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AIP

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An uneasy truce

Further de-escalation of the Middle East conflict and a softening of oil prices remain the base case. However, bouts of market volatility are likely in the absence of a firm US-Iran deal. Overweight equities and gold. Also, Overweight US and Asia ex-Japan equities. Strong earnings are expected to support further gains in US equities, led by the technology sector. Asian equities should benefit from renewed USD weakness and robust earnings. Oil price scenarios are key. Logistical challenges are expected to result in WTI crude oil settling in the USD 80-90/bbl range over the next 1-3 months even if the Strait of Hormuz fully reopens. Renewed conflict escalation and a resulting rise in oil prices remain key risks for now.

Equities

Overweight global equities as AI developments continue to make progress, sustaining solid earnings growth in the technology sector. This underpins overweight view on the US and Asia ex-Japan equities, where tech is the largest sector. Within Asia ex-Japan, overweight Taiwan, consistent with the AI investment theme driving strong growth in the semiconductor industry.

Fixed Income

Fixed income should continue as core holding. Within the asset class, continue to overweight emerging market US dollar and local currency bonds, while maintaining an Underweight stance on developed market government bonds. Corporate fundamentals remain resilient, with leverage metrics largely stable and interest coverage ratios strong. This underpins preference for credit over rates.

Currencies

The three-month forecast for the US Dollar Index (DXY) is 96 from 100, with 12-month forecast unchanged at 96. Assuming the current conflict broadly de-escalates in the coming three months and energy prices moderate, the outlook points to further underperformance of the USD, and the 12-month target illustrates that most of the adjustment is expected to be front-loaded.

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