KBank Multi Asset Strategies

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Key Factors to Watch in 2026

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In 2026, financial markets are expected to remain volatile amid various challenges and uncertainties. Geopolitical tensions have escalated globally, particularly after the US attack on Venezuela. At the same time, growing concerns over soaring global public debt persist, alongside shifts in global monetary policies, especially as the Fed's rate-cutting cycle may come to an end this year. Additionally, the uncertainty surrounding US import tariffs and Trump's policy directions remains a key risk, while several domestic factors in Thailand also warrant close monitoring.

In 2026, financial markets are expected to remain volatile amid multiple challenges and uncertainties that warrant close monitoring, as follows:

1. Escalating Geopolitical Tensions

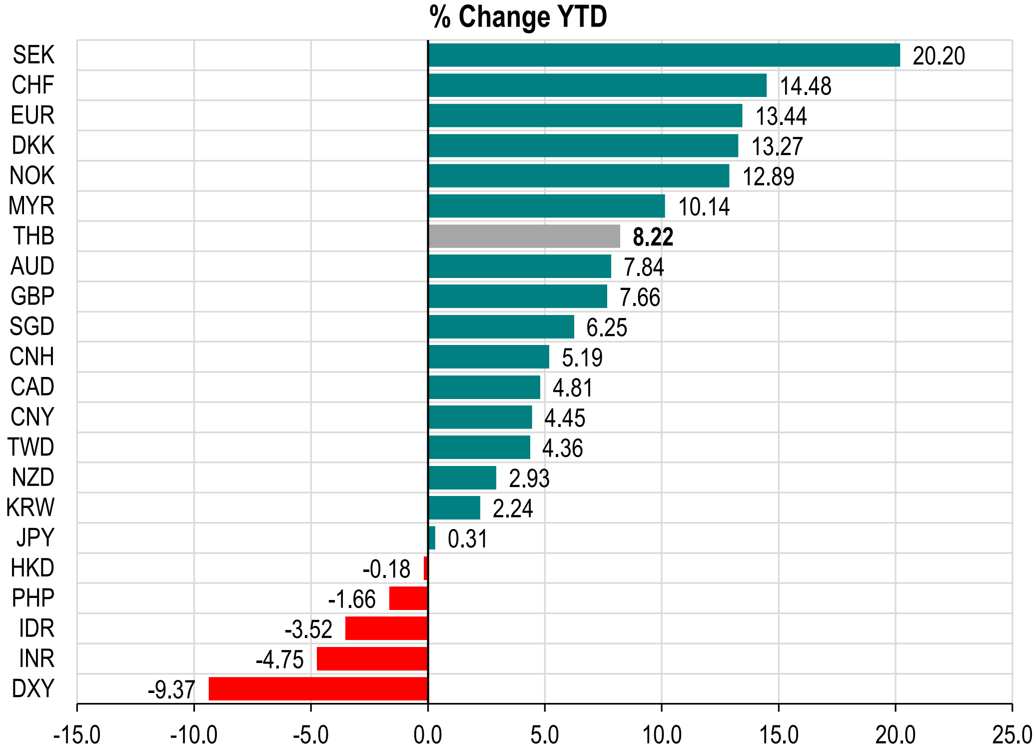
Global geopolitical conflicts have intensified, particularly after the US attacked Venezuela and arrested President Nicolás Maduro on drug-related charges. President Trump also announced that the US would take part in Venezuela's oil industry, which holds the world's largest proven oil reserves at around 303 billion barrels, surpassing Saudi Arabia's 267 billion barrels. Meanwhile, tensions have heightened in East Asia among China, Taiwan, the US, and Japan, after Chinese President Xi Jinping declared in his New Year's address that the reunification of China and Taiwan is "inevitable," escalating tensions in the South China Sea. Additionally, hostilities between Iran and Israel remain intense, and the Russia–Ukraine war continues, though there are signs it may approach an end soon.

2. Surging Global Public Debt

Since the COVID-19 crisis, global public debt has surged dramatically, with markets now refocusing on fundamentals. The US public debt, standing at about 120% of GDP, has raised major concerns. Trump's personal income tax cuts are expected to widen the US fiscal deficit further to around 6–7% per year, exerting downward pressure on the US dollar, which weakened 9% in 2025—its worst year since 2017—amid the continuing trend of de-dollarisation.

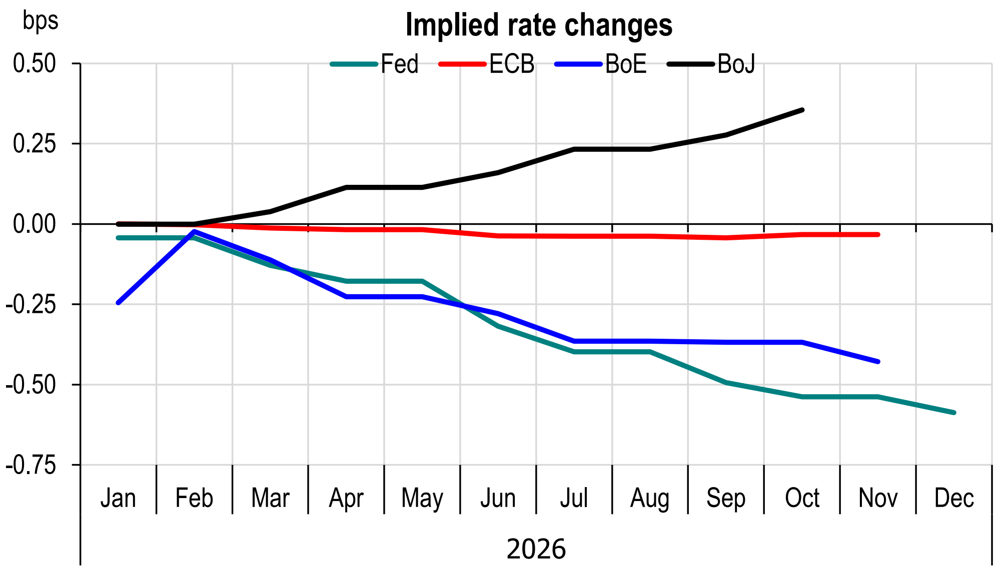
Meanwhile, gold prices hit a new record high of USD 4,550 per ounce, and many currencies appreciated significantly over the past year (Figure 1).

Figure 1: Change in 2025



Source: Bloomberg, KBank

Figure 2: Market expectations on central banks' rates



Source: Bloomberg, KBank

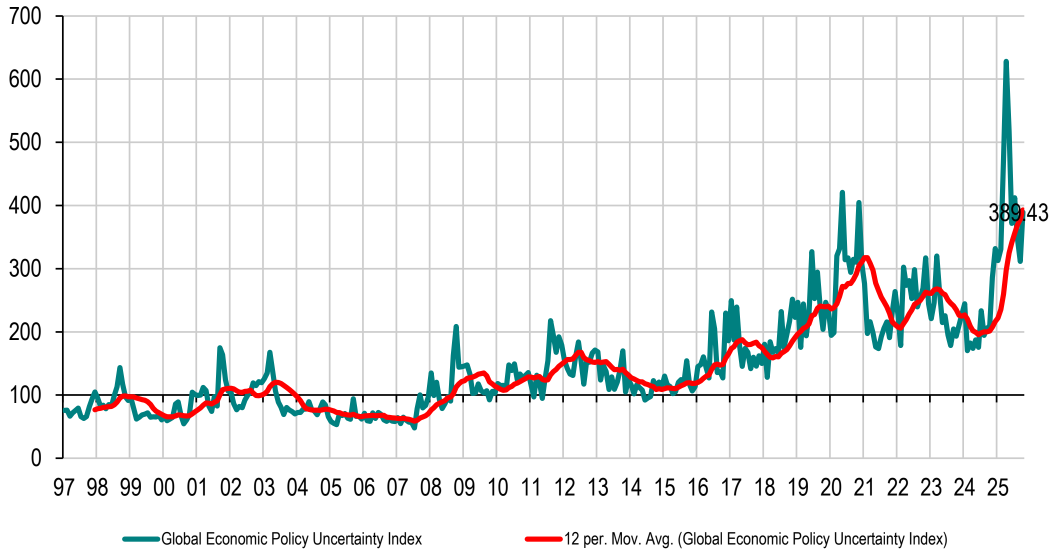
3. **Global Monetary Policy Uncertainty**

The Fed's rate-cut cycle may come to an end this year, as its latest stance suggests a slower pace of rate cuts amid sticky US inflation that remains above the 2% target, signaling a possible end to the easing cycle. However, the upcoming change of Fed Chair, with Jerome Powell's term ending in May, could introduce further uncertainty. On the other hand, the BoJ is in the midst of a rate-hike phase, though its future path remains unclear—making global monetary policy increasingly unpredictable overall.

4. **High Uncertainty in US Tariff and Trump's Policy Direction**

US import tariffs—currently under review by the Supreme Court—pose significant uncertainty, as they have broad-reaching effects and have been a major source of financial market volatility.

Figure 3: Global uncerntainty index



Source: Bloomberg, KBank

5. **Thailand Domestic Factors**

Thailand's economy also requires close attention, with growth potentially below 2% this year and low inflation. We expect the Bank of Thailand (BoT) to cut rates again this year to support the economy amid slowing exports and tourism. Political developments in Thailand also remain an important factor to monitor.

Figure 4: Thailand economic forecast

%YoY	2024	2025F						2026F			
		KResearch		NESDC		BOT		KResearch	BOT		NESDC
		Oct-25	Nov-25	Aug-25	Nov-25	Oct-25	Dec-25	Dec-25	Oct-25	Dec-25	Nov-25
GDP growth	2.5	1.8	2.0	2.0	2.0	2.2	2.2	1.6	1.6	1.5	1.7
Private consumption	4.4	2.0	2.6	2.1	2.8	2.1	2.4	1.8	1.8	1.9	2.1
Government consumption	2.5	1.5	0.3	1.2	0.3	0.8	0.3	0.4	0.6	0.0	1.2
Private investment	-1.6	0.6	1.8	1.0	2.0	0.3	2.0	1.2	1.4	2.2	0.9
Public investment	4.8	3.5	6.0	5.2	6.8	5.1	7.1	2.5	6.5	0.8	2.9
Exports of goods (USD term	5.9	11.0	11.0	5.5	11.2	10.0	12.0	-1.2	-1.0	0.6	-0.3
Import of goods (USD terms	5.5	10.3	10.3	5.8	10.4	10.2	13.3	-0.8	0.0	1.3	0.7
Current account (USD bn)	11.6	19.0	19.0	11.9	15.8	14.0	14.0	20.0	13.0	12.0	14.0
Headline inflation	0.4	-0.1	-0.1	0.3	-0.2	0.0	-0.1	0.4	0.5	0.3	0.5
Tourist arrivals (mn)	35.5	32.2	32.9	33.0	33.0	33.0	33.0	34.1	35.0	35.0	32.9
Dubai oil price (USD/barrel)	79.6	68.0	68.0	70.0	70.0	70.0	70.0	62.0	65.0	63.0	68.0

Source: Bloomberg, KBank

Capital markets recap, December 2025

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- The U.S. dollar fell more than -1% in December and ended 2025 down over -9%, its worst performance in eight years, driven by expectations of continued Fed rate cuts as well as concerns over fiscal risks, central bank independence, and higher import tariffs. We expect these factors to remain key headwinds for the dollar in 2026. Meanwhile, the Thai baht strengthened by around 1.6% in December and 8.2% for the year, ranking as the second-strongest currency in Asia. The baht's gains were largely driven by external factors, which are likely to fade in 2026, while domestic fundamentals take on a larger role, pointing to modest depreciation.

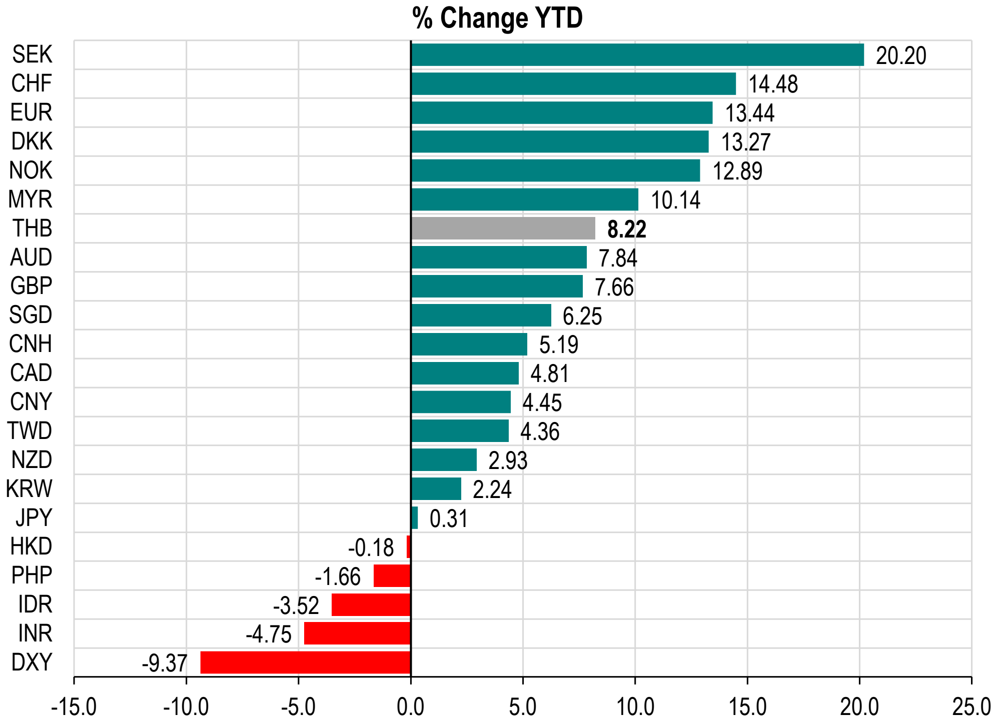
- US Treasury yields declined across most maturities in 2025, led by the short end, enabling the US bond market to post returns of over 6%, the highest since 2020, amid growth-dampening trade policies and Fed easing. Thai government bond yields also fell sharply, reflecting the Bank of Thailand's four policy rate cuts aimed at supporting growth in a low-inflation environment.

FX Markets

The US dollar fell by -1.1% in December 2025 and ended the year down by more than -9%, marking its worst annual performance since 2017. This weakness was partly driven by expectations of continued Fed rate cuts. At the December 9–10 FOMC meeting, the Fed lowered the policy rate to 3.50–3.75%, as expected, marking the third rate cut in 2025. While Fed officials remain divided over the future path of interest rates—reflecting differing views on inflation and labor-market risks—and the dot plot has become more dispersed, it still signals one additional rate cut in 2026. However, markets are pricing in at least two rate cuts, amid mixed US economic data.

US nonfarm payrolls rebounded by 64,000 jobs in November, improving from a sharp contraction of 105,000 jobs in October. Nevertheless, the unemployment rate rose to 4.6% in November, its highest level in four years and worse than expected. Meanwhile, headline inflation slowed to 2.7%YoY, below the market expectation of 3.1%YoY, while core inflation decelerated to 2.6%YoY, its lowest level since 2021 and below expectations. In addition, the anticipated appointment of a new Fed Chair after Jerome Powell's term ends in May 2026, widely expected to adopt a more dovish stance, has reinforced expectations for further rate cuts. The US dollar has also faced pressure from fiscal risks, concerns over central bank independence, and proposed high import tariffs, which are expected to weigh on US economic activity and remain key headwinds for the dollar in 2026.

Figure 1: Monthly Changes in Major Currencies



Source: Bloomberg, KBank

The euro appreciated by more than 1% against the U.S. dollar in December 2025 and strengthened by over 13% for the year, supported primarily by broad dollar weakness. This was reinforced by expectations that the ECB's rate-cutting cycle has already ended, earlier than the Fed's, amid inflation hovering close to the 2% target. Additionally, rising investment in defense and infrastructure is expected to support a recovery in the euro area economy. The ECB maintained its policy rate at 2.00% for the fourth consecutive meeting in December, while markets now see a possibility of a rate hike toward late 2026.

The British pound strengthened by nearly 2% against the US dollar in December and ended the year up almost 8%, supported by improved market confidence following clearer UK fiscal plans that are not expected to overly constrain economic growth. The Bank of England cut its policy rate to 3.75% at its December meeting but signaled a cautious approach going forward. Markets expect at least one additional BoE rate cut around mid-2026.

The Japanese yen depreciated by nearly -1% against the US dollar in December 2025 and ended the year with only a 0.3% appreciation, despite the Bank of Japan raising its policy rate to 0.75%, the highest level in 30 years. Although the BoJ remains on a tightening path, the yen came under pressure in the second half of the year amid political uncertainty, expectations of higher government spending under Prime Minister Sanae Takaichi, and strained Japan–China relations. Moreover, the BoJ has signaled no urgency to raise rates further, with markets expecting no additional hikes until mid-2026.

The Chinese yuan appreciated by 1.2% in December 2025, breaking below the psychological 7.0 yuan per US dollar level for the first time since 2023, and strengthened by around 4.5% for the full year. In addition to US dollar weakness, the yuan was supported by the Chinese government's efforts to maintain exchange-rate stability, the structural transition toward greater reliance on domestic demand, easing US–China trade tensions, and the PBOC's consistently stronger daily fixings.

The Thai baht appreciated by around 1.6% against the US dollar in December 2025 and ended the year up 8.2%, making it the second-strongest currency in Asia. The baht continued to strengthen during December, reaching its strongest level since mid-June 2021 at 31.01 baht per US dollar, before weakening gradually and closing the year at 31.51 following Bank of Thailand (BOT) measures aimed at curbing excessive appreciation, including enhanced reporting requirements for foreign-exchange transactions exceeding USD 200,000.

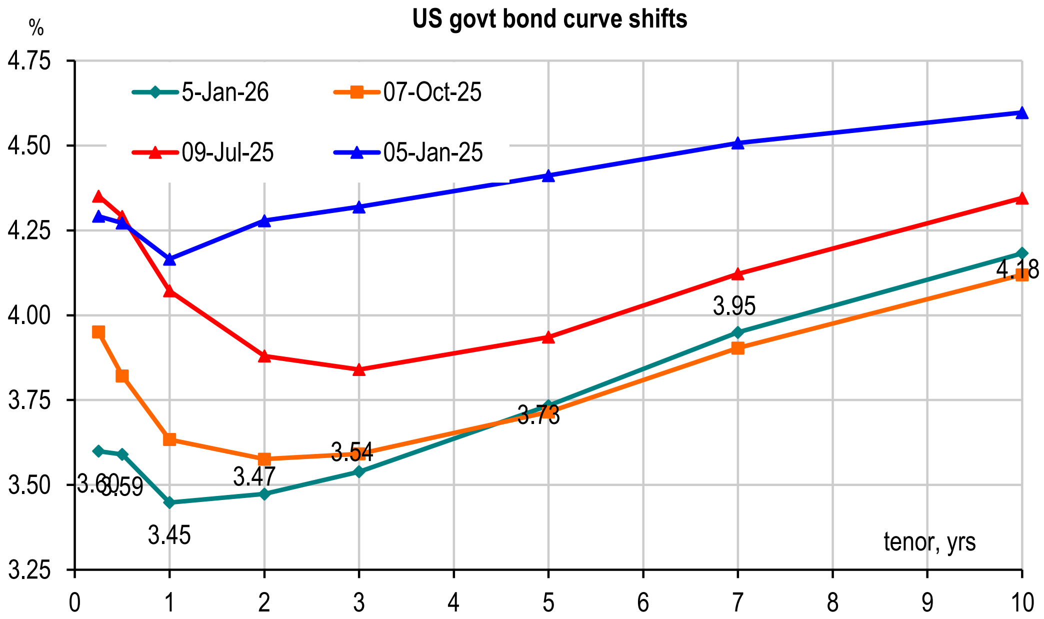
Overall, the baht's appreciation in 2025 was driven mainly by external factors, particularly sharp US dollar weakness and record-high gold prices, while domestic fundamentals, such as the four policy rate cuts by the Monetary Policy Committee (MPC), had a limited impact. Looking ahead to 2026, the baht is expected to depreciate slightly, as external factors have largely been priced in, while domestic factors, including slower economic growth, political uncertainty, and the clearer impact of US trade policies, are likely to play a larger role.

Bond Market

The US bond market delivered returns of over 6% in 2025, the highest since 2020, amid trade policies that weighed on economic activity and the Fed's rate cuts aimed at mitigating labor-market risks. US Treasury yields declined sharply at the short end, with the 2-year yield falling by 77bps, reflecting expectations of Fed rate cuts. The 10-year yield declined by 40bps, while the 30-year yield rose by 6.2 bps, driven by fiscal risks and higher inflation expectations linked to import tariffs.

In December, the 2-year yield edged down by nearly 2bps, closing 2025 at 3.47%, while the 10-year yield rose by around 15bps to 4.17%. We expect short-term yields to decline further, while the 10-year yield is likely to remain elevated due to fiscal concerns, resulting in a steepening yield curve.

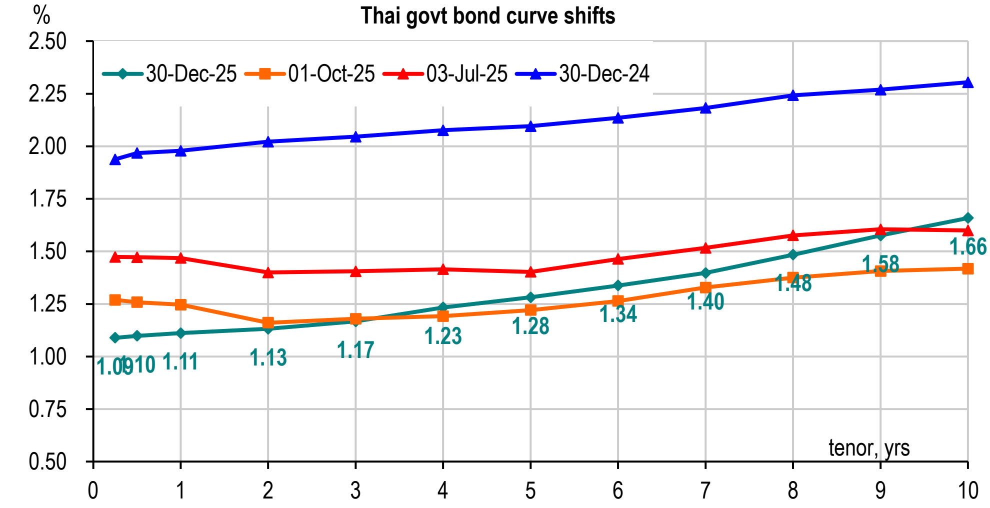
Figure 2: US Bond Markets



Source: Bloomberg, KBank

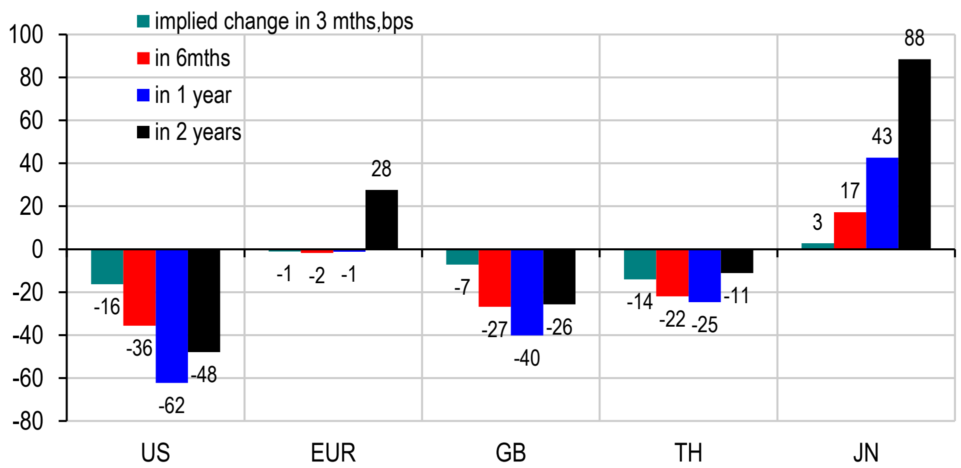
Thai government bond yields also declined significantly in 2025, with the 2-year yield down 77bps and the 10-year yield down 64bps, partly reflecting the BOT's four policy rate cuts aimed at supporting an economy facing multiple risks, including a delayed tourism recovery, US trade policy uncertainty, and flooding in southern Thailand. Inflation is expected to remain below the BOT's 1–3% target range through 2027. We expect the MPC to cut rates once more in 2026, bringing the policy rate to 1.00%, which should allow 2-year yields to edge lower, while 10-year yields are likely to remain stable, tracking global yields and fiscal risks.

Figure 3: Thai Bond Markets



Source: Bloomberg, KBank

Figure 4: Market expectations on central banks rate cut



Source: Bloomberg, KBank as of 5 January 2026.

Economic updates

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Global Economic Update

- **The global economy and international trade are expected to slow in 2026 amid persistently high trade tariffs.** The World Trade Organization's Trade Barometer points to a further deceleration in global trade, despite a recent pickup in exports in several markets. In particular, exports from Asia (excluding China) to the US have grown strongly, supported by demand for AI-related products. However, uncertainty over potential additional US tariff hikes remains a key downside risk.
- **The US economy is projected to grow at a slower pace in 2026.** Signs of a two-tier economy are emerging, with tariffs weighing on low-income households while the AI-driven market boom continues to boost high-income wealth. Inflation is likely to decelerate gradually, led by shelter disinflation. In addition, Trump's focus on affordability—such as exemptions on food tariffs—could further ease price pressures. However, core inflation may remain sticky due to tariff pass-through effects.
- **The Eurozone economy is expected to continue expanding at a subdued pace in 2026.** Growth will be supported mainly by private consumption and government spending, while the manufacturing sector is likely to remain weak. This softness is largely driven by Germany's manufacturing underperformance, reflecting declining exports amid weak global demand and intensifying competition from China. Meanwhile, rising political and fiscal uncertainty in France adds to downside risks for the region.
- **China's economic growth is expected to slow to around 4.2% in 2026.** Supportive factors include monetary and fiscal stimulus measures aimed at stabilizing demand and supply. However, export momentum is fading due to a high base effect and the expansion of trade barriers across multiple countries beyond the US. The property sector remains a major drag, with real estate investment continuing to contract and liquidity pressures on developers persisting.

Thailand's Economic Update

- Thailand's exports accelerated in November 2025, supported by strong electronics shipments. Most exports to the US remain exempt from import tariffs, while the global upcycle—particularly in AI- and data center–related products—provided additional tailwinds.
- KResearch revised up its 2025 export growth forecast to 12.0% from 11.0%, as export performance in the first 11 months exceeded expectations. At the same time, the import growth forecast was raised to 12.2% from 10.3%, in line with stronger export performance.

- **Looking ahead to 2026, Thailand's economic growth is expected to slow to 1.6%, down from an estimated 2.0% in the previous year. The slowdown is attributed to weaker exports, subdued manufacturing activity, and constraints on fiscal policy.**
- Thailand's exports face downside risks and could contract by 1.2%, due to increasingly restrictive US trade measures, particularly the potential expansion of import tariffs under Section 232. In addition, support from the electronics upcycle is expected to fade, while global trade growth is projected to slow.
- Thailand's manufacturing sector is expected to remain sluggish, with the Manufacturing Production Index (MPI) likely to contract for a fourth consecutive year. Weaker domestic and external orders, combined with rising competition from imported goods, are weighing on production across most major categories, including automobiles, electronics, electrical appliances, and food and beverages.
- Private consumption is expected to grow at a slower pace, with services remaining the main source of support. In contrast, spending on durable goods is declining, in line with lower automobile sales amid weak domestic demand, the expiration of government stimulus measures, and tight credit conditions.
- Private investment is likely to decelerate in both the manufacturing and construction sectors. Nonetheless, investment inflows—particularly in data center projects and the government's "Fast Pass" scheme—will provide some support. However, the impact is expected to materialize gradually, as these investments are spread over several years.
- Public investment spending may be delayed during the period of political vacuum, while spending priorities could shift under a new government. Approval of the FY2027 budget may be postponed by 1–2 months from the usual October 2026 timeline. However, the budget preparation process could proceed more quickly than in past episodes, as parliament was dissolved earlier than expected, provided that a new government can be formed swiftly.

The Thai economy in 2026 is expected to slow to 1.6% growth

Key indicators (%YoY except otherwise stated)	2024	2025 (as of Dec 25, 25)	2026f (as of Dec 25, 25)
GDP	**2.5**	**2.0**	**1.6**
Private consumption	4.4	2.6	1.8
Public consumption	2.5	0.3	0.4
Investment	0.0	2.8	1.3
- Private	-1.6	1.8	1.2
- Public	4.8	6.0	2.5
Exports (Customs based in USD)	5.5	12.0	-1.2
Imports (Customs based in USD)	5.9	12.2	-0.8
Headline inflation	0.4	-0.1	0.4
Average Dubai crude oil price (USD/Barrel)	79.7	68.0	62.0
No. of international tourist arrivals (Mn persons)	35.5	33.0	34.1

Source: NESDC, MOC, MOTS, forecasted by Kresearch

Equity market monitor

Will January defy the usual pattern?

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- Despite a volatile week, the SET closed flat in the last week of 2025, holding above the 1,250 support level amid mixed sector performances.
- Optimism over an election-related rally and January effect amid easing pressure from LTF redemptions creates a positive market environment.
- We expect SET to trade in a range of 1,250-1,290 with a preference for large-cap, high-beta stocks and selected high-yield names.

Key Highlights

► **Market held at the key support. In the final week of the year, the SET Index closed virtually unchanged at 1,259 points**, edging up by just 0.4 points as trading was limited to only two sessions due to the year-end holiday period. Market turnover was light as many investors stayed on the sidelines, although price movements remained volatile. The index initially weakened on Monday, slipping below the key support level of 1,250 points before rebounding on Tuesday to close above that level. DELTA was the main contributor to the recovery, providing positive support to the index. In contrast, THAI exerted significant downward pressure following a legal challenge to the resolution appointing a new board and concerns over the upcoming unlocking of shares.

► **Electronics rebounded while transportation dragged the market. From a sectoral perspective, performances were mixed across the market.** Insurance stocks outperformed supported by gains in TLI and BLA, while the Electronics sector posted solid returns led by DELTA. Banking shares delivered modest gains, with BAY leading and the broader sector performing slightly positive. On the downside, Transportation stocks underperformed, dragged down by sharp declines in THAI and AOT. Healthcare and Commerce also lagged the market pressured by heavyweight stocks such as BDMS, BH, CPALL, and CRC.

► **Busy week for economic releases. Attention this week will shift to key global economic data releases, particularly from the US.** Investors will closely monitor the ISM Manufacturing Index, job openings data, and labor market indicators including non-farm payrolls and the unemployment rate. Although payroll growth is expected to slow, markets are likely to focus more on the unemployment rate and job openings, which are both forecast to improve. In addition, China is set to release inflation data, with CPI expected to ease but remain in positive territory, which should help alleviate deflation concerns. Thailand's December inflation data is also due, with inflation expected to remain negative, underscoring rising deflation risks in the domestic economy.

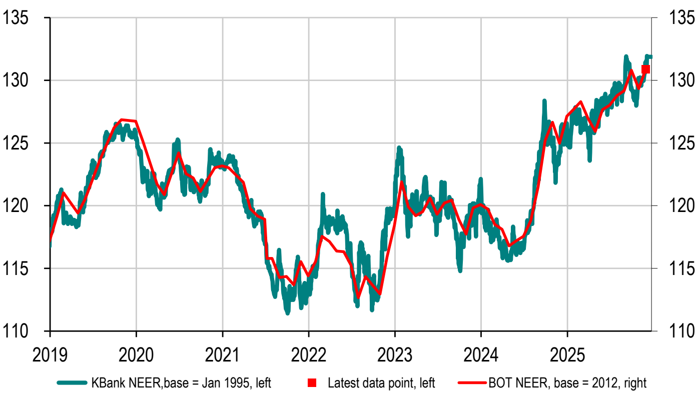
Implication and Recommendation

► Easing pressure from tax-saving fund redemptions. For the SET Index outlook, the market is expected to trade in a range of 1,250-1,280 points this week supported by optimism surrounding an election rally and a January effect, which will contribute to a more constructive tone despite mixed statistical evidence in past years. More importantly, selling pressure from tax-saving fund redemptions is expected to decline, as the final LTF tranche fully matured in 2025. Longer holding requirements for SSF and ESG funds suggest limited redemption pressure in the near term. As a result, we believe any market pullback will be contained near the 1,250-point support level with a potential rebound favoring large-cap, high-beta stocks and high-yield names such as GULF, AOT, PTTGC, AP, and SC.

Economic indicators

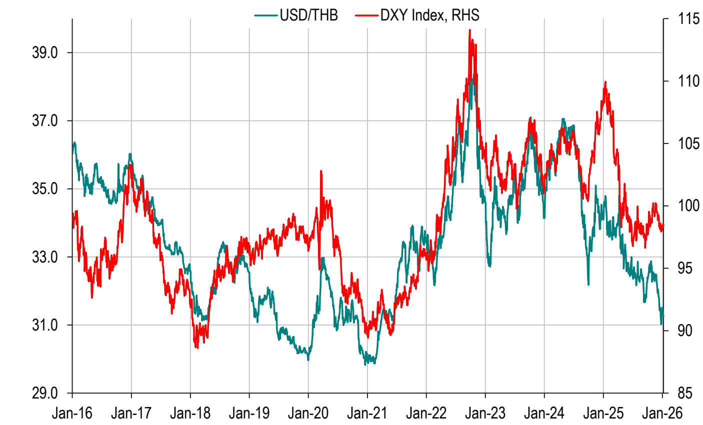
January 2025

Bank THB NEER Index



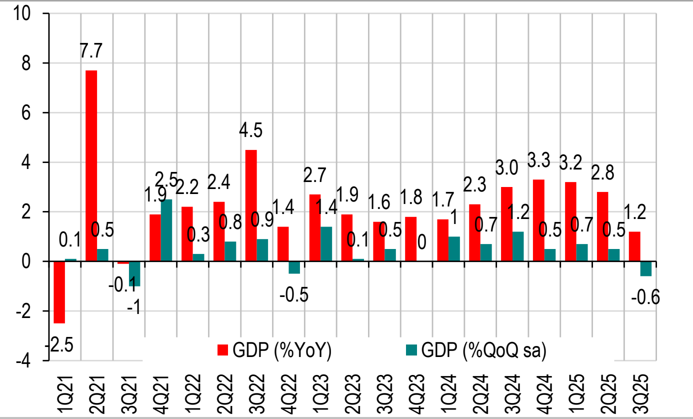
Source: Bloomberg, KBank

USD/THB vs DXY Index



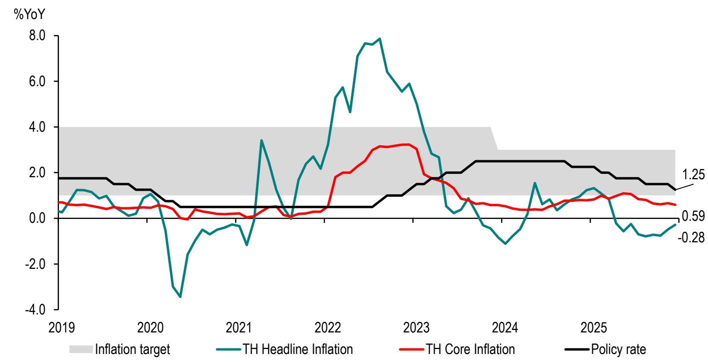
Source: Bloomberg, KBank

Thailand's GDP



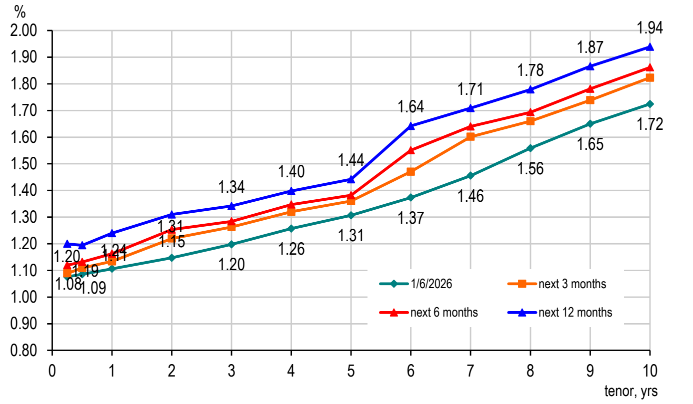
Source: NESDC, KBank

Thai inflation parameters



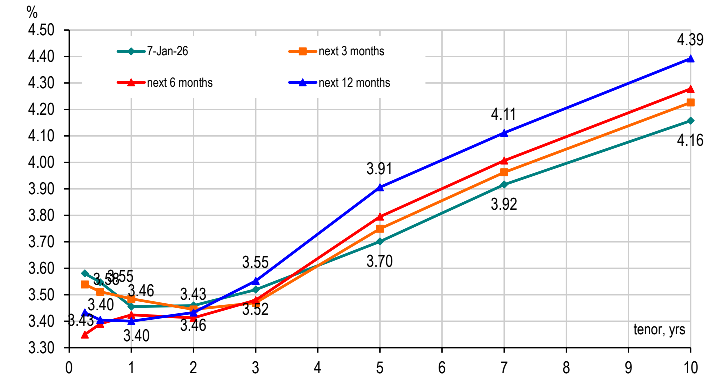
Source: Bloomberg, KBank

Implied forward curve: TGBs



Source: Bloomberg, KBank

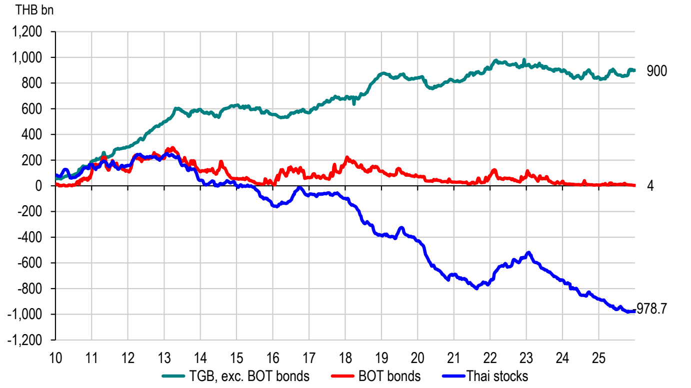
Implied forward curve: USTs



Source: Bloomberg, KBank

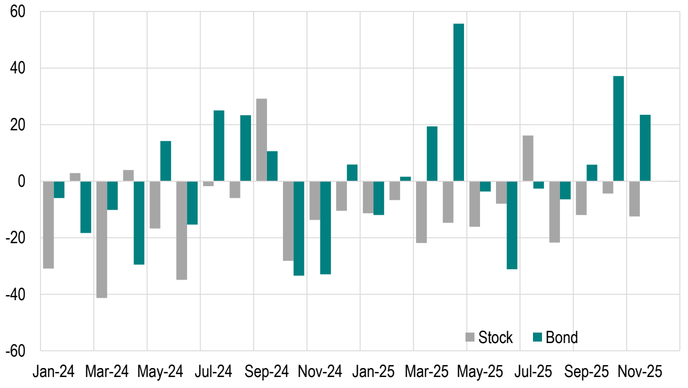
บริการทุกระดับประทับใจ

Foreign holding of Thai fixed income and stock



Source: Bloomberg, ThaiBMA, KBank

Foreign net buy/sell in Thai markets (THB billion)



Source: Bloomberg, KBank

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