

Monthly Investment Insights

MAY 2026

TOPIC 1:

Inflation concerns but macroeconomic backdrop is different from 2022

While Middle East tensions have eased, oil supply disruptions remain. Investors should remain invested, as markets continue to view the shock as largely transitory.



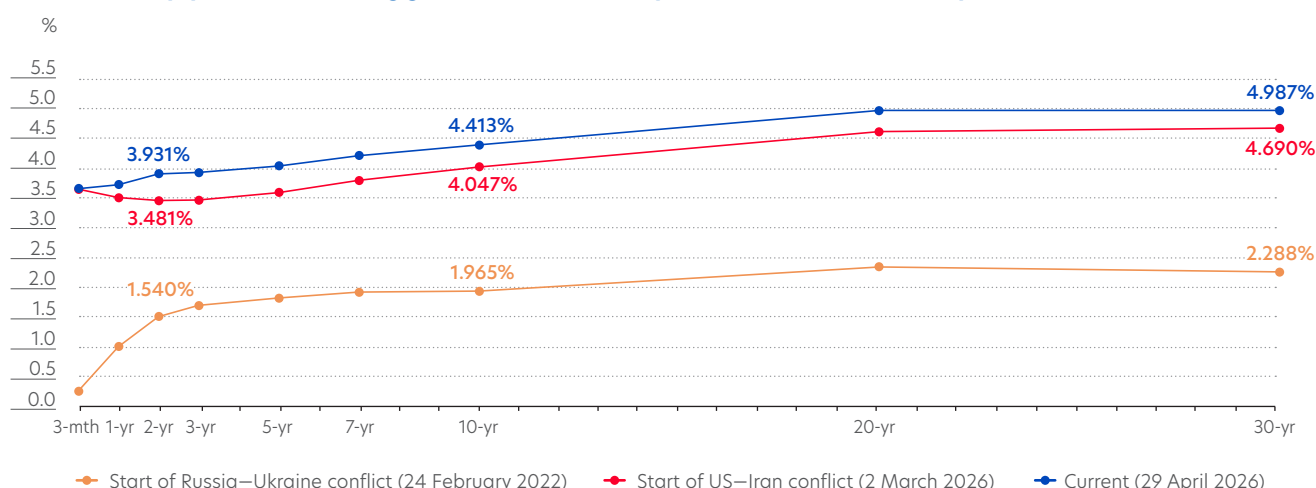
What you can do

Stay invested but maintain a diversified portfolio, as time in the market has consistently led to better returns than trying to predict short-term movements around geopolitical events.

- Geopolitical tensions in the Middle East have eased in recent weeks, reducing the threat of imminent escalation. However, energy supply disruptions persist and could keep oil prices elevated in the near term, as the Strait of Hormuz remains effectively shut and damaged energy infrastructure in the region may take time to repair.
- Market indicators suggest investors assess the impact as largely transitory. The US Treasury yield curve shows the 2-year yield rising more than the 10-year (Figure 1), reflecting near-term inflation concerns, while longer-term inflation expectations remain relatively stable. Oil futures also indicate investors do not expect a prolonged energy price shock.
- While this remains the base case, tail risks should not be ignored. Prolonged supply constraints could keep energy prices higher for longer, as seen in 2022, when oil prices remained above USD 100 per barrel for around six months, raising sustained inflation concerns.
- That said, today's backdrop is different. Interest rates are higher, labour markets less tight, and fiscal support more targeted, helping limit second-round inflation effects and reducing the risk of a stagflation-like outcome where inflation surges while economic growth slows.
- As such, while inflation is a concern in the short term, it is important to maintain a diversified portfolio and stay invested, as timing markets around geopolitical events has historically proven to be difficult.

Figure 1:

US Treasury yield curve suggests inflation impact will be transitory and different from 2022



Source: FactSet, J.P. Morgan Asset Management.



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Geopolitical tensions have raised concerns of a delay in interest rate cuts, but investors should take advantage of the opportunity to secure higher investment income.



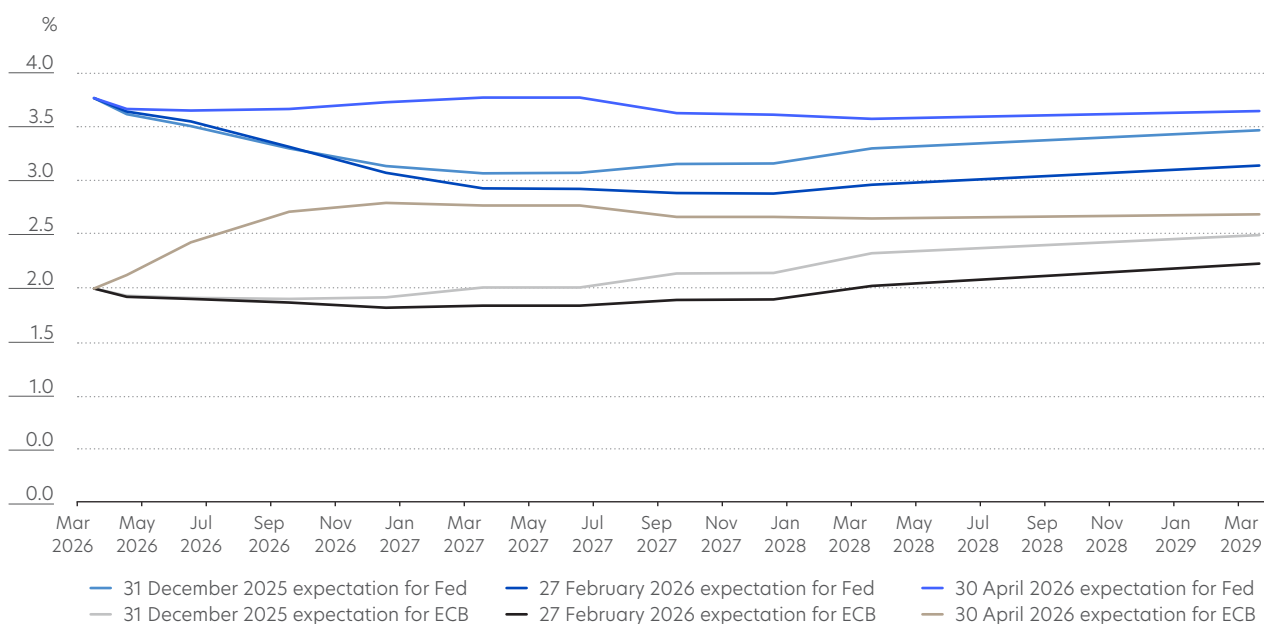
What you can do

Income-focused strategies are increasingly important as they can provide stability amid uncertainties, but it is prudent to prioritise high-quality income-generating assets.

- Recent developments in the US-Iran conflict highlight how quickly geopolitical events can disrupt markets and reshape investor expectations. Rising energy prices have lifted inflation expectations, prompting markets to reassess the outlook for monetary policy.
- At the end of 2025, investors expected the Federal Reserve (Fed) to deliver two rate cuts by the end of this year. However, expectations have been volatile amid the ongoing Middle East conflict, with expectations fluctuating between the three scenarios of rate hike, rate cut and no policy change for the remainder of the year. A similar repricing was seen for the European Central Bank (ECB), where expectations shifted from a rate-cutting cycle towards potential policy tightening (Figure 2).
- Despite this volatility, UOB's house view is the Fed is still expected to eventually deliver one rate cut this year. However, the timing of a rate cut may be delayed to the fourth quarter, given the resilience of the US economy. Recent labour market data suggests conditions are softening but not deteriorating sharply, while artificial intelligence (AI) structural growth themes continue to support earnings, especially in sectors with stronger pricing power that can better absorb higher costs.
- In this environment, income-focused strategies comprising investment grade bonds and high-quality dividend paying stocks become increasingly important, as they can provide stability amid uncertainties. Amid attractive yields, investors should take advantage of the opportunity to secure higher investment income.

Figure 2:

Interest rate expectations shifted quickly due to the Middle East conflict



Source: Bloomberg, FactSet, J.P. Morgan Asset Management. Expectations are based on forward swap rates. Past performance and forecasts are not a reliable indicator of current and future results. Data reflect most recently available as 30 April 2026.



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Asia's resilience supported by technology cycle

Asian stock markets have rebounded despite elevated energy prices, supported by resilient macroeconomic conditions and strong technology demand.



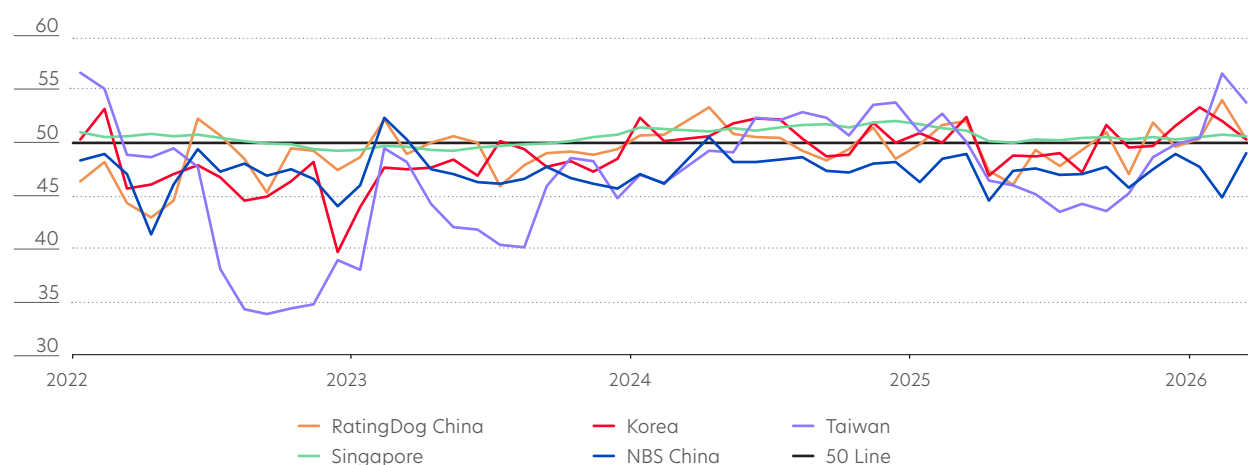
What you can do

Asia continues to play an important role in investment portfolios, where technology-oriented markets in the region are expected to benefit from long-term innovation and sustained demand.

- Asian stock markets rebounded in April, supported by easing geopolitical tensions and growing hopes of de-escalation in US-Iran tensions. However, uncertainty remains, as a durable resolution may take time and damage to energy infrastructure could take months to repair, leaving energy supply risks in place.
- Despite these risks, Asia's macroeconomic backdrop remains resilient. The latest purchasing managers' index (PMI) remains in expansion territory, while forward-looking indicators, such as new export orders, also point to continued strength. As a proxy for trade activity, export orders remain above the 50 threshold, indicating ongoing growth momentum, particularly in economies linked to the technology cycle (Figure 3).
- Beyond cyclical strength, structural drivers, particularly technology, continue to support the region. Demand for AI, semiconductors, and digital infrastructure remains robust. North Asian economies such as South Korea and Taiwan continue to play a central role in the global technology supply chain, while fiscal measures and government subsidies across several Asian economies help cushion the impact of higher energy costs.
- Against this backdrop, Asia continues to play an important role in investment portfolios. In particular, investors can seek exposure to Asian technology companies that are expected to benefit from long-term innovation and sustained demand.

Figure 3:

New export orders in Asia's technology-oriented markets remained strong



Source: J.P. Morgan Economic Research, National Bureau of Statistics of China, S&P Global, J.P. Morgan Asset Management. PMIs are relative to 50, which indicates deceleration (below 50) or acceleration (above 50) of the sector.



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