AIA Investments

Quarterly Investment Insights

2nd Quarter 2026

Cautious Optimism – Navigating Risks amidst Resilient Earnings

TABLE OF CONTENTS

Key Takeaways

- The first half of the year saw geopolitical tensions, sticky inflation and shifting rate expectations, yet markets remained resilient as investors focused on strong corporate earnings and economic fundamentals.
- The U.S. Federal Reserve (Fed) has adopted a more hawkish stance, prioritizing controlling inflation over growth. As a result, interest rates are likely to stay higher for longer, creating an environment with periodic market volatility.
- The Artificial Intelligence (AI) investment wave is evolving beyond chipmakers, rotating to infrastructure, energy providers and server assemblers, with Asia playing a key role across the AI supply chain and adoption.
- Broader market participation beyond mega-cap tech, attractive bond yields and China's economic transformation all reinforce the importance of staying invested and maintaining a diversified portfolio focused on long-term opportunities.

[AIA – INTERNAL]

LOOKING BACK: A STRONG FIRST HALF DESPITE A COMPLEX BACKDROP

The first half of the year was another reminder that financial markets and headlines do not always move in the same direction.

Investors navigated a steady stream of uncertainties, from geopolitical tensions in the Middle East and evolving trade policies, to ongoing questions over inflation and the direction of interest rates. In March, tensions involving Iran briefly pushed oil prices higher and reignited concerns that inflation could remain persistent. Yet each volatility period proved relatively short-lived as investors refocused on corporate earnings and economic fundamentals.

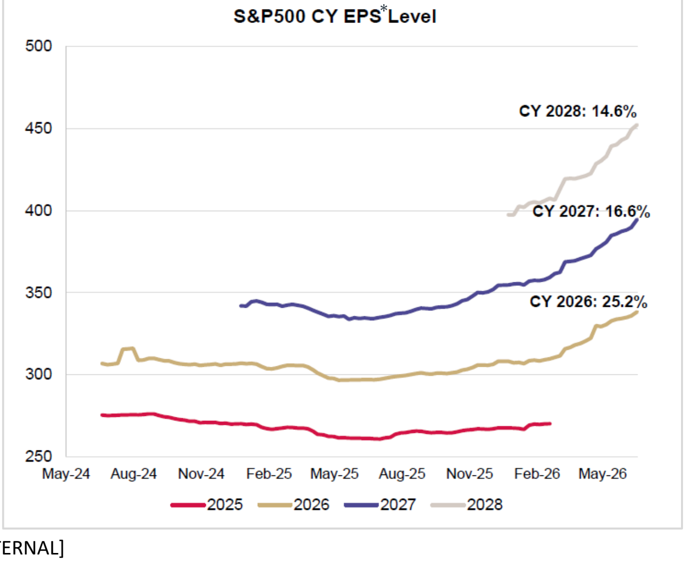
Monetary policy also remained firmly in the spotlight. While many investors began the year expecting a faster pace of interest rate cuts, central banks adopted a more measured approach. The Fed kept policy rates unchanged for much of the first half, signaling that it wanted greater confidence that inflation was moving sustainably towards its target before easing policy. Elsewhere, major central banks such as the European Central Bank and the Bank of England also balanced slowing economic growth against sticky inflation, highlighting that the path towards lower interest rates is unlikely to be a straight line.

Against this backdrop, financial markets remained remarkably resilient. The S&P 500 gained around 10% during the first half of the year, supported not only by artificial intelligence optimism but also by healthy corporate earnings. As shown in the chart below, S&P 500 earnings are expected to grow more than 25% in 2026, followed by another two years of double-digit growth, reinforcing the fundamental case for equities.

Beneath the headline returns, however, the rally remained relatively concentrated. At one stage, the 10 largest companies in the S&P 500 accounted for close to 40% of the index's total market capitalization, illustrating how much of the market's performance continued to be driven by a handful of mega-cap technology companies. Towards the end of the half, encouraging signs began to emerge as market participation broadened, with more sectors and companies contributing to returns. While concentration remains elevated by historical standards, this is a positive step towards a healthier and more balanced market.

Fixed income also regained investors' attention. Although expectations for interest rate cuts were repeatedly pushed back, bond yields remained well above the levels seen during the previous decade. Higher starting yields once again allowed investors to earn attractive income from high-quality bonds while reinforcing their role as an important source of diversification during periods of market uncertainty.

Resilient Markets Continue to Be Backed by Strong Earnings



*CY = Calendar Year
EPS (Earnings per share) measures a company's profitability by indicating how much money a shareholder would receive for each share they own if all profits were distributed.

Source: FactSet, 26 June 2026. Consensus EPS Estimates

[AIA – INTERNAL]

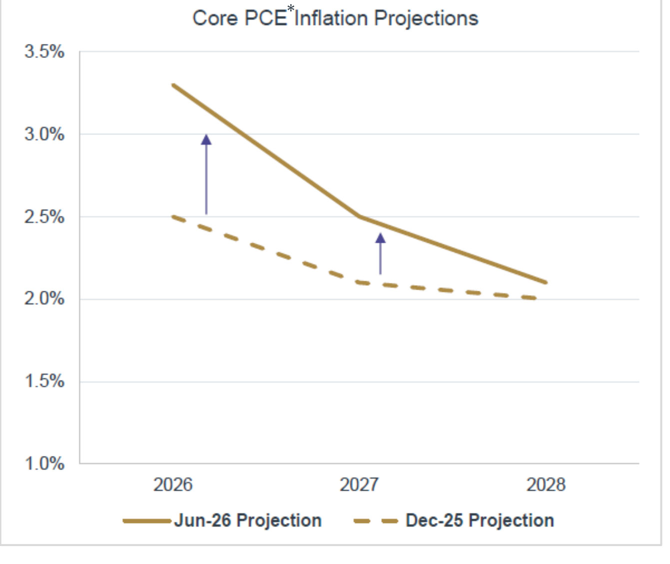
A MORE HAWKISH FEDERAL RESERVE CHANGES THE MARKET NARRATIVE

One of the biggest developments during the quarter was the appointment of Kevin Warsh as Chair of the U.S. Federal Reserve. Many investors had expected the new Fed leadership to begin lowering interest rates relatively soon to support economic growth. Instead, Warsh has adopted a more cautious stance, signaling that bringing inflation sustainably under control remains the Fed's top priority before considering any policy easing.

This shift is reflected in the market's expectations. As shown in the chart on the left, the Fed's latest projections point to higher core inflation over the next few years than previously anticipated. At the same time, interest rate expectations have changed significantly. Earlier this year, markets were pricing in multiple rate cuts by the end of 2026. Today, expectations have swung in the opposite direction, with investors now anticipating around one additional rate hike instead (Chart on the right). This sharp repricing highlights how quickly market sentiment can change when the outlook for inflation and monetary policy shifts.

For investors, this serves as a reminder that the path of interest rates is unlikely to be straightforward. If inflation remains sticky, borrowing costs could stay elevated for longer, creating periods of volatility across both equity and bond markets. Over the coming months, the key question will be whether the Fed maintains this more hawkish stance or whether incoming inflation and labour market data provide room for a more accommodative policy approach.

Fed Raises Inflation Expectations



Markets Reprice the Path of Interest Rates

* PCE (Personal Consumption Expenditures), also known as consumer spending, is a measure of the spending on goods and services by people of the U.S.

Source: (LHS) The Federal Reserve, Core PCE Inflation Projections, Dec-25 and Jun-26 Projections. (RHS) Bloomberg, Macrobond, 30 June 2026. US Overnight Index Swaps (OIS) pricing for end-2026.

Historical market trend is not necessarily indicative of future market trends.

BEYOND THE AI HYPE – WHERE COULD THE NEXT OPPORTUNITIES BE?

Artificial intelligence (AI) has been one of the biggest drivers of financial markets over the past two years. Much of the attention has focused on companies producing the chips and hardware needed to power AI. As businesses raced to build larger data centers and expand computing capacity, semiconductor companies and infrastructure providers naturally became some of the market's strongest performers.

However, the investment story is beginning to evolve.

Building the infrastructure is only the first step. The next phase is likely to be defined by how businesses put AI to work. As the technology becomes more widely available, the companies that can use it to improve productivity, enhance customer experience or develop new products may become the next group of beneficiaries.

There are already signs of this happening. In healthcare, AI is helping doctors analyse medical images more efficiently and supporting researchers in identifying potential drug candidates. Banks are increasingly using AI to detect suspicious transactions, improve customer support and automate routine processes. Manufacturers are adopting AI to improve quality control, optimize production schedules and reduce downtime by predicting when equipment requires maintenance. These may not attract the same headlines as the latest AI chip, but they demonstrate how the technology is gradually becoming part of everyday business operations.

Asia also has an important role to play in this next stage of AI development.

The region is deeply embedded in the global technology supply chain. Taiwan remains a leader in advanced semiconductor manufacturing, while South Korea plays a critical role in memory chip production. Across Southeast Asia, countries such as Malaysia, Vietnam and Singapore continue to attract investment in semiconductor packaging, testing, advanced manufacturing and data center infrastructure. As demand for AI computing power grows, many businesses across the region stand to benefit from increased investment throughout the supply chain.

Beyond manufacturing, AI adoption is accelerating across Asia's economies. Governments are investing in digital infrastructure, businesses are embracing automation, and consumers are becoming more comfortable using AI-enabled services. With a large digital population and a growing technology ecosystem, the region is well placed to participate not only in producing AI technologies but also in applying them across a wide range of industries.

That said, investors should remember that new technologies rarely progress in a straight line. Expectations for AI remain high and share prices can be volatile as markets react to earnings and new developments. Rather than focusing solely on a handful of well-known technology companies, it may be worth considering businesses that are using AI to strengthen their competitive position and improve long-term profitability.

The next chapter of AI is unlikely to be defined by who builds the technology alone, but by who uses it most effectively.

[AIA – INTERNAL]

CHINA: A NEW GROWTH STORY IS TAKING SHAPE

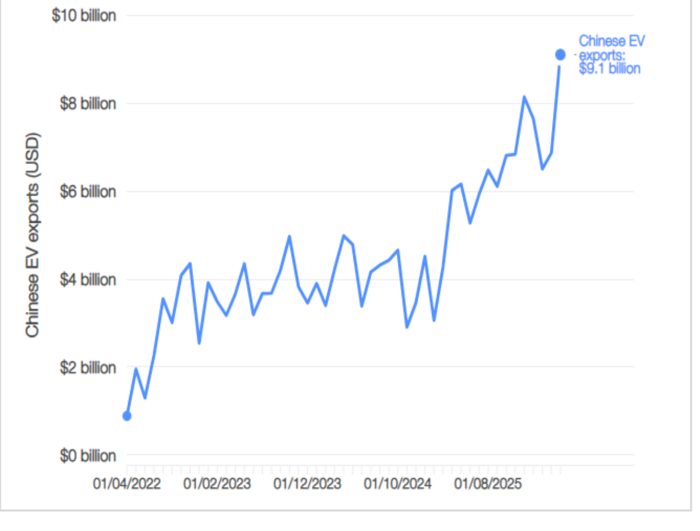
China's economy continues to adjust to a changing growth model. While the property sector remains under pressure and consumer confidence has yet to fully recover, other parts of the economy are showing encouraging momentum. Advanced manufacturing, electric vehicles, renewable energy and digital technologies are becoming increasingly important contributors to growth, reflecting the country's push towards higher-value industries.

This transformation is becoming increasingly visible in China's export data. As shown in the charts below, exports of electric vehicles have risen steadily over the past few years, while monthly solar power exports reach a record 68 gigawatts in March 2026. These trends highlight China's growing competitiveness in industries linked to the global energy transition and demonstrate how innovation-led sectors are becoming increasing important drivers of economic growth.

Beyond clean energy, China continues to invest heavily in artificial intelligence, robotics and semiconductor capabilities, supported by government initiatives to strengthen technological self-sufficiency. Rather than relying on the traditional drivers of real estate and infrastructure, the next phase of China's growth is likely to be underpinned by innovation, productivity and domestic consumption.

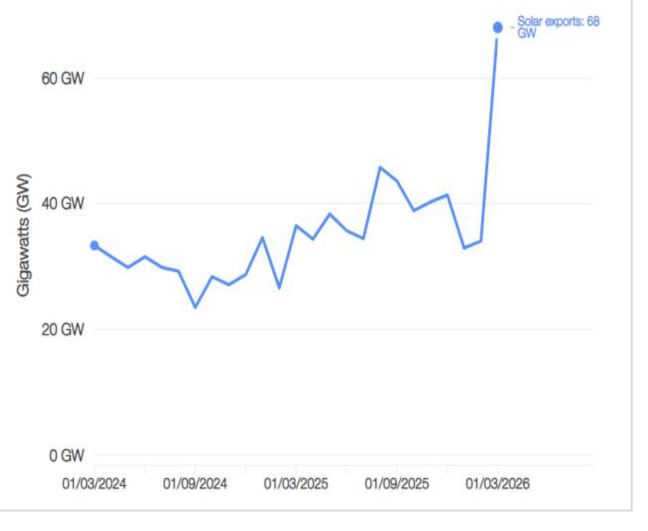
For investors, this means looking beyond the broader economic headlines. While short-term challenges are likely to persist, China's evolving economic landscape is creating opportunities in sectors aligned with its long-term strategic priorities. A selective approach, focused on companies with strong fundamentals and exposure to these structural trends, may be better positioned to benefit as the economy continues its transformation.

China's Total Exports of Electric Vehicles



Source: Ember, as of May 2026.

China's Monthly Solar Power Exports



Source: Ember, as of May 2026.

[AIA – INTERNAL]

WHAT'S NEXT

The second half of the year is likely to bring both opportunities and challenges. Markets will remain sensitive to inflation, central bank decisions and geopolitical events, all of which could lead to short-term volatility. However, the broader outlook remains supported by resilient corporate earnings, continued investment in artificial intelligence and ongoing innovation across industries. As market leadership gradually broadens beyond a handful of technology stocks, investors may find opportunities across a wider range of sectors and regions. Rather than reacting to every headline, staying focused on long-term fundamentals and maintaining a diversified portfolio remains key to navigating an evolving investment landscape.

AIA GROUP INVESTMENTS HOUSE VIEW

		- -	-	=	+	+ +	House View
Equities	United States				■		• Maintain moderate overweight position in Global Equities relative to Bonds. • Remain invested and focus on areas where valuations remain attractive. Key themes include energy technological self-sufficiency, AI leaders, and opportunities arising from an increasingly multipolar global economy. • Earnings fundamentals in U.S. and Asia ex-Japan are expected to remain resilient, with both regions poised to deliver double-digit growth in 2026 and 2027. • With oil prices appearing to have peaked, easing energy costs could provide a supportive backdrop for global equity markets.
	Europe		■				
	Japan			■			
	Asia ex Japan				■		
Fixed Income	U.S. Investment Grade			■			• Maintain neutral view on Investment Grade bonds. While the macro environment remains supportive, the market is likely to face increased supply from significant AI-related bond issuance, which may limit upside.
	U.S. High Yield		■				• Remain underweight High Yield (HY) as spreads remain tight. Year-to-May, CCC-rated U.S. HY has lagged BB-rated U.S. HY reflecting investor caution in taking HY risk.
Cash	Cash			■			• Prefer to stay invested, rather than hold excess cash, while keeping sufficient liquidity to take advantage of attractive long-term investment opportunities as they arise.

All views, opinions, and projections are for informational purposes only, and as the date of this publication and subject to change without notice.

Investment is subject to investment risk, including the possible loss of the principal amount invested. The information herein should not be used as the basis of any investment decision, and AIAIM and AIA Group Limited, their respective officers and employers accept no liability for any loss as a direct or indirect consequence of the reliance of the information herein.

-- : Underweight
- : Moderate Underweight
= : Neutral
\+ : Moderate Overweight
++ : Overweight

[AIA – INTERNAL]

Stewardship Insights:

Exploring Investment Excellence with

WELLINGTON MANAGEMENT®

1. **Q2 2026 was marked by heightened geopolitical tensions, particularly in the Middle East, yet global equity markets remained remarkably resilient and recovered quickly. From Wellington's perspective, what has been driving this resilient and what key factors will determine whether it can continue into the second half of the year?**

   Despite concerns of disruption from constrained global oil supply, global equities rebounded sharply in the second quarter, supported by a recovery in risk appetite, robust corporate earnings, and continued investment in AI-related infrastructure. Market leadership evolved over the quarter, with technology and AI-linked companies leading early in the period before performance broadened to other areas of the market in June. We believe a broadening of the current environment will create attractive opportunities for active investors, as valuation dispersion widens meaningfully across sectors and stocks.

   As we look ahead, we focus on selecting stocks with two enduring qualities: high returns on capital and the stewardship to sustain those returns for years to come, rather than being overly focused on the second half of the year. If we can identify management teams and boards skilled at allocating capital, prepared to navigate a variety of environments and proven at adapting to changing times, we don't need to predict the next quarterly earnings report or the incremental macroeconomic datapoint. The portfolio is constructed to reduce country, sector, and style biases, so that stock-specific factors are the main drivers of risk and return.

Disclaimer: Any specific mention of any securities and sectors are for illustration purposes and does not consider as recommendations. All the material is provided by Wellington Management as of July 2026.

[AIA – INTERNAL]

2. **With a concentrated portfolio of around 40 stocks in AIA New Multinationals Fund, every position matters. What characteristics does Wellington looks for before a company earns a place in the portfolio, particularly in today's market environment where valuations are rich?**

We maintain a strong buy discipline, with a high bar for inclusion of stocks within the fund. To be held in the fund, a company must have two enduring qualities: high returns on capital and the stewardship to sustain those returns for years to come. The team defines stewardship as how companies balance the interests of all stakeholders in the pursuit of sustainable financial returns. The best stewards require strong management teams, durable governance structures, thoughtful allocation of capital and resources, a long-term orientation, and consideration of all stakeholders. The team believes strong stewardship can help companies lower the cost of capital, become more durable and resilient, and sustain returns on capital over time. There is a strong new ideas pipeline and an active watchlist of companies that are monitored for portfolio inclusion. The team seeks to use capital efficiently without duplicating exposures to sectors or factors.

We do the reverse for our sell discipline, where we assess that there is a material deterioration in either the financial returns or the stewardship commitments of a business, the position is eliminated immediately and in full. Since inception, the strategy has had a high success rate of eliminating businesses which have subsequently underperformed the market.

Given the diversity of stocks in the portfolio, stock valuations do not drive investment decisions but are used as an input into position sizing, with the team favouring positions whose current valuation appears more favourable relative to their historical valuation. Stocks that are trading at the high end of their historical valuation (using relative price/earnings) will represent smaller active positions in the portfolio, and vice versa with stocks trading at the low end of their historical valuation representing larger positions. This also helps New Multinationals' investors have diversification in their return streams.

Disclaimer: Any specific mention of any securities and sectors are for illustration purposes and does not consider as recommendations. All the material is provided by Wellington Management as of July 2026.

3. Artificial Intelligence continues to be one of the strongest investment themes, with companies committing record levels of capital spending. From Wellington's perspective, are we still in the early stages of this structural opportunity, or should investors be more selective?

Market enthusiasm for AI CAPEX has been one of the core drivers of market performance over most of 2025 and 2026. However, we began to see an inflection point towards the end of 2025 and through parts of 2026, as the market broadened away from the dominant AI theme due to concerns with excessive valuations, and re-engaged with high quality companies which now trade at attractive valuations relative to the market. While we do not have a view on the duration of this current cycle, we continue to hold companies with strong fundamentals and earnings outlooks which we think should drive stock performance over the long term, while maintaining significant diversification away from concentrated indices.

We continue to find attractive opportunities in both AI and non-AI exposed companies. Within the AI supply chain we have focused on companies that are model-agnostic and exposed to both training and inference, where we see better odds of durable competitive advantage. This led to us initiating positions in chip-design software developer Cadence Design Systems, semiconductor designer AMO, and connectivity components provider Amphenol. Across technology, we favor engineering-led organizations, which we believe are better positioned to anticipate customer needs and reinvest effectively during this period of rising capital intensity.

Looking ahead, we believe the fund continues to be well positioned for increased market volatility. Our investment process and philosophy mean our portfolio consists of high-quality companies with sustainable returns on capital, healthy competitive moats, strong balance sheets, and superior stewardship that should enable them to remain resilient and adaptable through the market cycle. In addition, we think the portfolio's balance of both high-quality AI and non-AI companies will be a source of resiliency during AI-cycle related volatility in the market.

Disclaimer: Any specific mention of any securities and sectors are for illustration purposes and does not consider as recommendations. All the material is provided by Wellington Management as of July 2026.

[AIA – INTERNAL]

4. **Looking ahead to the second half of the year, where do you see the most compelling opportunities for long-term investors? Conversely, what is the one risk that you believe markets may be underestimating, and how is Wellington positioning the portfolio to navigate it?**

The recent oil price shock has begun to push medium-term inflation expectations higher, increasing the possibility that central banks may need to resume raising interest rates. This could prove supportive for our financial holdings, which have historically benefited from a higher-rate environment, as they did in 2022. That said, our portfolio is constructed to minimize country, sector, and style biases, so we continue to expect stock-specific factors to be the primary driver of both risk and returns.

As mentioned previously, our investment edge does not come from attempting to predict the next macroeconomic development or market inflection point. Instead, we seek to identify management teams and boards that are exceptional allocators of capital, capable of navigating a wide range of economic environments and adapting to changing conditions. By investing alongside these businesses, we can rely on the companies themselves to navigate an uncertain macro backdrop.

Indeed, we believe our stewardship edge becomes even more valuable in a more dynamic market environment. Increased volatility driven by policy changes, geopolitical developments, and technological disruption places a premium on companies with empowered boards, disciplined capital allocation, and strong executive leadership.

Ultimately, we continue to believe the most compelling opportunities for long-term investors lie in owning high-quality businesses that combine sustainably high returns on capital with management teams that are exceptional stewards of shareholder capital.

Disclaimer: Any specific mention of any securities and sectors are for illustration purposes and does not consider as recommendations. All the material is provided by Wellington Management as of July 2026.

Disclaimer

AIA Investment Management Pte. Ltd. This document/presentation has been prepared for information purposes only and does not have regard to the specific investment objectives, financial situation and particular needs of any persons. Neither should this document be construed as an offer or the solicitation of an offer, recommendation or solicitation to enter into any transaction or adopt any hedging, trading or investment strategy, in relation to any securities or other financial instruments issued or managed by AIA Investment Management Private Limited ("AIAIM") or its affiliates (collectively the "AIA Group") in any jurisdiction in which such offer is not authorised to be made to any person. Nothing in this document/presentation should be construed as investment, tax, legal or other advice. References to specific securities are presented to illustrate the application of our investment philosophy only and are not to be considered as recommendation by the AIA Group. The information herein should not be used as the basis of any investment decision. This document/presentation is not research material, and it has not been prepared in accordance with legal requirements designed to promote the independence of investment research. All views expressed and references to specific securities are included for illustrations only and does not necessarily represent the views of every function within the AIA Group. No representations or warranties are given as to the reliability, accuracy and completeness of the information. Opinions, projections, estimates and other information presented in this document/presentation are solely those of AIA Group as at the date of this document/presentation and subject to change without notice. The AIA Group may have interests in the securities or instruments mentioned in this document/presentation. Past performance figures, and any economic and market trends or forecast, are not necessarily indicative of future performance of any strategy or portfolio. Investment is subject to investment risk, including the possible loss of the principal amount invested. AIAIM and the AIA Group, their respective officers and employees, accept no liability for any damage or loss, including loss of profit, whether direct or indirect or consequential in respect of the use or reliance of any information contained herein and whether arising as a result of AIAIM's negligence or otherwise. You may wish to seek advice from a financial adviser before making a commitment to invest. You should consider carefully whether an investment is suitable for you in light of your own circumstances, financial resources and entire investment programme. This document/presentation may only be used and/or received in accordance with the applicable laws in your jurisdiction. AIA Investment Management Private Limited (UEN Registration No. 201616304H).