The Lion City's Second Act

Singapore Beyond the AI Boom: Services, Wealth, and the Domestic Cushion

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Abstract

Singapore closed 2025 with 5.0% growth, a headline figure flattered by a manufacturing surge (up 18.8% in the fourth quarter, 8.7% for the full year) riding the global AI and semiconductor capex wave. That wave will crest. The Ministry of Trade and Industry has upgraded its 2026 forecast to a range of 2.0 to 4.0%, and the market debate has narrowed to a single question: what happens when the chip cycle rolls over. Our answer is that Singapore is the highest-quality defensive holding in ASEAN precisely because its second act does not depend on silicon. Modern services (finance, professional services, infocomm), an entrenched wealth-management franchise, and a decade-long construction pipeline anchored by Changi Terminal 5, Tuas Port, and the North-South Corridor provide a domestic cushion no regional peer can match. With the Monetary Authority of Singapore maintaining gradual Singapore dollar nominal effective exchange rate appreciation and core inflation contained at 1.0 to 2.0%, we hold Singapore Overweight as the quality-defense anchor of our APAC book.

1. The 2025 Print and Why the Market Is Reading It Wrong

Singapore's 5.0% full-year growth in 2025 was the fastest since the post-pandemic rebound, and the fourth-quarter acceleration to 6.9% year-on-year genuinely surprised to the upside. The proximate driver is unambiguous. Manufacturing expanded 18.8% in the fourth quarter and 8.7% across 2025, powered by electronics and precision engineering clusters plugged directly into the global build-out of AI compute. Semiconductor equipment, advanced logic testing, and the machinery that supports fabrication elsewhere in the region all flowed through Singapore's value chain.

The consensus reading is that this makes Singapore a high-beta play on the AI capex cycle, and therefore vulnerable when that cycle peaks. We think that framing is half right and dangerously incomplete. It is correct that the manufacturing contribution is cyclical and will fade. J.P. Morgan estimates Taiwan and Korea together absorb roughly 30% of global AI capex, and the same demand impulse that lifted their earnings 12 to 13% lifted Singapore's electronics output. When that impulse normalizes, the manufacturing line item decelerates. That is not in dispute.

What the consensus misses is the composition of the other 80% of the economy. Singapore is not Taiwan with better weather. It is a services economy in which finance, professional services, and infocomm together generate a larger and structurally stickier share of value added than manufacturing ever will. The 2025 headline borrowed brightness from the chip cycle, but the underlying trend growth is carried by activities that do not trade on the SOX index.

> **Our view:** The AI manufacturing surge is a genuine tailwind that is genuinely temporary. Investors who treat Singapore as a chip proxy will misprice it twice, first on the way up and then on the way down. The correct frame is a services and wealth economy with a cyclical manufacturing option attached, not the reverse.

2. Modern Services: The Real Engine

The modern services cluster, which the Ministry of Trade and Industry defines to include finance and insurance, information and communications, and professional services, is where Singapore's comparative advantage compounds. These sectors are less correlated to global goods trade than manufacturing, which matters enormously in 2026: the World Trade Organization projects global merchandise trade volume growth of only around 0.5%, down sharply from above 2% in 2024 and 2025. A trade-geared economy would be exposed. A services-geared hub is insulated.

2.1 Finance and Insurance

The finance and insurance sector remains the single largest contributor to services value added. Its resilience rests on functions that are regional or global in scope rather than domestic: treasury operations, capital markets, foreign exchange, insurance and reinsurance, and increasingly the plumbing of digital assets under a regulatory regime that competitors have struggled to replicate. Singapore's foreign exchange turnover ranks third globally behind London and New York, and that flow business does not require the semiconductor cycle to cooperate.

2.2 Infocomm and Professional Services

Information and communications benefits from a second-order AI effect that outlasts the hardware build. As enterprises across Southeast Asia deploy AI tooling, the software, systems integration, data-center operation, and cloud services that sit above the silicon layer accrue disproportionately to Singapore, the region's default digital headquarters. Professional services (legal, accounting, consulting, and the corporate-services layer that supports the wealth franchise discussed below) grow with regional corporate activity rather than with goods volumes.

> **Our view:** Modern services are the reason Singapore can post trend growth in a year when world trade grows half a percent. We expect the services cluster to carry the economy through 2026 as manufacturing decelerates, keeping full-year growth comfortably inside the MTI 2.0 to 4.0% band, and we place our central estimate at 2.8%.

3. The Wealth-Management Franchise

Singapore's emergence as Asia's pre-eminent private-wealth center is the structural story that receives too little weight in cyclical growth debates. Assets under management booked in Singapore have grown at a double-digit annual pace over the past several years, driven by inflows from across Asia and, increasingly, from family offices relocating their operating base. The number of single-family offices awarded tax-incentive status has risen into the multiple thousands, each anchoring a cluster of demand for legal, tax, banking, and investment-management services.

This franchise matters for three reasons. First, it is annuity-like: management fees on a growing asset base produce recurring revenue that is far less cyclical than manufacturing throughput. Second, it is self-reinforcing, because each family office and private bank that establishes here deepens the talent pool and service ecosystem that attracts the next entrant. Third, it is politically durable, resting on rule of law, currency stability, and a tax regime that the government has defended even while tightening anti-money-laundering scrutiny after high-profile enforcement actions.

The tightening of scrutiny is a feature, not a bug. By raising compliance standards after enforcement cases, MAS has traded some marginal inflow for durability, positioning Singapore as the jurisdiction that global capital can hold without headline risk. In a world of central-bank divergence and geopolitical fragmentation, that reputational moat is worth more than a few basis points of AUM growth.

> **Our view:** The wealth-management franchise is the most underappreciated component of the Singapore thesis. It converts regional instability into domestic fee income, and it deepens every year. We regard it as the ballast that justifies a defensive Overweight even if the chip cycle disappoints.

4. The Construction Cushion

If services provide the trend and wealth provides the ballast, the construction pipeline provides the near-term domestic cushion that makes Singapore uniquely well-hedged against an external slowdown. Three mega-projects anchor a decade of committed public and public-private investment, and their timing is close to ideal: they ramp precisely as the manufacturing cycle is expected to soften.

- Changi Airport Terminal 5, a multi-decade capacity expansion that will lift Changi's handling capacity by roughly 50 million passengers a year, with sustained civil-works spending through the late 2020s and construction now firmly underway.
- Tuas Port, the phased consolidation of Singapore's container operations into what is designed to be the world's largest fully automated terminal, with reclamation and berth construction continuing across multiple phases into the 2040s.
- The North-South Corridor, an integrated transport artery combining an expressway with dedicated bus and cycling infrastructure, contributing steady civil-engineering demand through completion later this decade.

Construction is domestically generated demand. It employs local and foreign labor, draws on public balance-sheet capacity that Singapore possesses in abundance, and is largely immune to the swings of global goods trade. In effect, the state has pre-committed a countercyclical spending program that will be running at full tilt exactly when the private cyclical impulse fades. Few economies enter a potential external slowdown with such a large, funded, non-tradable investment pipeline already in motion.

> **Our view:** The construction pipeline is a policy luxury. It gives Singapore a fiscal and demand cushion that no other ASEAN economy can match in scale or credibility, and it is the practical reason we are comfortable underwriting the downside case. Manufacturing can decelerate and construction plus services can still hold growth inside the MTI band.

5. Policy: MAS, the Singapore Dollar, and Inflation

Singapore's monetary framework is unique among the economies in our coverage. Rather than setting a policy interest rate, MAS manages the Singapore dollar nominal effective exchange rate (S$NEER) within an undisclosed policy band, adjusting the slope, width, and center to lean against imported inflation. Heading into mid-2026, MAS is maintaining a stance of gradual and modest S$NEER appreciation, a posture consistent with core inflation running inside the 1.0 to 2.0% comfort zone.

This places Singapore at one specific node of the central-bank divergence that defines APAC in 2026. The Bank of Japan is normalizing, with its policy rate heading toward 0.75 to 1.0% by mid-year and the 10-year JGB yield above 2.3%, the highest since 1998. The People's Bank of China is easing into persistent deflation. The Federal Reserve is cutting. MAS, by contrast, is appreciating. A gently strengthening currency backstops the wealth franchise (foreign capital is preserved in Singapore dollar terms), disciplines imported inflation, and signals institutional stability that reinforces the flight-to-quality bid.

Economy	2026 GDP (est.)	Policy Direction	Inflation Backdrop	Darmine Stance
Singapore	2.0 to 4.0%	S$NEER appreciation	Core 1.0 to 2.0%	Overweight
India	~6.5%	Easing bias	Contained	Overweight (top conviction)
Indonesia	~5.0%	Neutral to easing	Anchored	Overweight / accumulate
Japan	~1.0%	Tightening (BOJ)	FY2026 ~1.6%	Market weight
China	~4.4 to 4.5%	Easing (PBoC)	Deflation	Underweight (domestic)
South Korea	~1.8%	Recovery	Normalizing	Underweight / tactical
Thailand	1.8 to 2.5%	Easing	Weak	Underweight

Estimates consistent with the Darmine house macro baseline, June 2026. Singapore 2026 range per MTI; central Darmine estimate 2.8%.

> **Our view:** MAS appreciation is a quiet competitive advantage. In a year defined by policy divergence, Singapore offers a strengthening store-of-value currency, contained inflation, and no interest-rate policy error to worry about. That combination is why the wealth-management bid is durable and why Singapore trades as the region's safe harbor.

6. The Central Risk: When AI Capex Peaks

Intellectual honesty requires naming the risk that most threatens the 2026 print. The AI and semiconductor capex cycle that drove 18.8% fourth-quarter manufacturing growth will at some point plateau or contract. When hyperscaler capital budgets stop accelerating, the demand impulse flowing through Singapore's electronics cluster reverses, and the manufacturing contribution to GDP swings from a strong positive to a drag. This is the single most important variable for the headline number.

6.1 Sizing the Downside

The relevant question is not whether manufacturing decelerates (it will) but how much of the rest of the economy travels with it. Our judgment is: not much. The chip cycle feeds the electronics and precision-engineering clusters directly, but its transmission into finance, wealth management, professional services, and construction is weak. Even a sharp manufacturing contraction, say a swing from plus 8.7% to a low-single-digit decline, would subtract on the order of one to one and a half percentage points from headline growth, which is precisely the width of the MTI forecast band. That is the design of a diversified economy: the cyclical option can expire worthless and the core still compounds.

6.2 Secondary Risks

- External trade shock: with WTO global merchandise trade volume growth at only ~0.5% in 2026, a further deterioration in the tariff environment or a China demand air-pocket would pressure the trade-related services and re-export channels.
- China spillover: China's persistent deflation and property overhang, with a 47.5% US effective tariff, could depress regional trade finance and wealth flows sourced from Chinese clients, though Singapore has diversified its inflow base.
- Property and cost pressures: elevated Singapore dollar strength and high domestic costs are a competitiveness tax on lower-margin activities, and residential-property cooling measures remain a domestic policy swing factor.
- Labor constraints: the construction and services pipeline runs into a structurally tight domestic labor market, keeping wage pressure and foreign-worker policy in focus.

> **Our view:** We do not dismiss the AI-peak risk; we size it. The manufacturing swing is real and could cost a point or more of headline growth, but the diversified core absorbs it. The risk to Singapore is a softer print inside the forecast band, not a hard landing. That asymmetry is exactly what defines a defensive holding.

7. Relative Value: Singapore in the ASEAN and APAC Book

Singapore's role in our APAC allocation is not to generate the highest growth; India (~6.5%, our top structural conviction), Indonesia (~5.0%), and Vietnam (~6.0 to 6.5%) all screen faster. Singapore's role is to anchor the book with quality. It offers institutional stability, a strengthening currency, a contained inflation profile, and an earnings base skewed toward annuity-like services and fees rather than cyclical goods. In a portfolio that is Overweight the high-growth structural stories, Singapore is the ballast that lets us hold those positions through volatility.

Against regional peers the contrast is sharp. Thailand (1.8 to 2.5%) is the regional laggard, weighed by household debt, a weak auto transition, and soft China tourism into a March 2026 election. South Korea (~1.8% recovery off a 1.1% 2025 collapse) is high-beta to the same memory-chip cycle that makes it tactical rather than core. Even within the AI-exposed cohort, Singapore is distinguished by the breadth of what it owns beyond the chip: no ASEAN peer combines a global wealth hub, a top-three FX center, and a funded decade-long construction pipeline in a single, AAA-rated, politically stable package.

> **Our view:** Buy Singapore for what it is: the highest-quality defensive exposure in ASEAN. It will not top the growth league table in 2026, and it is not supposed to. It is the position you hold so that you can hold India,

> Indonesia, and Vietnam through the drawdowns. That is the whole point of a quality anchor.

Portfolio Positioning Summary

Overweight: Singapore, as the quality-defense anchor of the APAC book. The thesis rests on modern services (finance, infocomm, professional services), an entrenched and deepening wealth-management franchise, and a funded construction pipeline (Changi T5, Tuas Port, North-South Corridor) that provides a countercyclical domestic cushion. MAS gradual S$NEER appreciation and contained core inflation (1.0 to 2.0%) reinforce the safe-harbor status. Central 2026 growth estimate 2.8%, inside the MTI 2.0 to 4.0% band.

Market weight: Selective Singapore financials and REITs as vehicles to express the wealth and services thesis, with an eye on Singapore dollar strength as a total-return tailwind for foreign holders. Neutral on manufacturing-geared and electronics-exposed names given the maturing AI capex cycle.

Underweight: Pure manufacturing and electronics-cyclical exposure tied to the AI capex peak, and trade-re-export-geared activities most sensitive to the ~0.5% global merchandise trade volume growth backdrop. Prefer to own Singapore through its services and fee base, not its silicon.

Key catalysts to reassess: Reassess if: (1) hyperscaler capex guidance turns down materially, signaling the manufacturing swing has begun; (2) MAS changes the S$NEER slope at a scheduled review, altering the currency and inflation calculus; (3) MTI revises the 2.0 to 4.0% band; (4) wealth-management inflows or family-office formation stall on regulatory tightening or a China-client air-pocket; (5) a further leg down in global trade or a China demand shock spills into regional services.

Conclusion

Singapore's 2025 was a headline flattered by silicon and a body built on something sturdier. The 5.0% print and the 18.8% fourth-quarter manufacturing surge were real, and the market is right that they will not repeat. Where the market errs is in concluding that Singapore is therefore a chip proxy to be sold when the cycle turns. The Lion City's second act is written in services, wealth, and concrete: a finance and infocomm cluster insulated from the ~0.5% global goods-trade grind, a wealth-management franchise that converts regional instability into recurring fee income, and a decade-long construction pipeline that ramps precisely as the cyclical impulse fades.

We hold Singapore Overweight as the highest-quality defensive exposure in ASEAN. It will not win the 2026 growth race against India or Indonesia, and it does not need to. With MAS maintaining gradual S$NEER appreciation, core inflation contained at 1.0 to 2.0%, and a diversified base that can absorb even a sharp manufacturing swing while keeping growth inside the MTI 2.0 to 4.0% band, Singapore is the anchor that lets a macro book stay long the region's structural growth stories through whatever the AI capex cycle does next. That is the quality you pay for, and in June 2026 it is still worth paying for.

Sources and Further Reading

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