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Asset Management

Balancing Act
Monthly Insights: Global Multi-Asset (October 2026)

Hormuz uncertainty persists: higher for longer?

By the Multi-Asset Team

28 October 2026

Snapshot

Global equities were broadly lower in September as rising bond yields, higher oil prices, and a stronger US dollar (USD) weighed on most major markets, with the MSCI All Country World Index declining 1.3% in USD terms. In the US, the artificial intelligence (AI) theme continued to support semiconductors, hyperscalers and other AI-related technology stocks, although these gains were insufficient to offset broader market weakness. Investor sentiment was also shaped by the US Federal Reserve (Fed)'s decision to raise its benchmark interest rate by 25 basis points (bps) to a target range of 3.75–4%, while generally resilient US economic data, including stronger consumer spending and purchasing managers' index (PMI) readings, reinforced expectations that interest rates could remain higher for longer. In the UK, equities faced renewed pressure from higher energy prices and inflation concerns, with the FTSE 100 returning -2.0%, while UK gilt yields rose sharply amid the global bond selloff. Most Asian markets also declined, although tech-heavy South Korea and Taiwan benefited from early signs of success for Meta Platforms' new AI agent, which spurred optimism over accelerating technology investment and stronger semiconductor demand to power such agents.

Within fixed income, global government bonds sold off in September, with long-dated bond yields reaching multi-decade highs. This included US Treasuries (USTs), which saw their yields rise on increasing inflation concerns, resilient economic activity and mounting fiscal pressures. Heightened tensions in the Middle East drove oil prices higher, fuelling concerns that inflation could prove more persistent. Robust US activity data and growing US fiscal deficit concerns added to the upward pressure on yields. The sell-off in USTs was slightly more pronounced at the front end of the curve, as a stronger-than-expected August core consumer price index (CPI) reading reinforced expectations for a more hawkish monetary policy path. The Fed raised rates by 25 bps mid-month, its first hike since July 2023, while its updated projections pointed to the possibility of another hike before year-end. The prospect of further tightening gained traction as both the services and manufacturing PMIs climbed to multi-year highs, reinforcing the view that resilient growth would give the Fed room to keep policy restrictive to contain inflationary pressures. By the end of September, the benchmark 2-year and 10-year UST yields settled at 4.89% and 5.29%, respectively, up 55 bps and 54 bps higher from end-August.

Elsewhere, gold pared back some of the previous month's gains, with prices retreating 6.3% as higher bond yields and dollar strength weighed on the precious metal. The move came as investors increasingly priced in the risk of further Fed rate hikes after the central bank tightened policy. In contrast, West Texas Intermediate (WTI) crude oil prices rose 5.4% amid continued US-Iran tensions, supply disruption concerns surrounding the Strait of Hormuz and the Saudi bypass route, as well as renewed attacks on regional energy infrastructure. Meanwhile, real estate, as measured by the FTSE NAREIT Global Real Estate Index, declined 5.4% in September as steadily rising bond yields continued to pose headwinds for the sector.

Cross-asset[1]

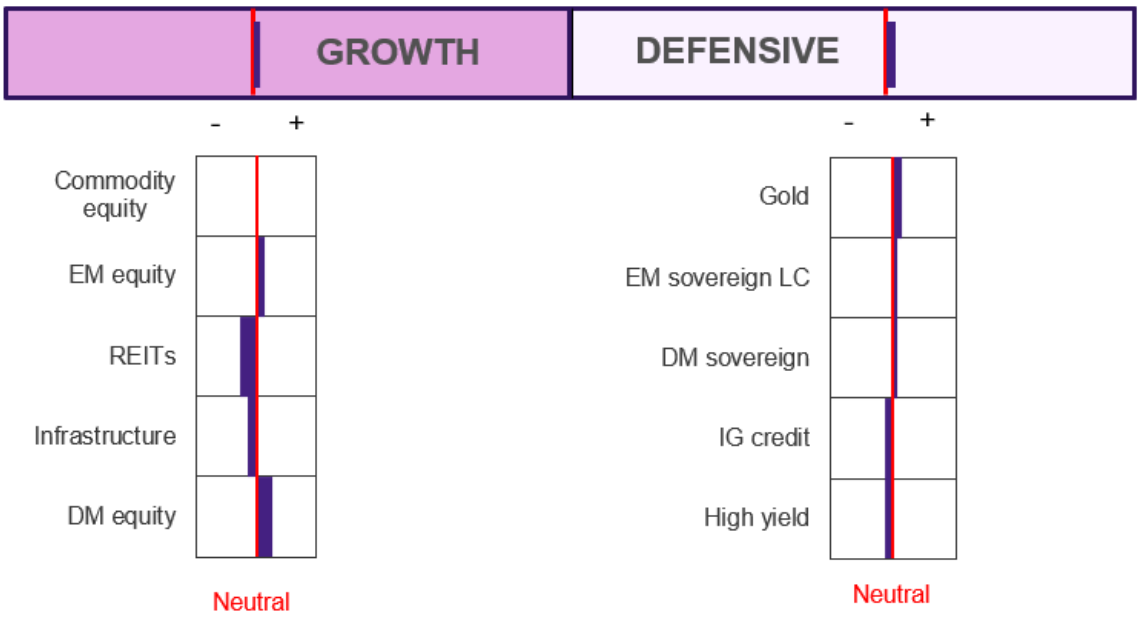
We maintained marginal overweights in both the growth and defensive scores this month. While we are positive on risk assets, we remain cautious about the ongoing volatility in the equity market stemming from the ongoing US-Iran conflict and inflationary pressures reinforced by better-than-expected economic data. The US midterm elections in early November are likely to generate some volatility around risk assets as well, although strong earnings growth, especially in the US, may continue to support growth assets. On the defensive side of the portfolio, we maintained a marginal overweight, reflecting our positive view on gold and emerging market (EM) local currency (LC) debt. At the same time, we remained cautious on credit, particularly high yield (HY), given the risk of persistent inflation stemming from the prolonged US-Iran conflict, the global monetary tightening cycle, and already-tight credit spreads. An end to the conflict could have helped ease inflationary pressures, but the continuing impasse raises the risk that commodity prices remain higher for longer.

Within growth assets, we maintained our overweight position in developed market (DM) equities. For US equities, strong earnings growth continues to be supported by steady AI capex spending, and we expect the momentum to continue into the next reporting season. Although a decisive end to the US–Iran conflict is not in sight and inflationary pressures are expected to persist, US equities may overlook these headwinds given the strength of the earnings outlook. We retained our overweight position in emerging market (EM) equities, while being cognisant of potential headwinds from a stronger dollar. We continue to see compelling opportunities in select Asian markets, particularly Taiwan, which stands to benefit from the ongoing global AI buildout. Earnings growth remains robust, and valuations continue to appear attractive relative to developed markets. For commodity-linked equities, we maintained a neutral position given that the Middle East conflict remains highly uncertain and difficult to assess. Meanwhile, we kept our underweight positions in REITs and infrastructure, where we continue to see less attractive risk-reward characteristics relative to other asset classes.

With the September sell-off in the bond market, sovereign bond yields in selected markets are now sitting at levels that make us more comfortable moving our position in DM sovereigns back to overweight. In both HY and investment grade (IG) credit, we maintained our underweight stance to reflect the effects of rising inflation due to the prolonged conflict, currently tight credit spreads and the renewed global tightening cycle among central banks.

[1] The Multi Asset team's cross-asset views are expressed at three different levels: (1) growth versus defensive, (2) cross asset within growth and defensive assets, and (3) relative asset views within each asset class. These levels describe our research and intuition that asset classes behave similarly or disparately in predictable ways, such that cross-asset scoring makes sense and ultimately leads to more deliberate and robust portfolio construction.

Asset Class Hierarchy (Team View)[2]



[2]The asset classes or sectors mentioned herein are a reflection of the portfolio manager's current view of the investment strategies taken on behalf of the portfolio managed. The research framework is divided into 3 levels of analysis. The scores presented reflect the team's view of each asset relative to others in its asset class as at 30 September 2026. Scores within each asset class will average to neutral, with the exception of Commodity. These comments should not be constituted as an investment research or recommendation advice. Any prediction, projection or forecast on sectors, the economy and/or the market trends is not necessarily indicative of their future state or likely performances.

Behind the trends: research in action

Growth assets

Growth assets remain appealing, with earnings growth and outlook remaining strong despite the ongoing conflict in the Middle East. While the outcome of the Iran–US conflict remains elusive, markets are discounting high energy prices and are instead focused on one of the strongest earnings growth profiles globally, underpinned by continued AI-related capital expenditure (capex) in the US. This could set the stage for positive equity market returns over the short term, reinforced by a resilient macroeconomic backdrop including continued strength in South Korean exports. The main headwind may be stronger-than-expected economic data and stickier inflation, which could prompt the Fed to embark on a series of rate hikes to adjust the inflation trajectory during a mid-cycle economic expansion. While these are typical headwinds to risk assets, we believe continued strong corporate earnings growth will allow investors to look past these headwinds and continue to support risk assets.

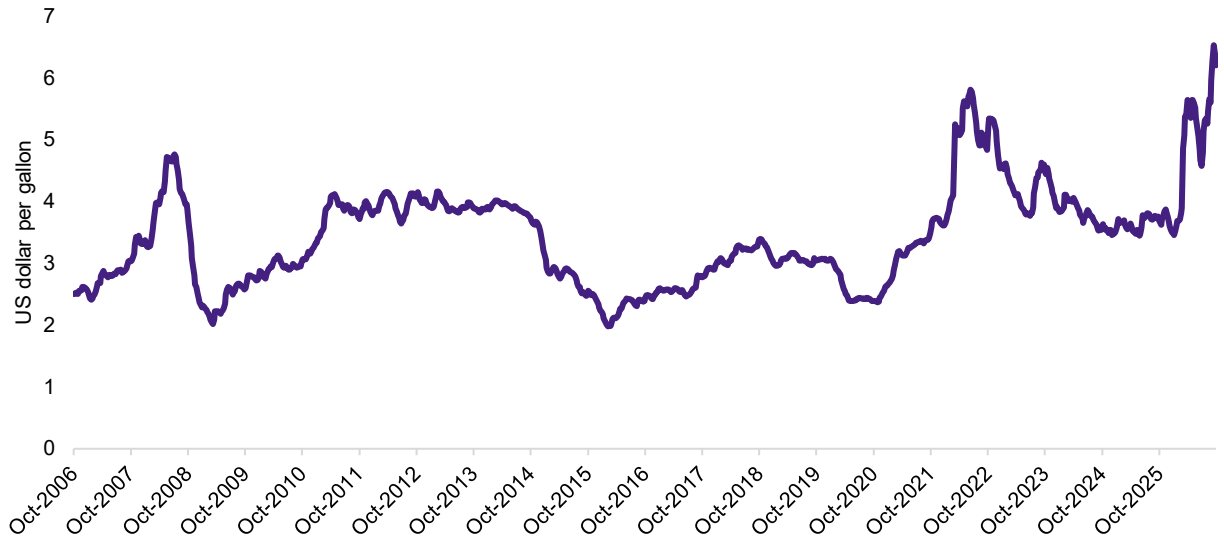
Conviction views on growth assets

- **Overweight US**: We maintain our positive view on the US, where corporate earnings and outlook continue to be resilient amidst the capex renaissance. Valuations do not look extended given the strong earnings growth, and we continue to like the US for its secular long-term growth trend driven by technology and healthcare innovations. We also expect the US to benefit from increasing energy demand from data centres with the significant AI capex outlay over the next few years.
- **Overweight UK:** We maintained our overweight position in the UK and retained our positive view given its value tilt towards financials, materials and energy, which offers good diversification from the technology exposure in the US. This is in part due to its staples and healthcare sectors, which are inherently lower beta. We also like the UK for its high dividend yields and lower beta characteristics, which provide good defensive qualities.
- **Overweight EM equities**: We continued to maintain an overweight in EM equities. Taiwan is a favoured trade given its relatively cheaper valuations as a beneficiary of the AI capex rollout.

Energy: The tough questions

Energy markets have rallied sharply in 2026 as the US–Iran conflict, the subsequent collapse of the memorandum of understanding, and the conflict's expansion into the Red Sea have disrupted production and trade routes. Refined products, particularly diesel, have tightened more than crude, pushing US retail diesel prices to record levels. Indian refiners are struggling to secure feedstock, China has restricted product exports, and attacks on energy infrastructure across the Middle East and in Russia have reduced effective refining capacity. The key question is whether this reflects a structural shortage or a reversible geopolitical premium.

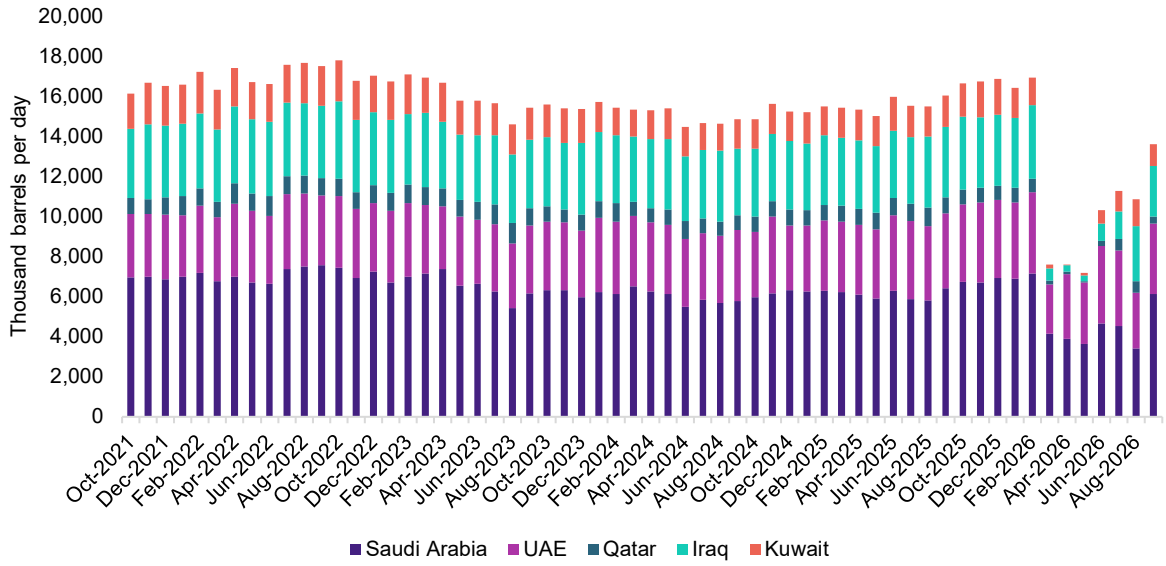
Chart 1: US retail diesel prices reach a historical high



Source: Bloomberg, Amova Asset Management, October 2026

Early signs of adaptation are emerging. Gulf exports are recovering as protected tanker movements resume through the Strait of Hormuz and ship-to-ship transfers expand in the Gulf of Oman. Saudi Arabia can also use its east–west pipelines and Yanbu Port on its Red Sea coast, although the route remains exposed to attack. Recovery is therefore fragile, with insurance, freight and security costs keeping delivered prices elevated.

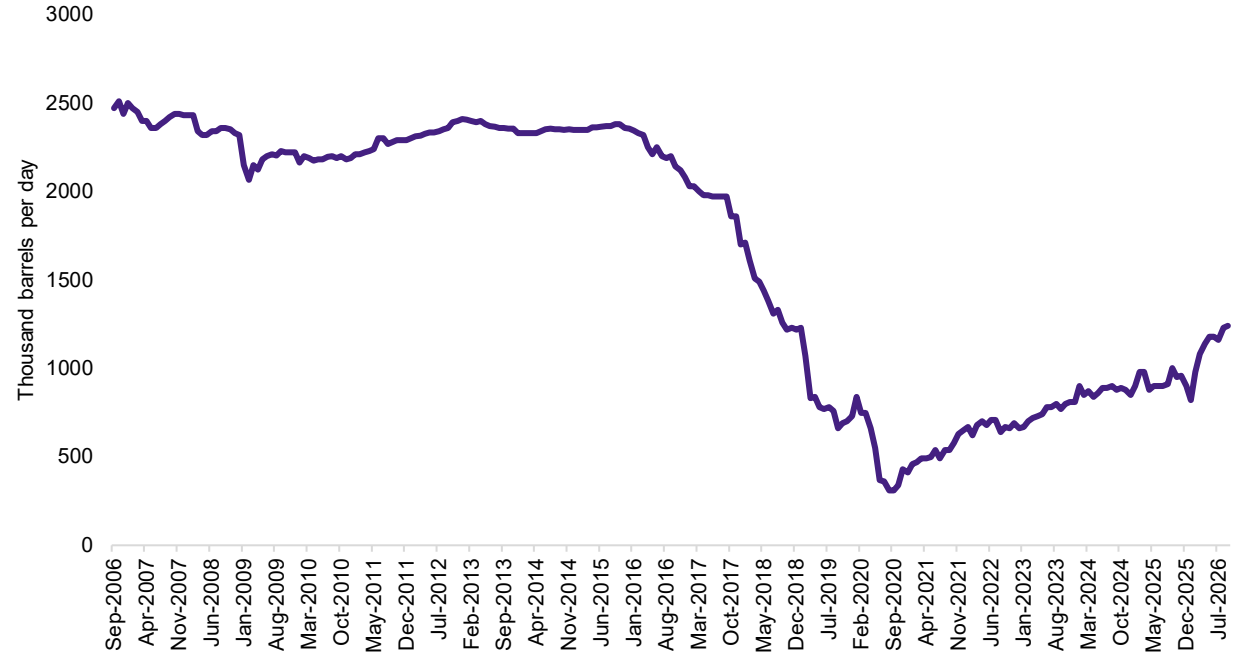
Chart 2: Crude oil export recovery amid the Gulf countries



Source: Bloomberg, Amova AM, October 2026

Supply outside the conflict zone has also begun to respond. US drilling activity has increased, Canada and Brazil are raising output, and Venezuela is increasing its exports to the US and India. Venezuela has ample room to restore production towards historical levels, complementing India's ongoing expansion of its refining capacity. Together, these sources could partly offset the supply losses from the Middle East and Russia, although production, shipping, and refinery capacity will adjust only gradually. Meanwhile, steps to mitigate supply disruptions are in place. US President Donald Trump has coordinated strategic inventory releases with G7 partners, urged Ukraine to halt attacks on Russian refineries and negotiated a controversial diesel deal with Moscow. While these measures may help alleviate near-term supply pressures, energy markets are likely to remain sensitive to geopolitical developments.

Chart 3: Venezuelan oil returning to international markets



Source: Bloomberg, Amova AM, October 2026

The outlook remains asymmetric. Prolonged conflict or renewed damage to key chokepoints could keep crude and diesel prices elevated in the near term. However, supply chains are adapting, and a US–Iran political settlement, if reached, could quickly return the market to a surplus, creating significant downside risk for the energy complex. We are cognisant that elevated energy prices may also increase the incentive for a deal. While we are hopeful of an eventual resolution to the Middle East conflict, we believe that prices will remain high in the near term, although adaptation of supply chains should help to limit any further increases from current levels.

Defensive assets

For defensives, elevated inflationary pressures continue to sit alongside strong global growth spurred by robust AI demand and high capex and government spending. Energy prices remain stubbornly high, and with diesel prices at record levels, we expect cost pressures to increasingly filter through to the logistics and transportation sectors in the period ahead. We foresee multiple central banks needing to hike rates. However, as sovereign bond yields rise towards our forecasted range, we have started to gradually favour longer duration. Against this backdrop, we continue to like the dollar for the interest rate differentials that support the currency against its peers and its negative correlations with other assets.

Conviction views on defensive assets

- **Underweight IG and HY**: Credit spreads continue to sit at historical lows despite the volatility caused by the Middle East conflict. Although US growth remains robust, spreads have historically been a mean-reverting series; hence, we expect them to widen should any negative news eventuate. The tight spreads also offer little buffer against any sell- off in bonds. Therefore, we continue to keep our exposure short and continue to underweight these asset classes.
- **Overweight US duration:** Strong economic activity and a resilient labour market may keep inflation as the Fed's main point of focus. Accordingly, we expect further policy tightening, with the policy rate rising toward 5% and the 10-year UST yield trading within a 5.0–5.5% range. As the 10-year UST yield has moved into our forecast range, we have neutralised our underweight position and moved to a marginal overweight in US duration. We will look to add more exposure should yields rise closer to 5.5%.
- **Long US dollar:** Persistent inflation and stronger-than-expected economic data will ensure the Fed remains hawkish, with a series of mid-cycle hikes in the near term. We expect higher US interest rates to continue supporting the currency, and we raised our dollar score back to an overweight.

Rethinking the yen

Persistent inflation, compounded by the ongoing conflict in the Middle East, has pushed central banks towards a more hawkish policy stance. Japan is no exception. The Bank of Japan (BOJ) has continued to raise rates, marking a meaningful departure from the ultra-accommodative policy regime that had long distinguished Japan from its developed-market peers. Yet a change in direction does not necessarily imply a change in trend. In our view, what matters for the yen is not simply whether the BOJ is hiking, but how quickly Japanese rates converge with rates elsewhere (see Table 1).

Table 1: Policy rates of major countries (%)

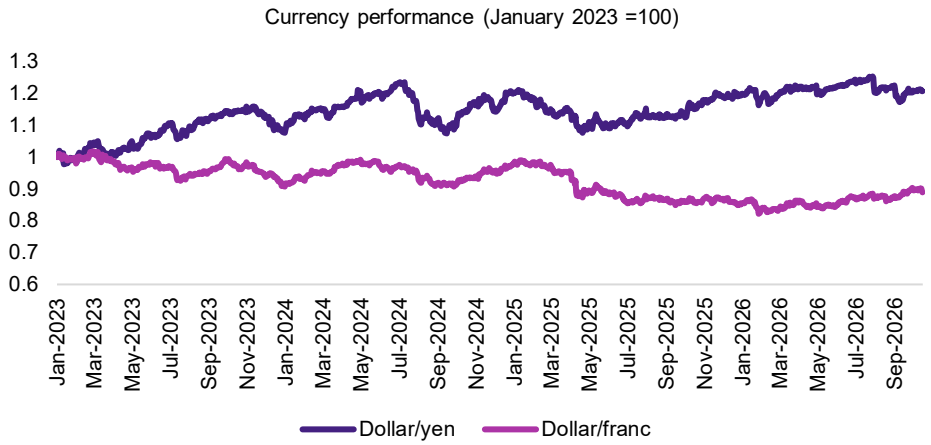
Currency	Policy rate	1 year forward	Expected hikes (25 bps)
Australian dollar	4.60	4.73	0.53
US dollar	4.00	4.65	2.62
British pound	3.75	4.76	4.03
Euro	2.50	3.23	2.91
Canadian dollar	2.25	3.21	3.86
Chinese yuan	1.40	1.39	-0.03
Japanese yen	1.25	2.04	3.16
Swiss franc	0.00	0.50	2.02

Source: Bloomberg, Amova AM, Oct 2026

For a carry trade to remain attractive, investors generally prefer a funding currency that combines low borrowing costs with relatively low volatility and limited appreciation risk. On these measures, the yen retains several advantages over potential alternatives, although its appeal is gradually being challenged as the BOJ normalises monetary policy. While the yen has weakened substantially over recent years, episodes of sharp appreciation and concerns over policy intervention have periodically disrupted the trend, introducing additional risk to carry positions.

In our view, the Swiss franc, another low-yielding developed-market currency, is not an obvious substitute. Switzerland maintains a sizeable current-account surplus, providing an underlying source of support for the currency. Its traditional safe-haven characteristics can also leave short franc positions vulnerable to appreciation during periods of heightened market stress. Meanwhile, the yen benefits from substantially greater currency market liquidity. This greater market depth reinforces the yen's suitability as a large-scale funding currency (see Chart 4).

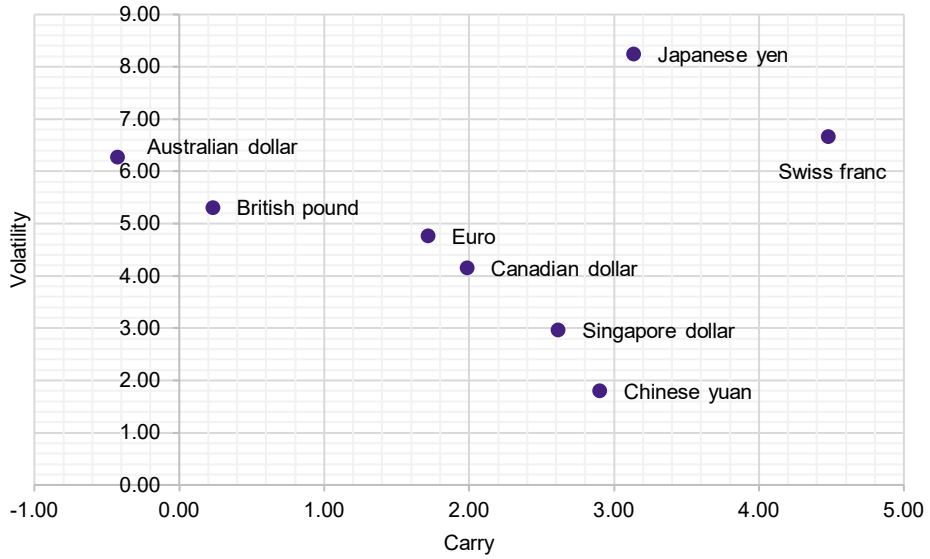
Chart 4: Normalised price returns of dollar/yen versus dollar/franc



Source: Bloomberg, Amova AM, October 2026

The Singapore dollar and the Chinese yuan may also screen attractively on a volatility-adjusted carry basis, but each presents its own challenges. Singapore's monetary policy is centred on managing the S$NEER against a trade-weighted basket, rather than targeting a domestic policy interest rate. The S$NEER is currently maintained on an appreciating policy path, with the Monetary Authority of Singapore (MAS) having raised the rate of appreciation of the policy band in both April and July 2026. This creates an additional consideration for investors looking to establish persistent short Singapore dollar funding positions. The yuan, meanwhile, faces capital-account and policy considerations that make it less straightforward as a freely accessible global funding currency (see Chart 5).

Chart 5: Volatility-adjusted carry against the dollar



Source: Bloomberg, Amova AM, October 2026

Against this backdrop, the yen's longstanding dominance as a funding currency could gradually diminish as the BOJ continues to normalise policy, but we believe the transition is unlikely to be straightforward. Much may depend not simply on the direction of BOJ policy, but on the pace of tightening relative to other developed-market central banks. A faster rise in Japanese rates accompanied by a meaningful narrowing in interest-rate differentials could reduce the economics of yen-funded carry trades. However, there is currently no obvious successor: the Swiss franc faces safe-haven and appreciation risks, the Singapore dollar operates within an exchange-rate-centred monetary policy framework, while the Chinese yuan presents accessibility and policy constraints. The yen may therefore become less attractive as a funding currency at the margin without necessarily losing its structural role in global carry trades.

Process

In-house research to understand the key drivers of return:

Valuation	Momentum	Macro
Quant models to assess relative value	Quant models to measure asset momentum over the medium term	Analyse macro cycles with tested correlation to asset
Example for equity use 5Y CAPE, P/B & ROE	Used to inform valuation model	Monetary policy, fiscal policy, consumer, earnings & liquidity cycles
Example		
+	N	N
	Final Score +	

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