

Singapore equities: navigating a more volatile market

Dissecting the recent sell-off

By the Asian Equity Team

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The Straits Times Index (STI) returned -4.9% (total returns, in USD) in the month of October, its worst monthly performance in over a year. While it underperformed the S&P 500 (-1.1%) and the MSCI World (-0.6%) for the month, the STI still outperformed on a year-to-date (YTD) basis with a total return of 20.6% (in USD) compared to +11.8% for the S&P 500 Index and +11.3% for the MSIC World Index. In our view, this attests to the resilience of Singapore equities and their ability to provide diversification benefits to a global portfolio, especially in the midst of a volatile global market.

After a stellar performance throughout most of 2026, the relatively sharper pullback in October came as a surprise to many. While the elephant in the room was the negative performance of the three Singapore banks, a confluence of other factors was also at play. These included the global AI/tech rout, regional weakness in Asia due to economic deterioration in China and ASEAN (MSCI China -6.94% and MSCI Asia Pacific -6.29%, in USD terms), and macroeconomic concerns about higher inflation and interest rates. Caution toward the US midterm election in early November also weighed on equities globally at the end of October as investors derisked their portfolios ahead of the uncertainty.

Drivers of the recent sell-off

Singapore banks had their worst single day on 8 October, with DBS, UOB and OCBC falling -4.7%, -5.2% and -4.3%, respectively. Given that the three banks collectively account for ~59% of the index by market capitalisation, they had an outsized impact on the STI, which dropped -3.5% that day, accounting for the bulk of its October loss.

Before this sharp sell-down, there were already widespread concerns about the rich valuations of the Singapore banks following their strong run-up in the earlier part of the year, especially in the month July. In our view, the market was overly optimistic about the sector's near-term earnings prospects vis-a-vis their valuations, which was a sign that their stocks were overextended.

A broker report dated 6 October warning about potential earnings disappointment ahead, stemming from net interest margin contractions and a slowdown in wealth management growth, became the straw that broke the camel's back, triggering the sell-off on 8 October.

In addition, a number of mid-sized, weighted cyclical stocks and several companies from the Industrial sector also posted double-digit losses, compounding the weakness.

On the small and mid-cap stocks (SMIDs) front, the global sell-off in US technology and AI infrastructure stocks heavily impacted the segment through mid-to-late October. Many of Singapore's technology and AI plays are found within the SMID segment and come from the Information Technology and Industrials sectors. These companies are suppliers of tools and components to the largest semiconductor equipment companies in the world, and their businesses have benefitted greatly from the global AI boom. On the flip side, these stocks are equally vulnerable to any threat to the AI narrative or risk of it unravelling.

Another area to point out is the negative performance of palm oil stocks (Consumer Staples), which also contributed significantly to the market's negative performance in October. Palm oil stocks in Singapore fell sharply on 15 October, following reports linking plantation concessions to haze source points, and the Singapore authorities' indication that they were looking into which companies might be responsible. The sector continued sliding significantly throughout the rest of the month.

Navigating the path ahead

While it is common for sentiment to turn sour after a significant pullback like this, we believe there are still positive takeaways to consider. Valuations of the Singapore equity market have pulled back from their recent peak of 16.6x forward P/E* (price-to-earnings ratio) to 15x. While this is still higher than the longer-term average of 14x, it has now become more appealing, especially in view of the robust global and local economic backdrop, which we believe will endure into 2027.

Notwithstanding the strong performance of the Singapore banks in the past three years, we believe that they will remain core holdings for many investors because of their strong capital positions, resilient earnings, sustainable dividends and attractive shareholder returns. However, we are also mindful that the sector is cyclical and believe that one needs to be selective rather than aggressive in managing exposure to the sector. Key risks we continue to monitor closely in this area include the trajectory of interest rates which could pressure margins, signs of weakening economic growth, which would dampen loan demand, and a deterioration in credit quality that would lead to higher provisions.

Within the SMID segment, in particular with regard to AI/technological exposures, we think that the global AI capital expenditure cycle will continue to drive growth for the next couple of years, offering opportunities. However, caution is warranted, with greater emphasis on risk management as we navigate what we expect to be a volatile path ahead. One will need to maintain a disciplined approach towards position sizing, identity growth drivers beyond AI and diversify into growth areas that are less dependent on developments of the technology. Some areas of opportunity we have identified are associated with digitalisation-driven consumer growth, renewable energy, healthcare and logistics. In addition to that, we believe that SMIDs could benefit from stronger fund flows into the segment arising from the Monetary Authority of Singapore's Equity Market Development Programme.

Conclusion

Ultimately, while near-term volatility may persist as markets navigate changing expectations for global growth, interest rates and geopolitics, volatility in share prices does not necessarily imply an equivalent deterioration in underlying fundamentals. For long-term investors in Singapore equities, we believe that maintaining a disciplined focus on earnings resilience, balance-sheet strength, valuations and sustainable shareholder returns remains the most appropriate way to navigate an uncertain environment.

**Forward P/E ratio measures a company's current stock price against its estimated or forecasted earnings per share over the next 12 months. It tells you how expensive a stock is today based on its expected future earnings.*

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