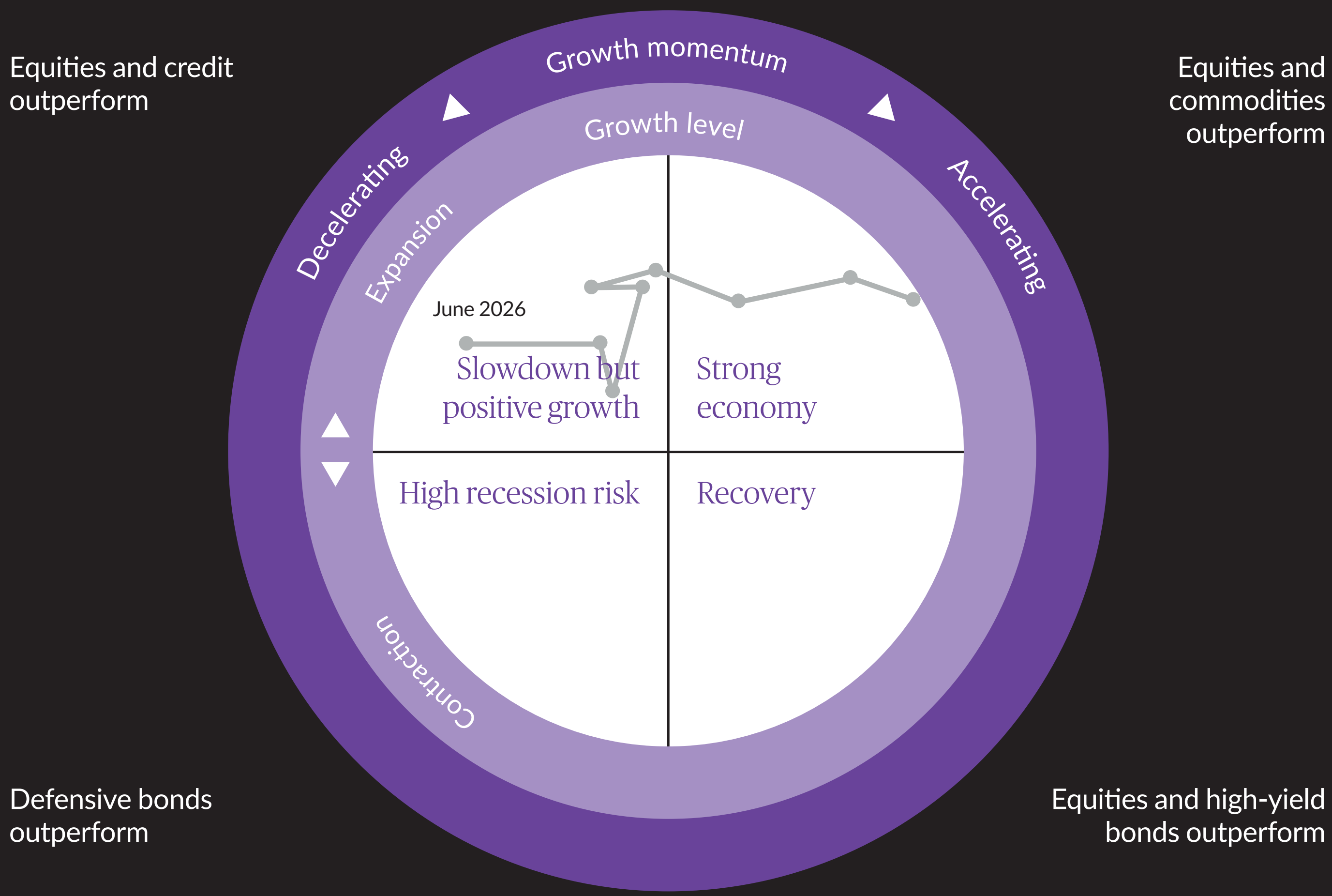
We believe that these factors imply a higher risk premium in energy markets and mean that energy prices are likely to remain above pre-conflict levels for the foreseeable future. Evidence of a strong El Niño cycle starting in 2026 is also likely to push up food prices, compounding this higher-for-longer inflation outlook. The risk of elevated inflation has already triggered a sharp re-pricing of the interest rate outlook: bond yields hit multi-year highs in a number of countries in June.

Figure 1
Strait of Hormuz tanker crossings



Source: Bloomberg, June 2026

Figure 2
Global growth clock



For illustration only. Data tracks readings over the previous 9 months
Source: Chubb Wealth, June 2026

The combination of a tightening in liquidity conditions, record demand for liquidity and slowing growth raises the risk of market volatility, especially when combined with stretched equity valuations

The change in monetary policy expectations has been dramatic, and a number of central banks have raised interest rates this year, including the European Central Bank (ECB). While the U.S. Federal Reserve has not yet increased rates, the June Fed meeting – the first under Chair Kevin Warsh – signaled a more hawkish stance than expected. The closely watched "dot plot" showed almost half of Fed policymakers forecasting a rate hike by the end of the year, which would further tighten global liquidity conditions. Annual inflation in core personal consumption expenditure (PCE), the Fed's primary inflation metric, is expected to remain above 3% through 2026 and much of 2027.

At the same time, the boom in AI investment is leading to a surge in demand for capital in the form of IPOs and bond issuance. According to forecasts by KKR and Goldman Sachs, IPO issuance should surpass USD150 billion in 2026, well above the previous peak of USD142 billion in 2021.

The combination of a tightening in liquidity conditions, record demand for liquidity and slowing growth raises the risk of market volatility, especially when combined with stretched equity valuations. Given this, we use this year's strong equity performance as an opportunity to downgrade equities from overweight to neutral. While we do not believe that the bull market is over, we see the risk of a sharper than expected pullback in equity markets and therefore believe that it is prudent to reduce risk.

We believe investors should focus on the following themes to add value to their portfolios:

Capture yield opportunities

Higher interest rates continue to look attractive in absolute terms, and we believe investors should look to benefit from this. We remain overweight high-yield (HY) and emerging market (EM) bonds, which enjoy yields of over 6%. For investors looking for more consistent yields, we believe multi-asset income funds are an attractive alternative, as they are able to harvest income from a range of assets.

Look through volatility

We highlighted the risk that equities would remain volatile in our year-ahead outlook, and this remains the case. Investors should prepare for equity market volatility by assessing their asset allocation and consider diversifying into assets with low correlations to equities, including hedge funds, multi-asset alternative funds and infrastructure.

Hedge against inflation and benefit from uncertainty

We have previously highlighted that infrastructure and real estate have historically delivered positive absolute returns during periods of stagflation. We remain overweight on both asset classes and believe that infrastructure also benefits from a number of secular growth trends that can support above-average absolute returns.

Figure 3

Chubb Wealth Asset Allocation Q3 2026

	Underweight	Neutral	Overweight	Remarks
Asset Class				
Equities		●		Use strong performance in H1 to reduce to neutral. Good earnings news is priced in.
Corporate bonds		●		Overall neutral but strong preference for HY and EM bonds versus IG.
Government bonds		●		Tactical neutral to hedge against an unexpected slowdown in economic growth.
Alternatives			●	Exposure to secular growth stories and diversification benefits make alternatives a key overweight.
Cash	●			Higher inflation erodes cash value unless rates are raised.
Equities				
U.S.	●			Modest underweight on high valuations and excessive AI sentiment. Dip would be a buying opportunity.
Europe			●	Performance has been resilient and should benefit from a reduction in energy prices.
Japan			●	Key overweight as structural reform can drive earnings growth and higher valuations.
China			●	Gradual improvement in earnings momentum and onshore liquidity flows support outlook for A-shares.
Asia (ex Japan & China)		●		Downgrade to neutral as hardware stocks in Korea and Taiwan appear vulnerable to a change in sentiment.
Emerging markets (ex China)			●	Strong earnings growth and attractive valuations support a continued overweight position.
Corporate Bonds				
U.S. investment grade	●			Spreads are near all-time lows and remain unattractive.
U.S. high yield			●	While spreads are tight, we remain overweight due to high absolute yields.
Emerging markets & Asia			●	We remain overweight due to high absolute yields. The reduction in energy prices reduces risk.
Alternatives				
Private credit	●			Redemption pressure continues and fund gating is likely to continue for 1-2 quarters.
Private equity		●		Manager selection is key. Venture capital and growth strategies provide exposure to AI.
Real estate			●	Attractive value and an improvement in property demand support an overweight position.
Infrastructure equity			●	Core overweight position, which offers exposure to structural growth themes and acts as a risk diversifier.
Hedge funds			●	Initiate as a small overweight with a focus on strategies that offer portfolio diversification, including macro and relative value.

Equities

Priced for perfection; downgrade to neutral

Earnings have been the knight in shining armor for equities, and consensus 12-month forward earnings growth for global equities has surged 25% this year, triggered by AI-related spending. While strong first-quarter S&P 500 earnings reports were the catalyst for the upgrades, the improvement in growth sentiment has been truly global. (See Figure 4.) Looking forward, the earnings bar is now significantly higher, and the scope for upside surprise is more limited. Equities are likely to require a new catalyst to move significantly higher in the short term.

The AI theme is becoming all-encompassing and looks likely to dominate equity markets for the foreseeable future. However, the impact will increasingly be felt outside of pure technology companies. As adoption rates accelerate, we are likely to see fragmentation between winners and losers within countries and sectors, which will add complexity to investment decisions. Adobe provides an example of this: initially it was seen as an AI beneficiary in 2023, but the stock has since fallen over 60% as the pace of AI innovation is now seen as a threat to its business.

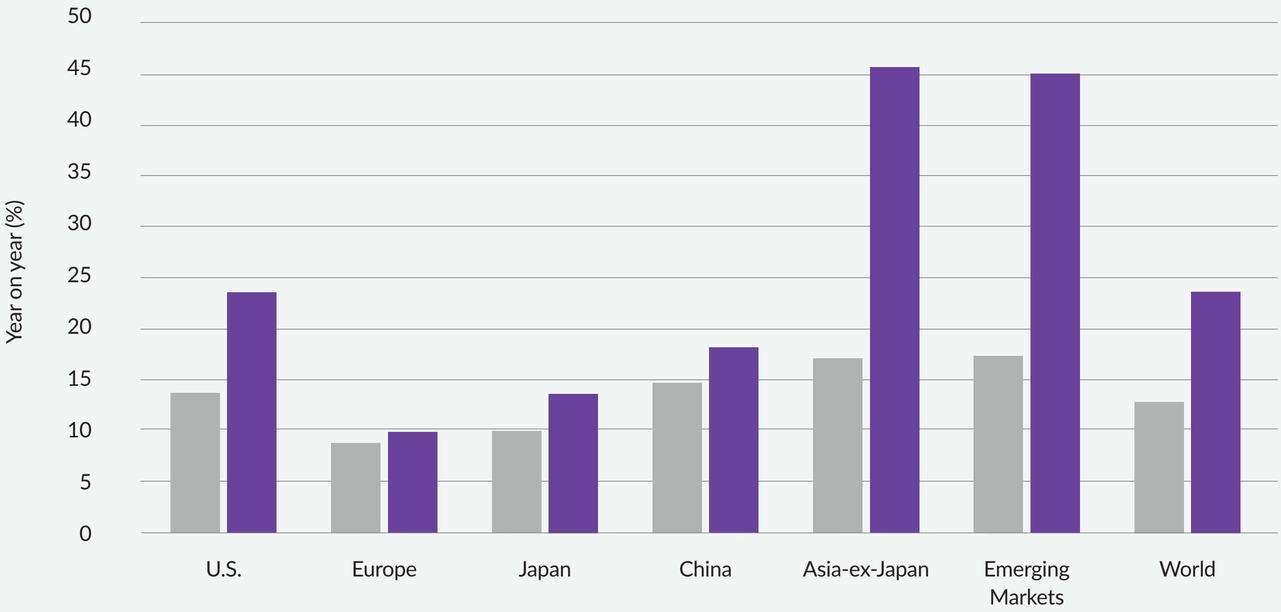
This dispersion in stock performance will offer opportunities for active managers and potentially require a more active approach to investing.

The Japanese equity market has been the best performing of the G7, and we remain overweight, despite the 40% rally in Japanese equities since the end of March. New regulations from the Financial Services Agency and Tokyo Stock Exchange seek to enshrine capital governance and focus on shareholder returns, which will add to the Japanese corporate reform story. This can support the ongoing re-rating in the market and drive positive earnings momentum.

We remain overweight China. While A-shares have not enjoyed the spectacular gains seen in other Asian markets, local equities have ground higher on local liquidity flows, improving corporate profits and attractive valuations, and we expect this trend to continue. Chinese equities also benefit from a relatively low correlation to global equities and would be less exposed to a broader pullback in global markets.

Figure 4

Consensus estimates for 2026 earnings per share (EPS) growth



Source: Bloomberg, June 2026.

Note: U.S. represented by S&P 500; Europe by EURO STOXX 50; Japan by TOPIX; China by CSI 300; Asia ex Japan by Bloomberg Asia ex Japan; Emerging Markets by Bloomberg EM; World by Bloomberg World Index

Figure 5

Europe remains cheap versus the U.S.

Source: Bloomberg, June 2026

25%

surge in earnings growth consensus for global equities this year

Source: Bloomberg, June 2026

> Dispersion in stock performance will offer opportunities for active managers and potentially require a more active approach to investing

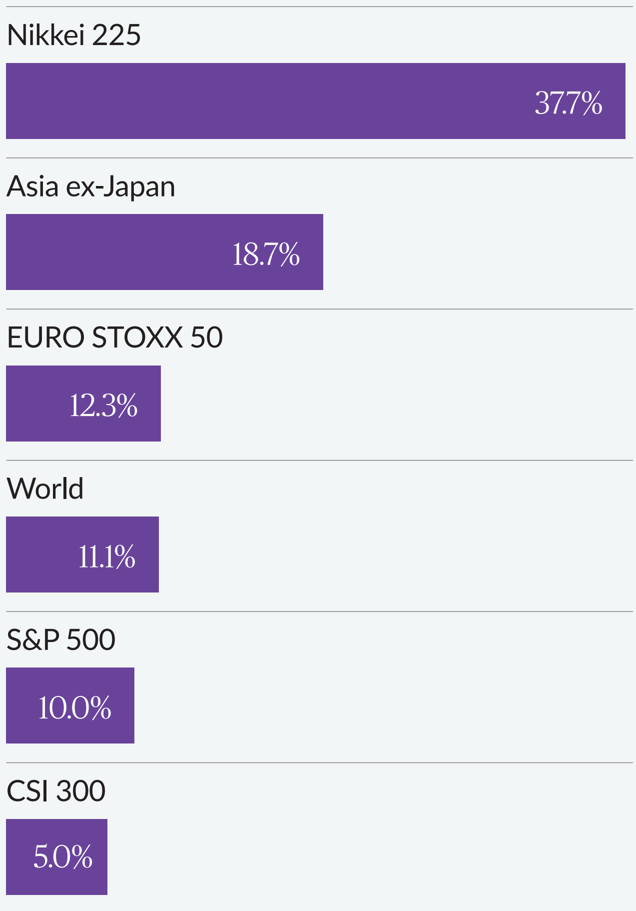
We downgrade Asia-ex-Japan and ex-China equities to neutral. Korean equities, in particular, have been spectacular performers, led by hardware companies such as Samsung Electronics and SK Hynix. While we believe that Asian hardware manufacturers will continue to benefit from AI-related demand, there are clear signs of speculative fund flows from local retail investors using leverage. This is driving volatility, and we have seen the whole market fall by more than 5% four times in June, including a 9.99% drop on June 23 that triggered the market circuit breaker. We see value in locking in gains and waiting for a better entry level.

U.S. and European equities have delivered similar returns this year, and we continue to prefer Europe. Despite being more exposed to imported energy than the U.S., European equities have been surprisingly resilient.

Figure 6

Equity market performance in H1 2026

% change YTD

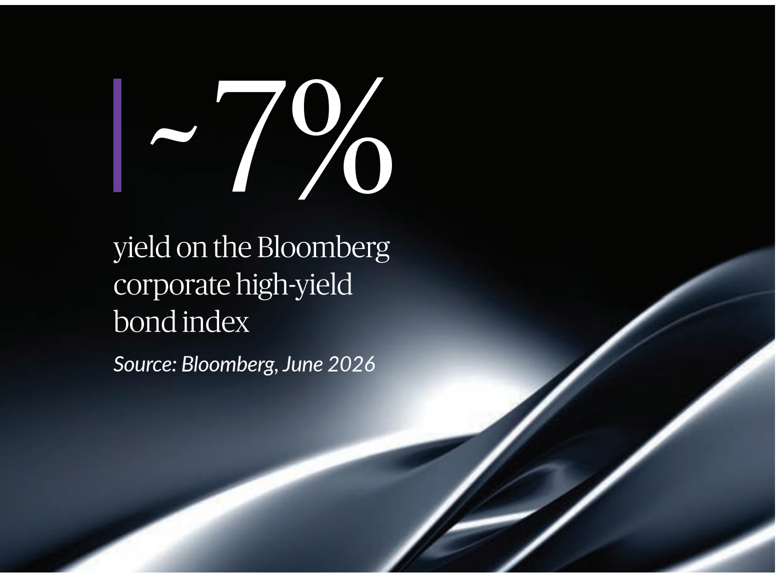


Source: Bloomberg. Data correct as of June 29, 2026

Fixed Income

High-yielding bonds remain in favor

The repricing of rate expectations means that investors are now able to benefit from absolute yields that are well above the average seen in fixed-income markets over the last 15 years. We believe that this is an attractive opportunity that investors should grab and favor an active strategy given the diverse range of opportunities available. For wealth investors, we believe multi-asset funds provide effective vehicles to benefit from these opportunities rather than trying to switch from market to market. This is also in line with flows on our platform that have favored multi-asset income funds over pure bond funds.



High-yield (HY) bonds continue to offer attractive income levels with yields of almost 7%. As highlighted in the equities section, corporate earnings growth is expected to remain strong, which should limit near-term default risk – especially as energy prices fall.

We also remain overweight USD emerging market (EM) bonds. A sustained period of high energy prices would have pressured some sovereigns, but we believe default risk remains limited as long as oil prices remain below USD100. A risk for EM bonds is that the recent strength in the USD triggers a more aggressive shift away from EM assets. While we recognize this, we believe that USD strength will be temporary and expect the medium-term trend for dollar weakness to continue.

We maintain our tactical neutral position in government bonds. This provides a hedge in the event that growth slows faster than we expect. In this scenario, even if headline inflation remains elevated, we would expect to see bond yields fall sharply as investors position for rate cuts in 2027 to support growth.

USD investment-grade (IG) bond spreads have fallen to a new low as of the end of May. This is well below the long-term average of 118 basis points and offers limited buffer against market volatility. We remain underweight.

Figure 7

Yields on HY and EM bonds are historically attractive

Source: Bloomberg, June 2026

Figure 8

Investment-grade bond spreads have fallen to a new low

Source: Bloomberg, June 2026

Alternatives

Building a bullish case for infrastructure

We remain overweight alternatives with a preference for infrastructure and real estate. Both asset classes have historically acted as strong diversifiers during periods of stagflationary risk. Infrastructure appears especially attractive and is moving from a nice to have to an essential part of an investor's portfolio.

We see infrastructure at the intersection of a number of secular growth stories:

– **AI growth:** As the AI growth story expands, we are likely to see a shift from "bytes to bricks". The acceleration in AI adoption is driving demand for a range of infrastructure assets, including data centers, high-speed fiber-optic networks, power generation and cooling systems.

– **Energy security**: The closure of the Strait of Hormuz provides new momentum for major economies to de-risk their energy supply. This transcends simple access to energy and is likely to see new investment into energy storage, grid infrastructure and industrial electrification.

– **Supply chain diversity:** Geopolitical uncertainty is ramping up competition for access to goods and resources that are deemed vital to support economic growth and national security (eg semiconductors and raw earths). This is driving an infrastructure boom, as supply chains are being built and adapted to capture changes in the flow of goods.

These tailwinds add to infrastructure's traditional appeal as a source of diversification and a natural inflation hedge. We believe that infrastructure can, and should, be an important part of a diversified portfolio.

Hedge funds also offer diversification benefits for investors, and we initiate as a small overweight. Figure 9 highlights that macro, relative value and market neutral quantitative hedge fund strategies in particular have seen limited losses compared to other assets during equity market drawdowns. While hedge fund performance lags equities during bull markets by design, good managers can deliver consistently positive periods through cycles and act as a diversifier during periods of market volatility.

Private credit continues to suffer from negative headlines, and we remain underweight. We expect more heavy redemption flows and have seen a range of managers announcing redemption caps in Q2. As we highlighted last quarter, these caps are part of product design and are an important feature to protect investors. While negative sentiment and fund sales look likely to continue for the next 6-9 months, it is noticeable that the private credit funds on our platform continue to deliver positive total returns this year with average annualized dividend yields of 7.5% in Q1. We remain neutral private equity but see opportunities for growth and venture capital funds, which focus on the next generation of companies and the most exponential innovations.

Figure 9

Average strategy performance during 15%+ equity drawdowns since 2014

Traditional investments

-19.6%	-9.7%	-6.3%
Global equity	USD HY bonds	USD IG bonds

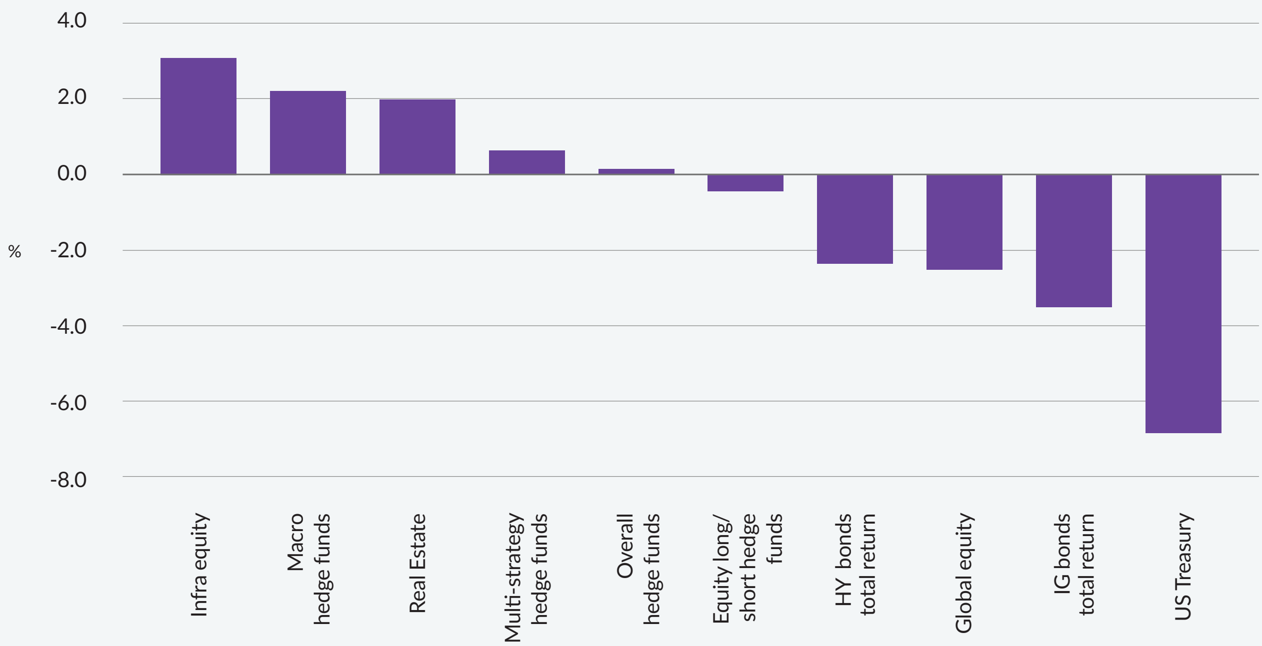
Hedge fund strategies

-4.3%	-3.8%	-3.0%	-2.7%
Multi-strategy	Relative value	Macro	Quantitative - market neutral

Source: Bloomberg, Chubb Wealth calculations, June 2026

Figure 10

Average quarterly total return during periods of stagflation



Source: Bloomberg, Chubb Wealth calculations, June 2026
Data since 2014; Stagflation is defined as quarters when U.S. CPI > 2.5% and GDP < 2% (on a seasonally adjusted annual basis) 2026

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We benefit from a deep understanding of managing risks and access to differentiated investment opportunities. Our commitment to transparency, fairness, and long-term value creation ensures that your wealth is in trusted hands.

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