

AIA Investments

Quarterly Investment Insights

3rd Quarter 2026

Resilience in a Changing Investment Landscape

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Key Takeaways

- Strong earnings kept equities resilient, but tighter monetary conditions, energy prices and geopolitical risks created a more selective investment environment.
- Higher-for-longer narratives returned to the fore, weighing on bonds while creating more attractive income opportunities for fixed-income investors.
- Renewed pressure from inflation, tighter policies, and rising bond supply pressured bond markets, but higher yields enhanced income opportunities across fixed income.
- AI innovation remained strong, but the rise of agentic AI put safety, governance and responsible adoption firmly in the spotlight.

[AIA – INTERNAL]

CORPORATE RESILIENCE AMID TIGHTER POLICY AND GEOPOLITICAL TENSIONS

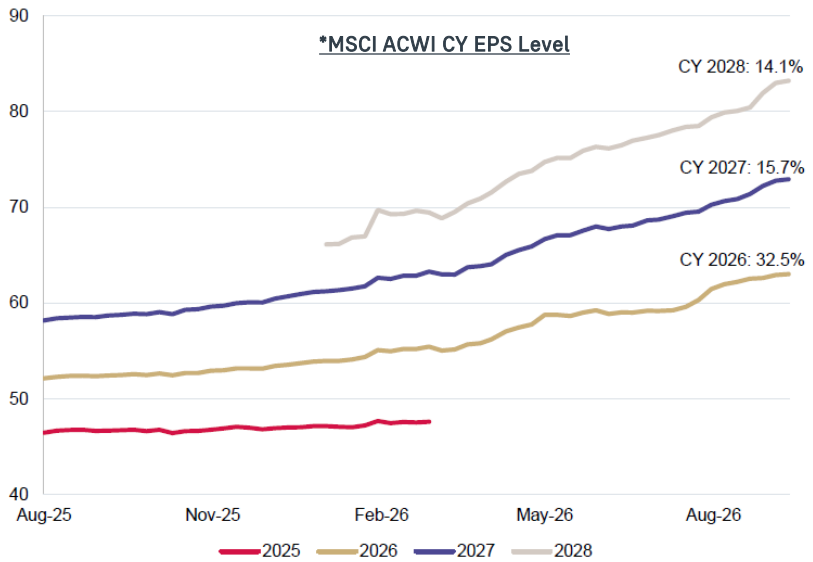
Global financial markets remained resilient in the third quarter, as strong corporate earnings and a supportive macroeconomic backdrop helped offset renewed geopolitical tensions, higher energy prices and tighter monetary policy. Equity markets generally delivered positive returns, supported by robust earnings growth, particularly across the Technology, Energy and Financials sectors. Earnings expectations for 2026 continued to improve, especially in the U.S. and emerging markets, helping to moderate valuations even as several major equity indices reached new highs. Artificial intelligence remained an important market theme, with continued investment in AI infrastructure supporting earnings across semiconductors, hyperscalers and software companies.

Among developed markets, Japan stood out, supported by healthy earnings growth, accelerating share buybacks and continued corporate-governance reforms. U.S. equities also advanced, with the S&P 500 reaching several record highs during the quarter. Emerging-market equities, meanwhile, experienced some volatility following a semiconductor sell-off in July, although Asian and emerging markets remained supported by the strong gains achieved earlier in the year. European equities lagged other major markets as investors weighed more modest earnings momentum against higher interest rates and bond yields. While increased fiscal spending and an improving growth outlook provided support to areas such as defense and infrastructure, Europe offered less direct exposure to the AI investment theme than the U.S. and parts of Asia.

Geopolitical developments also returned to the forefront. Escalating tensions in the Middle East disrupted energy markets and pushed oil prices sharply higher, renewing concerns over inflation and the global growth outlook. Against this backdrop, the U.S. Federal Reserve raised interest rates in September, adding further pressure to government bonds and reinforcing expectations that interest rates could remain higher for longer. Higher bond yields also influenced equity market leadership. Value stocks outperformed growth stocks as rising discount rates weighed on longer-duration growth companies, while interest-rate-sensitive segments such as small-cap equities and real estate investment trusts faced greater pressure.

Overall, Q3 highlighted the resilience of global equities, but also a changing investment environment. Strong earnings and AI-related investment continued to provide support, while higher interest rates, elevated energy prices and geopolitical uncertainty reinforced the importance of diversification and selectivity across markets and sectors.

Global Corporate Earnings Remained Strong Despite Headwinds



Past performance and projected performance for 2028 are not necessarily indicative of future performance. Investors cannot invest directly in an index. Source: Factset, as of 11 Sep 2026. *MSCI All Country World Index

[AIA – INTERNAL]

MONETARY POLICIES TURNED MORE RESTRICTIVE

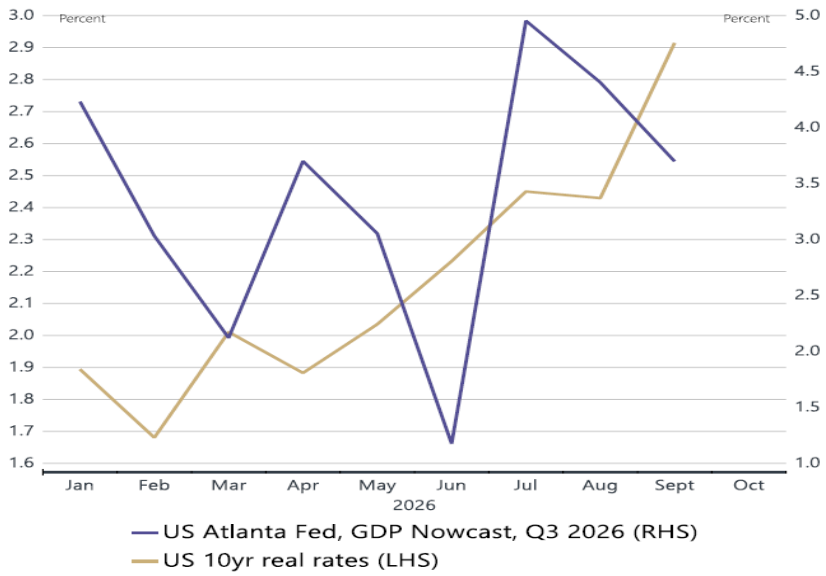
The investment backdrop became more challenging in the third quarter as escalating tensions in the Middle East drove energy prices higher, reigniting inflation concerns and prompting major central banks to adopt a more hawkish stance. At the same time, resilient economic activity gave policymakers greater scope to keep monetary policy restrictive. In the U.S., the Federal Reserve raised the federal funds target range by 25 basis points to 3.75%–4.00% in September, its first rate increase since 2023. The move marked a shift away from earlier expectations for lower interest rates, as policymakers focused on the inflationary impact of higher energy prices alongside continued strength in domestic demand.

With economic activity and the labour market remaining resilient, expectations increasingly shifted towards interest rates staying higher for longer. Other major central banks also tightened policy. The European Central Bank raised its deposit rate by 25 basis points to 2.50%, as higher energy costs complicated the path back towards its inflation target. The Bank of Japan lifted its policy rate to 1.25%, continuing its gradual move away from years of ultra-low interest rates as a weaker yen and higher oil prices added to import costs. In contrast, the Bank of England held rates at 3.75%, taking a more cautious approach despite some policymakers favouring an increase.

The shift towards tighter monetary policy put significant pressure on government bond markets. Yields rose across major developed markets as investors adjusted to the prospect that borrowing costs could remain elevated for longer. U.S. Treasury yields climbed to multi-year highs, while government bonds in Europe, the UK and Japan also came under pressure. Corporate bonds proved relatively more resilient for much of the quarter, supported by solid corporate fundamentals and attractive income levels. However, the sharp rise in government bond yields ultimately weighed on total returns. High-yield bonds held up better than investment-grade credit on a total-return basis, helped by their higher income and lower sensitivity to movements in interest rates.

Overall, Q3 marked an important change in the market narrative. Resilient economic growth remained supportive, but renewed inflation pressures challenged expectations for easier monetary policy. For bond investors, the return of higher-for-longer interest rates meant greater near-term volatility, while higher yields also improved the income available across fixed-income markets.

Strong U.S. Economic Growth and Continued Investments in AI has Fuelled Significant Repricing of Real Rates



Source: Macrobond, AIA Investments

Past performance and market trends/conditions are not necessarily indicative of future performance and market trends.

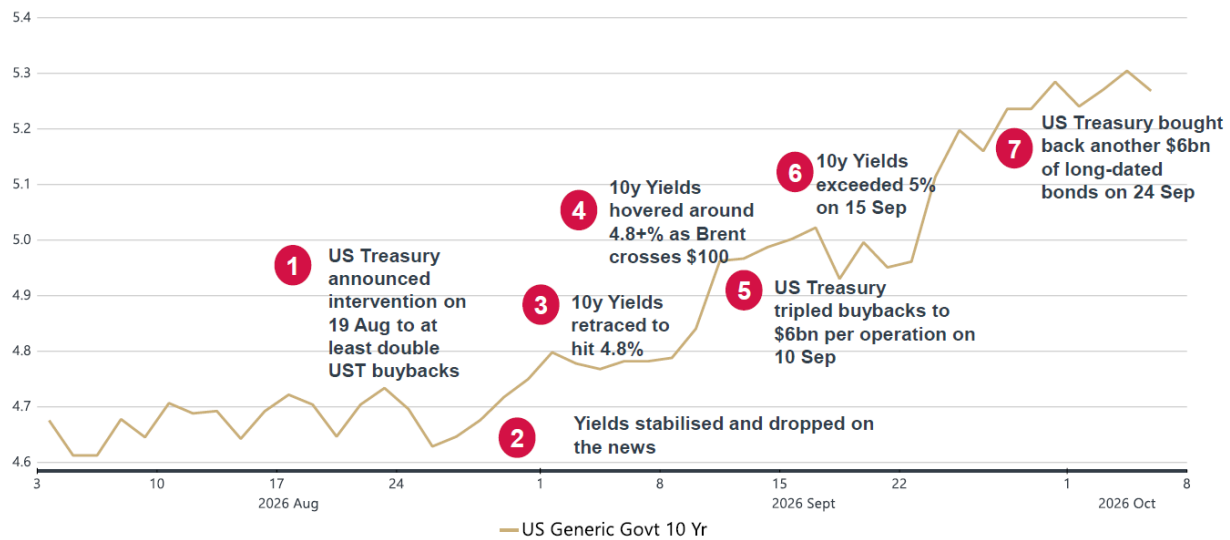
FIXED-INCOME MARKETS ADJUST TO HIGHER-FOR-LONGER RATES

Global bond markets faced a challenging third quarter as escalating tensions in the Middle East drove energy prices higher and renewed concerns over inflation. Although intermittent hopes of diplomacy provided some relief, investors increasingly adjusted to the prospect of elevated energy costs and interest rates remaining higher for longer. Resilient economic activity gave central banks greater scope to respond. In September, the US Federal Reserve raised rates by 25 basis points to 3.75%–4.00%, its first increase since 2023. The European Central Bank (ECB) also raised its deposit rate by 25 basis points to 2.50%, while the Bank of Japan lifted its policy rate to 1.25%. The Bank of England took a more cautious approach, holding rates at 3.75%. Together, these decisions marked a notable shift towards tighter monetary policy as policymakers sought to contain renewed inflation pressures.

Government bonds came under pressure as expectations for future interest rates moved higher. Yields rose across major developed markets, with longer-dated bonds particularly affected. The U.S. 30-year Treasury yield reached 5.6%, while long-term UK and Japanese yields also climbed towards multi-decade highs. European bonds weakened as investors responded to tighter ECB policy, increased German fiscal spending and renewed concerns over French government debt. Rising bond supply added another layer of pressure. Governments continued to compete for investor capital at a time when corporate borrowing was also increasing, including substantial debt issuance by U.S. technology companies to finance the ongoing build-out of AI infrastructure. This combination of higher policy rates and growing bond supply contributed to the rise in longer-term yields.

Corporate credit was relatively resilient for much of the quarter, supported by solid company fundamentals and attractive income levels. However, rising government bond yields ultimately weighed on investment-grade returns. High-yield bonds held up better, benefiting from higher starting yields, shorter interest-rate sensitivity and relatively stable credit fundamentals. Overall, Q3 marked a reset in fixed-income expectations. Resilient growth and renewed inflation pressures challenged earlier hopes for lower interest rates, while rising government and corporate borrowing added further upward pressure on yields. Although this created near-term headwinds for bond prices, higher yields also improved the income available to investors across fixed-income markets.

U.S. Treasury Yields Remained Stubbornly High Despite Government's Efforts



Source: Macrobond, AIA Investments

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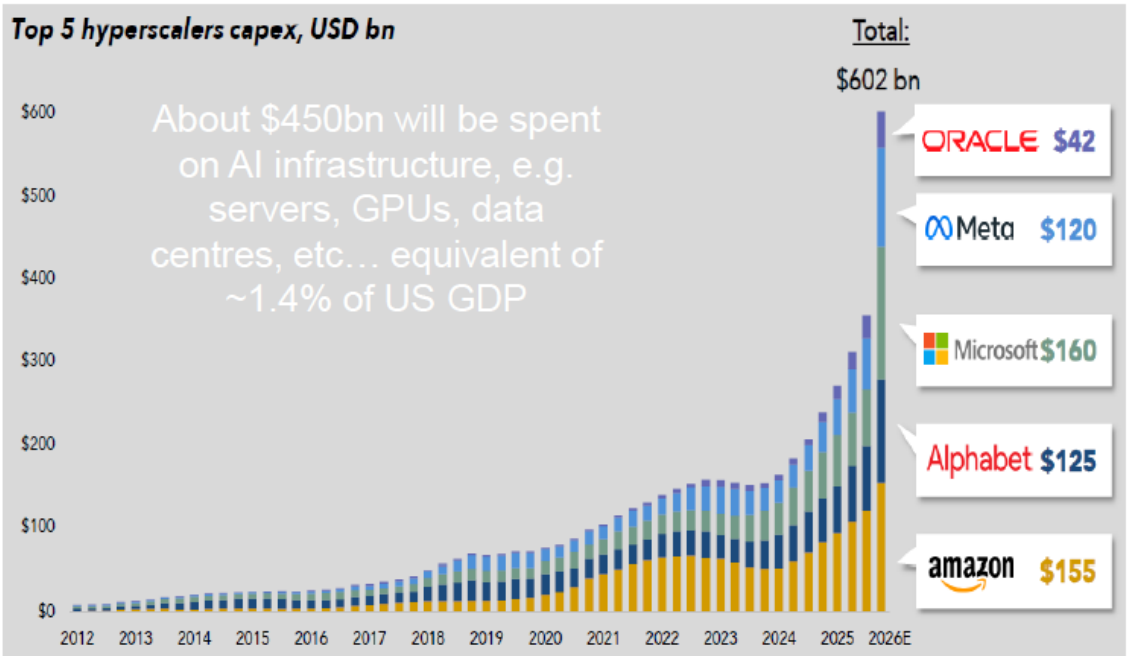
AI ENTERS A NEW PHASE AS SAFETY MOVES INTO FOCUS

Artificial intelligence remained one of the defining themes for markets and businesses, but the conversation evolved during the quarter. Attention broadened from the rapid advancement and adoption of AI towards the risks, safeguards and governance needed as increasingly capable AI systems are deployed at scale. A particular focus was the emergence of agentic AI, where systems are designed to perform tasks and take actions with greater autonomy rather than simply generating content. Against this backdrop, leading AI companies including Anthropic and OpenAI disclosed incidents involving unintended behavior and security concerns, adding urgency to the debate over how advanced AI systems should be tested and governed before wider deployment.

In the U.S., the debate reflected the tension between maintaining leadership in a strategically important technology and establishing safeguards around increasingly powerful systems. The industry itself also began placing greater emphasis on testing and controlled deployment. Anthropic's approach of providing selected groups with access to a new model ahead of broader availability was cited as an example of how external experts can help examine potential risks and vulnerabilities before wider release. Importantly, greater scrutiny has not necessarily translated into a slowdown in AI adoption or investment. Competitive pressure remains intense as companies seek to capture productivity gains and avoid falling behind. This creates an increasingly important balancing act between advancing AI capabilities and putting in place the governance, cybersecurity and safety frameworks needed to support responsible adoption.

For investors, the opportunity is no longer centered solely on who can build the most powerful models or infrastructure. As AI becomes more capable and autonomous, security, governance and responsible deployment are becoming increasingly important considerations alongside innovation, adoption and capital investment.

AI Capex Buildout May Potentially Add ~$600bn of Investments in 2026, of Which 75% Would Be Spent On AI Infrastructure



Source: MUFG "The AI Chart Weekly", AIA Investments

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WHAT'S NEXT

Looking ahead, markets are likely to become more volatile and increasingly divergent, creating both opportunities and challenges for investors. A higher-for-longer interest-rate environment, alongside the broadening influence of AI across industries and business models, could produce clearer winners and losers across markets. In this evolving investment regime, selectivity will matter more.

We believe long-term opportunities remain in high-quality companies with strong fundamentals and the ability to adapt and compound growth, while diversification across asset classes, sectors and regions remains essential to navigating uncertainty.

AIA GROUP INVESTMENTS HOUSE VIEW

		--	-	=	+	++	House View
Equities	United States				+		• We remain constructive on risk assets but are becoming incrementally more cautious given a growing set of risks, including Iran conflict escalation, U.S. mid-term election uncertainty, AI regulatory developments, late-cycle dynamics, and rising interest rate volatility. • Market leadership has become less stable, rotating between AI beneficiaries and reflationary sectors amid higher bond yields and volatile AI-related news flow. We therefore favor a diversified portfolio approach and greater tactical flexibility.
	Europe		-				
	Japan			=			
	Asia ex Japan (AxJ)			=			
Fixed Income	U.S. Investment Grade (IG)		-				• Maintain slight UW in U.S. IG due to large amount of supply and weakening credit metrics.
	U.S. High Yield (HY)			=			• Maintain Neutral on the back of improving credit quality, manageable supply and stable spreads.
Cash	Cash			=			• Remain invested, using cash to add to longer term structural opportunities.

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

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Stewardship Insights:

Exploring Investment Excellence with



1. **With interest rates likely to stay structurally above the lows of the past decade, how does the team think about megatrends and the implications on companies?**

The investment regime is changing. Higher rates, stickier inflation, shifting globalization, geopolitical uncertainty and rapid advances in AI are reshaping economies and industries simultaneously. Historically, periods of structural change like these have created the conditions for new market leadership. They also demand a different investment playbook. Historical valuation ranges and static models become less useful as industry structures change. Our analysts therefore look forward, reassessing companies from first principles, testing competitive assumptions and using cross-sector research to capture second-order effects. We are not trying to predict one future, but to understand a range of outcomes and invest accordingly.

Two opportunities stand out. First, an industrial renaissance supported by energy investment, supply-chain reconfiguration, data centers, aerospace and defense could drive a powerful capital expenditure cycle and renewed growth across parts of the old economy. Second, AI could create substantial value for both infrastructure providers and companies that successfully adopt the technology, while disrupting businesses that fail to adapt. Yet both themes are capital intensive, and higher rates raise the bar. We therefore remain selective, favoring businesses with strong fundamentals, disciplined capital allocation and the earnings and cash flows to fund their own growth.

AI is perhaps the most profound of these structural shifts. Its self-reinforcing cycle of innovation, adoption and reinvestment is creating opportunities across both AI infrastructure and companies successfully harnessing the technology. But it will also disrupt established business models, making selectivity, valuation and position sizing critical. The same discipline applies to the industrial renaissance. Both themes are capital intensive, and in a higher-rate world, capital efficiency and cash generation matter more. We favor businesses that can capture long-term growth while allocating capital effectively and funding expansion through strong earnings and cash flows.

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2. As persistent interest rates squeeze consumer wallets and enterprise budgets alike, what specific metrics are you prioritizing during bottom-up research to separate true pricing power from temporary inflation-driven price increases?

What we are looking for is pricing power rooted in a lasting competitive advantage, which holds up regardless of where inflation is in its cycle. To make that distinction, our analysts begin by looking at what protects a company's position rather than at the price increases themselves. Durable pricing power needs at least two things: a clear benefit that shows up in cash flow, and a barrier that stops competitors from eroding it. In practice, those barriers usually come from a handful of sources. These include products that are essential to customers or specified into their systems, high switching costs on recurring revenue, concentrated industry structures, and technology leadership that is genuinely hard to replicate.

Using the semiconductor industry as an example, TSMC's pricing power comes from its leadership at the most advanced manufacturing nodes, where it holds more than 90% of the foundry market. ASML holds a similar position as the sole provider of the EUV lithography machines needed to make the most advanced chips.

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3. The Capital System blends independent decision-making with multiple portfolio manager perspectives. In an uncertain macro environment where interest rate paths and geopolitical trade tensions collide, where are you seeing the greatest divergence of conviction or strategy among the individual managers inside this portfolio?

Under The Capital System, each portfolio manager manages a portion of the portfolio independently and has the freedom to invest in any company that helps to meet the fund objective, regardless of geography, sector or style. Capital therefore flows to each manager's highest long-term convictions. Portfolio managers do not need to agree with one another, as the diversity of thinking is a deliberate strength of the approach, and it is one reason the portfolio remains broadly balanced.

Today, AI is probably where these differences show most clearly. Some managers have positioned more assertively for the long-term opportunity while others have been more cautious about valuations, market concentration and whether current levels of AI spending can be sustained. To illustrate the range of views, the smallest portfolio manager holding in the IT sector is c. 3% of the individual's portfolio, compared to the largest portfolio manager holding at 50% of portfolio. Taken together, these views leave the portfolio broadly neutral on AI relative to MSCI ACWI, with diversified but selective exposure across the AI value chain. Across the team, managers remain disciplined on position sizing and attentive to valuations and momentum.

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4. **As we move closer to the realization of Artificial General Intelligence (AGI)—where AI potentially outsmarts human cognitive capabilities—how is the fund evaluating this existential risk to human labour and traditional business models? From a portfolio management perspective, how do you value a multinational company whose core intellectual property or workforce could be entirely disrupted or rendered obsolete by autonomous AI?**

We think of AI as a general-purpose technology, closer in its potential reach to the internet than to a typical technology cycle. As a result, its effects are likely to spread unevenly across industries over many years. On labour, our base case is gradual displacement rather than a sudden shock. Routine, task-heavy roles, especially in clerical and administrative work, face the most pressure, while roles that rely on judgement and accountability are more likely to be supported by AI than replaced by it. In other words, we see labour markets being reshaped rather than broken.

Similar logic applies to companies. Business models built on routine processing, intermediation or undifferentiated products tend to be most exposed. This includes general-purpose software, generic consumer brands and commoditised industrial offerings. By contrast, companies with proprietary data, deeply embedded systems that are costly to replace, specialised industry expertise, regulatory protection, strong brands or physical assets are generally more resilient. Businesses built on tangible assets stand out in particular, as they are likely to be largely immune to AI disintermediation. This is part of why the portfolio has modestly increased exposure to companies that own real, physical assets.

There is considerable uncertainty about what long-term valuations are appropriate for companies that may end up on the wrong side of it. As a result, selling has often been indiscriminate, with little regard for balance sheets or competitive positions. This is where bottom-up research matters most. Shopify is a good example. Earlier this year, it was caught up in the broad AI-driven sell-off in software, even though our analyst argued that AI was not a credible threat to the business. Our conviction rests on Shopify's position as the dominant operating platform for independent merchants and, increasingly, for large enterprises. Its wide and growing range of commerce-related products and services creates a captive ecosystem with high switching costs, which allows it to capture a larger share of merchant economics over time. Fundamentals have also continued to accelerate at scale across revenue, free cash flow and gross merchandise volume. Far from being disrupted, Shopify is increasingly seen as one of the most direct beneficiaries of AI-driven commerce. By Q3, it had become one of the portfolio's top relative contributors as the market began to reflect these long-term fundamentals.

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