Asset Allocation Outlook

February 2026

Equities	**Overweight**	**Geopolitical volatility remains a primary driver of market uncertainty, shifting focus from trade wars to resource sovereignty and regional instability. Macro data continues to surprise on the positive and corporate earnings guidance remains supportive.**
Europe	Overweight	German factory orders unexpectedly rose 7.8% in December, the fastest pace in two years and the fifth monthly gain. A rebound in industrial activity is seen as crucial for a sustainable recovery in Europe's largest economy, boosted by the massive infrastructure stimulus package. We expect close to halve of Germany's GDP growth in 2026 will be boosted by additional fiscal stimulus. On the other hand, Euro-area wages growth is set to quicken in 2026 as the European Central Bank ("ECB") wage tracker predicts the wage growth to reach 2.7% by end of this year, supporting the ECB's view that interest rates can remain steady.
Japan	Overweight	Prime Minister Takaichi's Liberal Democratic Party secured a historic landslide victory, winning two-thirds supermajority in the lower house of parliament. The supermajority allows Takaichi to potentially amend Japan's pacifist constitution, more effectively pushing ahead with more aggressive economic measures, expanded fiscal spending and a sales tax cut within this year. Inflation was 2.4% in December 2025, while Bank of Japan may need to continue raising its benchmark rate to complete monetary policy normalization as Japan is still in an inflationary phase.
Asia	Overweight	The Asian market is brimming with potential. A declining U.S. rate trajectory and a weaker dollar lower financing costs and currency risks, while the de-dollarisation trend buoys fund inflows. Chinese Mainland, South Korea, and Taiwan hold a competitive edge in AI development, presenting even more appealing valuations than the U.S.. Overall, the growing global demand for AI is expected to enhance Asia's dominant position in the tech supply chain.
U.S.	Neutral	U.S. Fed held rate unchanged in January Federal Open Market Committee ("FOMC") meeting amid solid economic growth, labour market stabilization and a modest elevation of inflation above the 2% target. Most FOMC members appear in no rush to resume rate cuts until inflation declines and unemployment weakens meaningfully. U.S. economy may be entering into a phrase of "jobless growth" without proportional labor demand.

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Hong Kong & Chinese Mainland	Neutral	Chinese Mainland 's economic data is mixed. While the trade surplus hit a record high, both retail sales and factory output fell short of expectations. Uncertainty in the real estate market has also weighed on investor confidence. The Central Economic Working Conference has called for the continuation of existing monetary and fiscal policies, with the boosting of domestic demand, including driving consumption and investment as the top priority for 2026.
Bonds	**Underweight**	**U.S. President Trump nominated Kevin Warsh for the next Fed Chair and Warsh's past comments indicate he may be more hawkish on balance sheet reduction but dovish on policy rates. This added to the resumption of curve steepening trade.**