

A less synchronized world

Chubb Wealth[®] Hong Kong: Q4 Outlook

September 2026 issue:

Global outlook

Diversify return drivers with a broader opportunity set

Equities

Spotlight on earnings and Asia

Fixed income

Income is back. What does it mean for risk and returns?

Alternatives

Consider what alternatives can bring to your portfolio



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| Welcome



The final quarter of 2026 begins with an unusual combination of economic resilience and continued investment uncertainty. While consensus estimates as of Sept. 3 call for global growth of 3.0% in 2026 and 3.1% in 2027, according to Bloomberg, headline numbers disguise an increasingly uneven world. Economies connected to the technology value chain are benefiting from demand related to artificial intelligence (AI), while food and energy importers face a more difficult backdrop. It appears increasingly likely that the global disinflation trend has stalled, and underlying core inflation remains elevated.

For investors, this combination matters because it challenges two assumptions that shaped portfolios for much of the previous decade: that inflation would remain persistently low, and that bonds would offer little income. Neither assumption looks appropriate today.

The good news for investors is that the opportunity set is broader than it has been for years. Government and corporate bonds once again provide meaningful income. Equity opportunities extend beyond a small group of U.S. technology leaders. Asia contains several distinct economic and earnings cycles rather than one regional trade. And alternatives can provide income, inflation sensitivity, long-term growth and diversification that are difficult to obtain from traditional assets alone. This does not remove risk. Higher government borrowing, geopolitical tension, energy uncertainty and large AI-related capital requirements may keep long-term interest rates volatile. Strong equity performance has also increased valuations and concentration in parts of the market.

As investors assess their portfolios going into 2027, we believe that the answer is not to retreat to cash. Rather, it is to build portfolios that can earn returns from multiple sources.

Global outlook – Robust growth in a less synchronized world

A broader opportunity set changes the way portfolios should be built

The global economy remains resilient despite ongoing uncertainty in the Middle East, but resilience is not uniform. The U.S. continues to benefit from a powerful investment cycle, particularly in technology and AI-related infrastructure spending. Europe is exposed to higher energy prices but continues to benefit from fiscal spending on defense and infrastructure. Japan is experiencing positive wages and inflation alongside continuing corporate reform. China is extending its leadership in strategic industries, even as weakness in property and household demand continue to drag on growth.

The International Monetary Fund's July outlook captures this divergence well. It describes the global economy as being pulled in opposite directions by the Middle East energy shock and a technology-driven investment boom. Countries' outcomes increasingly depend on whether they are importers or exporters of energy and food and where they sit in the global technology value chain.

For investors, dispersion is not necessarily bad news. Different economic cycles can create opportunities for geographic diversification and active allocation.

Inflation has not disappeared

We believe that one of the riskier assumptions that an investor can make today is that the inflation problem has been solved. Energy uncertainty, trade

restrictions, fiscal spending and large infrastructure requirements all increase the possibility that inflation remains more volatile than it was during the decade before the pandemic. A super El Niño cycle is also expected to see higher prices for important agricultural commodities such as rice and sugar in 2027.

For investors, a more volatile inflation environment changes correlations and portfolio construction. Government bonds can provide excellent protection against a growth shock, but they may offer less diversification when equity weakness is driven by inflation or fiscal concerns. That argues for a broader mix of portfolio defenses.

Dollar weakness to continue

We believe that the U.S. dollar will remain under pressure. The structural backdrop remains unsupportive: the U.S. continues to run large fiscal and current-account deficits, and the interest-rate advantage that supported the dollar in recent years has been eroded as other countries have raised interest rates. More recently, concerns over U.S. fiscal policy and Treasury-market intervention have added more pressure, with the dollar trading near multi-month lows in August. While this points to continued dollar weakness, we would characterize the outlook as gradual depreciation rather than a disorderly decline.

Figure 1

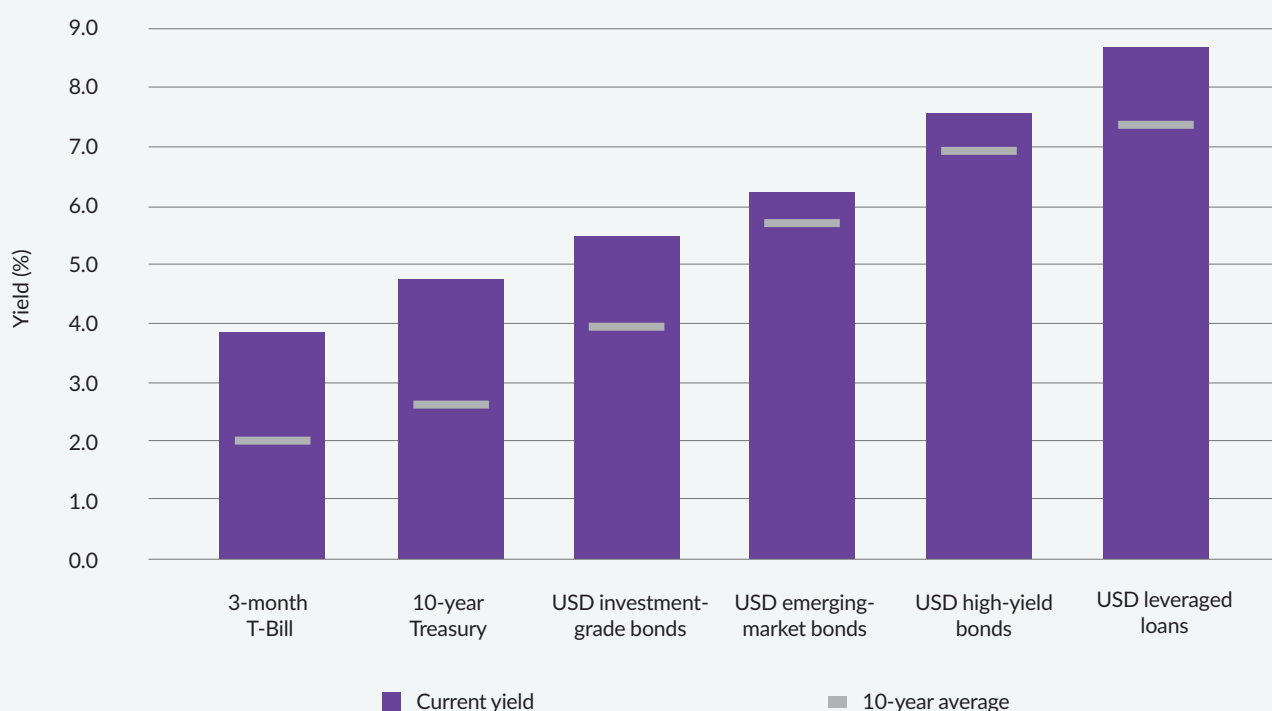
Purchasing Managers' Index (PMI) leading indicators have surged



PMI scores range from 0 to 100. Readings above 50 indicate economic expansion.
Source: Bloomberg, Sept. 2026

Figure 2

Fixed-income yields are above long-term averages



Source: Bloomberg, Sept. 2026

Figure 3

Chubb Wealth Asset Allocation Q4 2026

	Underweight	Neutral	Overweight	Remarks
Asset Class				
Equities		●		Earnings will be the key to continued strong performance.
Corporate bonds		●		Overall neutral. We remain overweight HY and EM bonds versus IG.
Government bonds		●		Hedge against an unexpected slowdown in economic growth and tactically positioned to capture higher yields.
Alternatives			●	Exposure to secular growth stories and diversifiers such as infrastructure and hedge funds support a strong overweight.
Cash	●			Real yields are low and limit real returns.
Equities				
U.S.	●			Technology concentration remains extremely high, and we wait for a dip to add exposure.
Europe		●		Downgrade to neutral as low energy inventories leave Europe exposed to higher prices.
Japan			●	Remain overweight given the strong earnings outlook.
China			●	Reduce overweight position due to less clarity on the domestic growth outlook.
Asia (ex Japan & China)			●	Upgrade to a modest overweight as valuations have improved and domestic earnings growth is recovering.
Emerging markets (ex China)			●	Strong earnings growth and attractive valuations continue to support an overweight position.
Corporate Bonds				
U.S. investment grade	●			Narrow spreads offer limited buffer against any default risk.
U.S. high yield			●	While spreads are tight, high absolute yields appear attractive to income-seeking investors.
Emerging markets & Asia			●	Remain overweight as a weaker US dollar and high absolute yields appear attractive.
Alternatives				
Private credit	●			Yields are attractive and spreads are increasing, which points to an attractive entry point in the coming 12 months.
Private equity		●		We favor venture capital and growth strategies that offer pre-IPO exposure to AI growth themes.
Real estate			●	Following poor returns over the last 5 years, the property cycle is gradually improving. Depressed valuations offer an attractive entry point for long-term investors.
Infrastructure equity			●	Remain overweight as infrastructure offers broad exposure to AI-related growth with lower risk than other sectors.
Hedge funds			●	Overweight with a focus on strategies including macro and relative value.

For asset allocation, a weaker dollar argues for greater geographic and currency diversification. Dollar depreciation can enhance USD returns from international equities and bonds, while historically tending to provide a more supportive liquidity backdrop for emerging markets, commodities, Asian equities and local-currency bonds, where domestic fundamentals and real yields are likely to benefit.

Income has returned as an asset-allocation tool

As we have highlighted previously, one of the biggest changes for wealth portfolios is that fixed income can once again be owned primarily for income. When starting yields are meaningful, investors do not need a large decline in interest rates to generate a reasonable return from fixed income. This makes bonds strategically useful, even when we are uncertain about the exact path of central-bank policy. Overall, we remain neutral on bonds with a preference for fixed income assets with higher starting yields, including high-yield (HY), Asian and USD emerging market (EM) bonds.

From a portfolio construction perspective, this changes the question for investors. Rather than asking how much equity volatility they can tolerate, investors should be asking how much equity risk is actually required to meet their goals and objectives. For many wealth investors, the answer may be less than it was during the era of zero interest rates.

This does not mean equities are unattractive, and we remain neutral. It means the case for owning them should increasingly rest on earnings and long-term cash flow growth rather than on the assumption that lower discount rates will continually lift valuations. It also means investors approaching retirement, funding near-term liabilities or prioritizing income may be able to achieve their objectives with less equity risk than was required five or 10 years ago.

Portfolio implications: Combine equity growth with bond income rather than asking one asset class to do both jobs.

We remain generally constructive on risk assets, but favor portfolios with several independent return drivers. Fixed income can provide income and potentially defend against growth shocks. Equities remain essential for long-term real growth. Alternatives can help investors diversify their exposure to inflation, geopolitical and market-structure risks.

When combined, we believe investors should focus on the following themes to add value to their portfolios:

Stay invested, but broaden the portfolio

Economic and earnings growth remain supportive, but higher valuations add to the case for diversification.

Income matters again

Starting bond yields allow fixed income to contribute meaningfully to total portfolio returns.

Follow the AI investment dollar

The opportunity is moving from chips into data centers, cooling, power, grids, software and ultimately productivity.

Treat Asia as multiple investment cycles

China, Japan, Korea/Taiwan, India and Southeast Asia offer different policy, valuation, earnings and currency drivers.

Give alternatives a portfolio role

Private credit, infrastructure, hedge funds and private equity should each solve a specific portfolio problem.

I Equities

Earnings are key for the next phase of the equity cycle

Global equities enter Q4 with a supportive economic backdrop but demanding valuations. This matters because equity returns have three broad sources: earnings growth, dividends and changes in valuation. When valuations are already elevated, future returns become increasingly dependent on companies delivering the earnings growth embedded in market expectations.

That does not mean expensive markets must fall. High-quality businesses can remain expensive for long periods when their competitive advantages and earnings growth justify the premium. But high valuations leave little margin for disappointment. We therefore remain neutral on equities and expect earnings revisions, profitability and return on capital to matter more than simple multiple expansion.

Understanding the AI cycle

AI remains one of the most important structural investment themes in global markets, but the nature of the opportunity continues to change. The first phase was dominated by large U.S. hyperscalers such as Microsoft. In the second phase, advanced semiconductors and the scarcity of capacity became the dominant AI investment theme. The third phase is increasingly about the physical systems required to turn those chips into usable computing capacity.

More specialized chips require more advanced servers and networking. More servers require larger data centers. Higher rack densities require more sophisticated cooling and electrical equipment.

Data centers require enormous quantities of reliable electricity. And that electricity must be generated and transmitted through grids that in many countries were not designed for such rapid load growth. This is why we believe that AI should increasingly be viewed as a capital cycle rather than simply a technology-sector theme. The investment opportunity can extend into electrical equipment, industrial automation, data-center real estate, power generation, utilities, transmission, engineering and private infrastructure.

The central investment question is therefore shifting from how much will be spent on AI to who can earn attractive returns on that spending.

Beyond the initial winners

Diversifying away from excessive concentration does not necessarily imply a negative outlook for the leading U.S. technology companies. Their profitability, balance sheets and strategic position remain formidable. However, the next phase of the AI investment cycle creates a plausible path toward broader market leadership, which would be positive for overall equity markets.

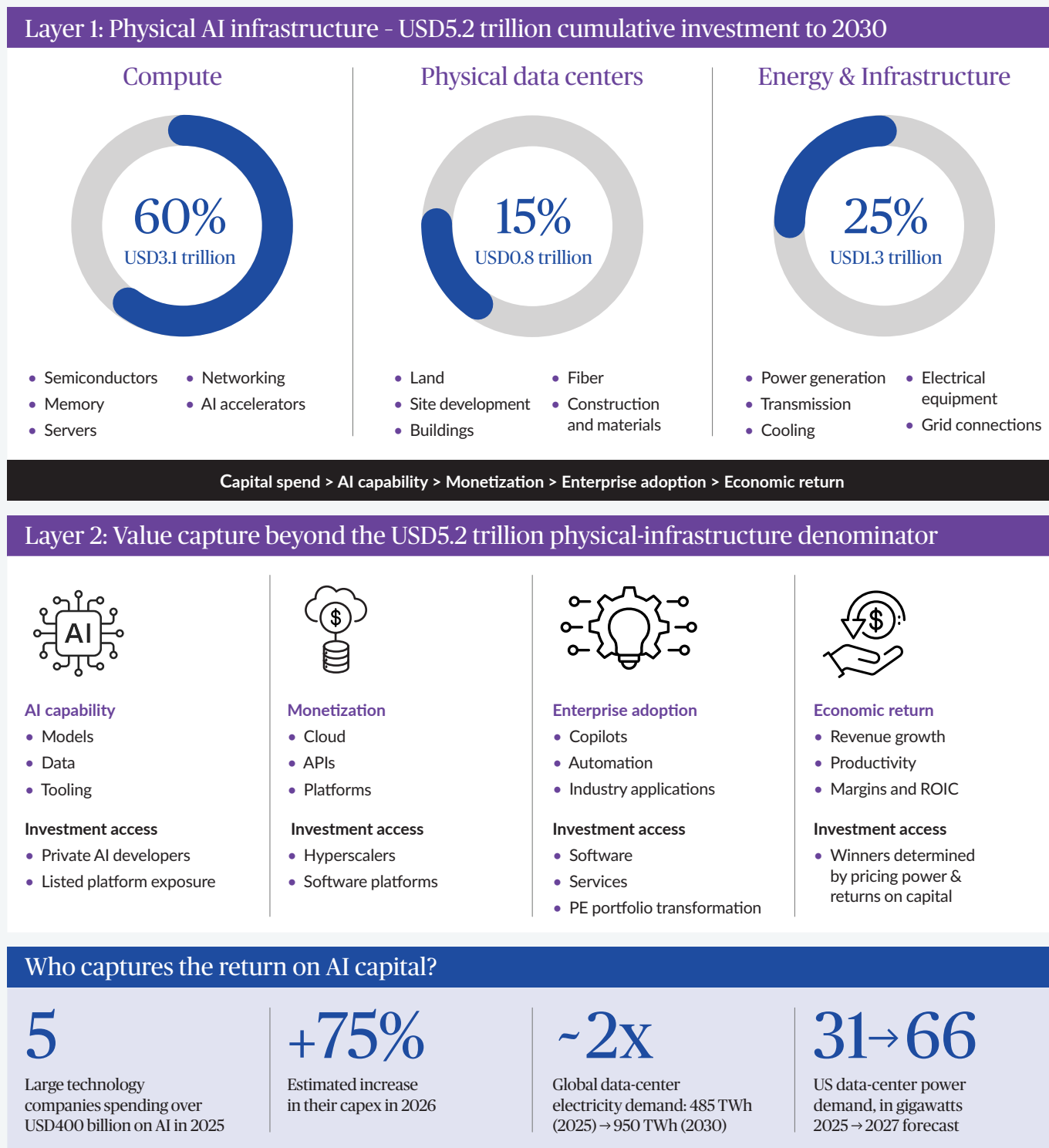
For example, industrials can benefit from electrical and automation demand; engineering companies can participate in grid and data-center construction; and financials can benefit from financing investment. The investment question is not whether AI wins, but how widely the economic benefits spread.

Figure 4

Capturing value in the AI capex cycle

Following the AI investment dollar

Where trillions of dollars of AI-related infrastructure spending is going – and where investors may capture returns



China, Japan, Korea/Taiwan, India and Southeast Asia offer different policy, valuation, earnings and currency drivers

Asia's strength is its diversity

For Asian wealth investors, there is a strong argument to not simply “buying Asia.” Asia is home to multiple markets with fundamentally different drivers, and combining them can improve diversification as well as returns.

China: Look beneath the headline economy

China continues to suffer from a difficult domestic growth picture, as property weakness and subdued household confidence remain constraints. However, it also contains world-class companies in advanced manufacturing, electric vehicles, batteries, technology and other strategic industries. This distinction between the macro economy and the listed equity market is important. A weaker economy can still produce attractive investment returns if valuations already reflect substantial pessimism and individual companies can deliver earnings growth. As a result, we remain overweight.

Japan: A different regime

Japan remains a key overweight, and we believe that the outlook is structurally different from that of the previous three decades. Corporate governance reform, greater emphasis on return on equity, rising shareholder distributions and positive nominal growth are changing corporate behavior.

According to its most recent outlook, the Bank of Japan expects the economy to continue growing moderately, supported in part by increased AI-related demand, while underlying inflation moves toward a level consistent with its 2% target.

For investors, this means that higher wages and prices can support companies with pricing power, while governance reform continues to encourage more efficient capital allocation.

Korea and Taiwan: At the center of the hardware cycle

Korea and Taiwan occupy strategically important positions in advanced semiconductor manufacturing, memory and electronic components. This makes North Asia a direct beneficiary of the global AI capital cycle. It also creates concentration risk: semiconductor demand, export controls, customer concentration and the possibility of eventual capacity oversupply all need to be monitored. Following our downgrade in June, we remain neutral on both markets.

India: Structural growth and improving valuations

India's demographic profile, infrastructure investment needs, maturing financial sector and economic outlook provide a powerful long-term backdrop. A strong economy is not automatically an attractive investment at any price, but valuations are more supportive following recent underperformance, and we remain overweight.

ASEAN: Diversification and physical AI build-out

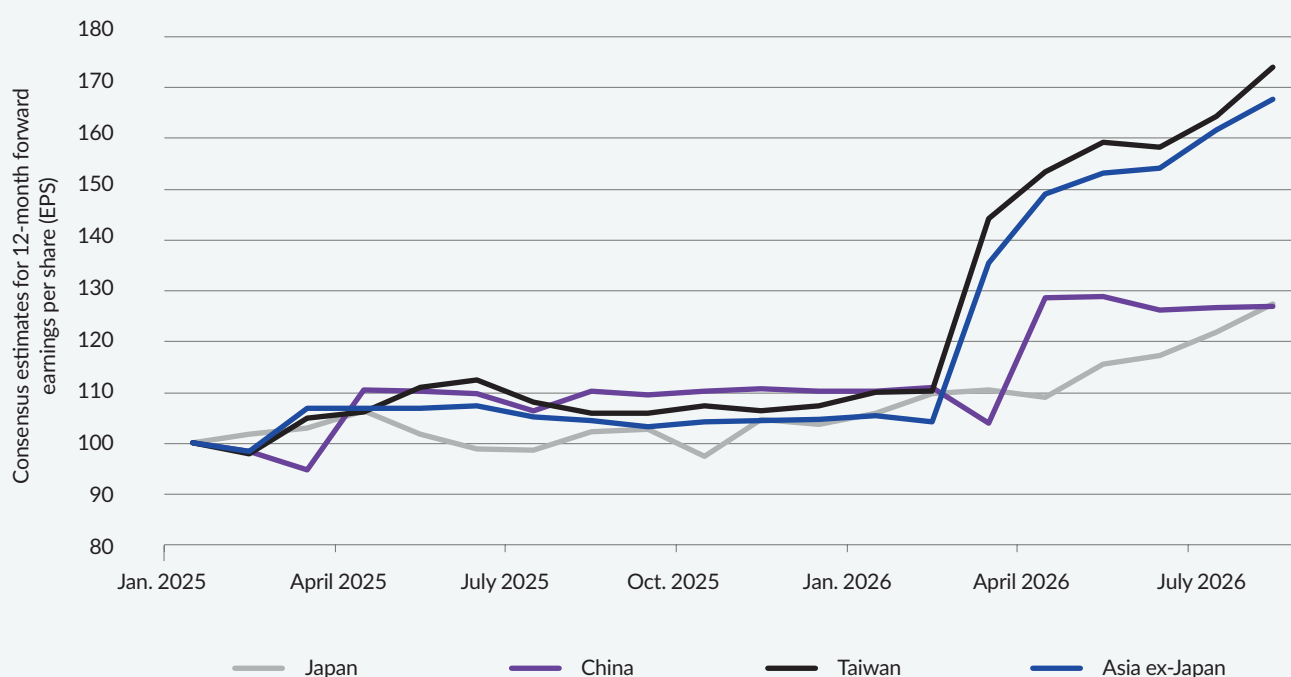
Southeast Asian economies are benefiting from supply-chain diversification, a recovery in domestic consumption and deepening financial markets. The expansion of data-center capacity in markets such as Malaysia and Singapore also adds another dimension. We believe that ASEAN should increasingly be viewed as an investment opportunity in its own right, rather than simply an alternative to China or a beta driver.

Figure 5
S&P 500 Cyclically Adjusted Price Earnings Ratio (CAPE)



Source: Robert J Shiller, Sept. 2026

Figure 6
Asian earnings expectations have surged in 2026



Rebased to 100 at Jan. 1, 2025
Source: Bloomberg, Sept. 2026

| Fixed Income

Income is back

The increase in bond yields in 2026 means that investors can now view bonds primarily in terms of the income they generate, rather than looking only at their potential to appreciate if central banks cut interest rates. Starting yield is a powerful component of medium-term bond returns, so today's higher yields improve the strategic case for fixed income, even if rates do not fall dramatically.

Figure 7

Real bond yields are in line with or above U.S. real yields

| 1.00%

Japan

| 1.18%

China

| 1.29%

Korea

| 1.38%

US

| 1.97%

Australia

| 2.51%

India

| 3.90%

Indonesia

This is particularly important for wealth investors seeking cash flow, approaching retirement or looking to reduce portfolio volatility. A bond allocation can once again perform a clear economic job rather than simply serving as an equity hedge.

High yields and falling yields are different investment ideas

Investors face two separate decisions. The first is whether current bond yields provide attractive income. The second is whether long-term interest rates are likely to decline materially. We have greater conviction in the first than the second. Inflation remains elevated in several economies, and sovereign borrowing requirements are substantial. Defense spending, aging populations, infrastructure investment, the energy transition and the AI build-out are all competing for capital. These forces can keep long-term yields higher and more volatile even if central banks move to reduce short-term policy rates. We therefore believe that it is possible – and prudent – to be constructive on fixed income without taking excessive duration risk.

Fiscal policy is becoming a market variable

For much of the previous decade, central-bank policy dominated bond-market discussions. However, fiscal policy is becoming harder to ignore, and persistent deficits increase the amount of debt that private investors must absorb. This raises the term premium required to hold long-dated bonds.

Source: Bloomberg, Sept. 2026

Figure 8

Weight of BB rated bonds in Bloomberg US Corporate HY Bond Index



Source: Bloomberg, Sept. 2026

Large deficits do not automatically imply a fiscal crisis. But the combination of high debt, greater issuance and less price-insensitive central-bank demand means investors should pay more attention to sovereign supply than they did in the era of quantitative easing.

Credit: Separate yields from spreads

Absolute yields for corporate credit are attractive, however spreads are low – especially for investment-grade (IG) bonds, which offers relatively little compensation for default risk. We remain neutral overall and have a preference for high-yield (HY) bonds which are offering an attractive absolute yield of around 7.2% as of Sept. 11.

HY bonds are also less sensitive to interest rate moves given their shorter duration, and the market is higher-quality and more diversified than it was in the past. Using the ICE BofA Global High Yield Index, 62% of the market is rated BB – the highest sub-investment-grade category – at the end of March 2026, compared with just 39% in 2007. In the same period, CCC-rated bonds have fallen from around 15% of the market to just 7%. This improvement partly reflects a migration of more speculative borrowers toward leveraged loans and private credit, leaving the public HY bond market with a stronger average credit profile. This does not eliminate default risk, but it means today's HY index contains substantially more higher-quality companies than the label "junk bonds" might suggest.

HY bonds also provide sectoral diversification, as technology and software represent a relatively small share of the market, limiting direct exposure to uncertainty around the impact of AI disruption on incumbent software business models and the rapidly increasing borrowing requirements of large technology companies. According to Bloomberg, the information technology sector accounts for only 5.4% of the U.S. high-yield corporate bond market as of Aug. 31, compared with 37.9% of the S&P 500. This creates an interesting portfolio complement: investors can retain exposure to AI and technology through public and private equity while using HY bonds to generate attractive income from a higher-quality, shorter-duration and more economically diversified pool of corporate borrowers. The distinction is increasingly relevant as technology companies issue much more IG debt to finance AI infrastructure.

Asian bonds: Yield, duration and currency

Asian investors have a wider opportunity set than U.S. dollar credit alone. China, India, Indonesia, Korea, Singapore and Australia offer exposure to different combinations of nominal yield, inflation, monetary policy and currency appreciation. For local-currency bonds, the return equation should be considered in three parts: starting yield, duration return and currency return. For wealth clients whose liabilities are spread across HKD, RMB, SGD and other Asian currencies, local bonds may also provide a closer match between assets and future spending.

I Alternatives

Give alternatives a role in your portfolio



For wealth investors who are starting to invest in alternatives, a useful starting point can be to define what their alternative allocation is expected to achieve.

Alternative investments group together assets with fundamentally different economics. Private credit has little in common with real estate; infrastructure performs a different job from private equity; and hedge-fund strategies themselves can have very different risk exposures. For wealth investors who are starting to invest in alternatives, a useful starting point can be to define what their alternative allocation is expected to achieve.

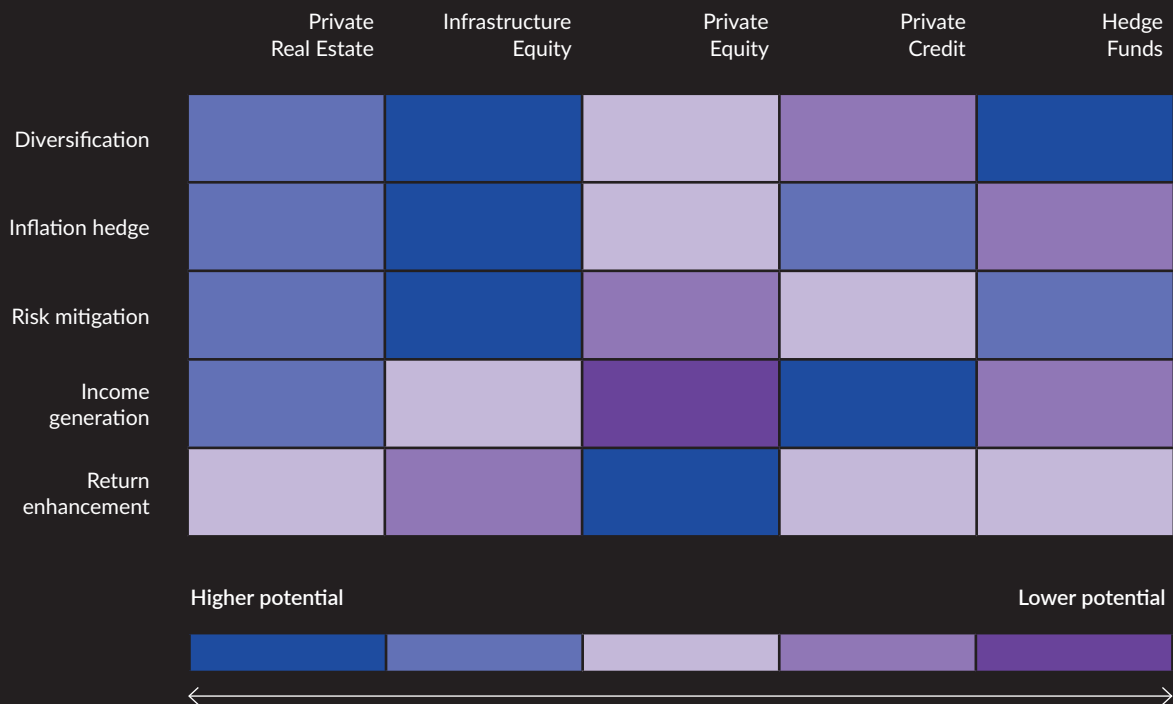
We summarize the properties of each asset class in Figure 9. Wealth investors can use this as a simple tool to guide their investment decisions, depending on their own circumstances and needs.

Private equity: Value creation and exposure to innovation and growth

While we are neutral on private equity, we believe that it remains an attractive strategic allocation, especially for investors looking to capture superior growth opportunities versus public equities. An increasing share of corporate value creation is taking place before companies reach public markets. Companies are staying private for longer, allowing private equity and venture capital investors to participate in more of the revenue growth, market expansion and operational improvement that public-market investors can only access after an IPO. This growth opportunity is reflected in a February 2026 analysis by Jay Ritter of the University of Florida, who looked at the first-day IPO performance of over 2,000 venture-capital-backed technology IPOs since 1980 and calculated that the average

Figure 9

What role can different alternatives play in a portfolio?



Source: Chubb Wealth, Sept. 2026

return on the first day of listing was 37.3%, while returns over the subsequent three years were only 26.5%.

AI makes this access particularly relevant today. Many of the companies developing the next generation of AI models, applications and infrastructure remain private, meaning investors restricted to listed markets may only gain access after a substantial portion of their early growth and valuation creation has occurred.

Private equity can also capture AI returns in a second way: by introducing AI into existing portfolio companies to increase revenues, margins and productivity. McKinsey finds that private equity-backed businesses embedding AI deeply across products and new business creation traded at substantially higher revenue multiples than companies using AI mainly for incremental productivity improvements (McKinsey, “Beyond AI productivity: Creating value in private equity”, June 2026). For wealth investors, private equity therefore provides access not only to potentially

high-growth AI companies before IPO, but also to the broader value created as AI transforms established businesses.

Infrastructure: A diversifier and the physical economy behind AI

As we highlighted in our Q3 outlook, “A bumpy road ahead”, infrastructure sits at the intersection of several long-duration themes: electrification, energy security, renewable generation, grid modernization and digital infrastructure. AI materially increases the scale and urgency of that investment.

A data center is ultimately a physical asset. It requires land, buildings, fiber, cooling, electrical systems and reliable power. The growth of AI therefore creates investment opportunities in assets that may initially appear far removed from technology – such as generation, transmission, transformers, switchgear, cooling systems and storage. Infrastructure remains our favored allocation in alternatives due to the combination of contracted or regulated cash flows, inflation protection and exposure to structural capital expenditure.

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Room 4801, Central Plaza,
18 Harbour Road,
Wan Chai, Hong Kong

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