

Energy shock increases importance of earnings guidance

How will companies guide earnings in the current higher for longer energy price environment?

Markets enter this week conflicted between more negative news flow about the Iran-US conflict and the start of the Q1 US earnings season. The Iran-US negotiations over the weekend disappointed markets by ending with no apparent agreement or progress and a resulting US escalation of military pressure on Iran. US President Trump announced that the US Navy will interdict ships attempting to transit the Strait of Hormuz if they have paid tolls to Iran, called on Iranian ports, or have sailed close to Iran's shores. Presumably the last condition refers to ships using the new Iran-approved transit routes.

We question how this US blockade will work given that it would imply the potential for the US Navy to interdict Chinese flagged ships. Two Chinese Very Large Crude Carriers transited the Strait eastward on April 11. Even if the US makes an exception for Chinese ships, the blockade implies that the Strait will continue for the foreseeable future, as no timeline has yet been set for the resumption of Iran-US talks. With the continued closure of the Strait, our modelling suggests that the H2 2026 oil futures appear underpriced with December contract at just over USD81/bbl.

This higher for longer energy price background increases the importance of the corporate guidance that will accompany the US Q1 earnings results. According to Factset, the current consensus estimate for Q1 earnings growth stands at 12.6%. Increasing this by the average improvement in the earnings growth rate during the earnings season implies that earnings could grow as much as 19% in Q2 – which would represent a sixth consecutive quarter of double-digit earnings growth and the strongest growth since the 32.0% recorded in Q2 2021.

Surprisingly, we have noted that over the past couple of weeks, consensus earnings have been revised up since the start of the Iran War for the US and, in Asia, Japan, Korea, and Taiwan, driven by the AI infrastructure capex boom.

I/B/E/S consensus earnings for MSCI indexes

	US	US IT	Europe	Japan	Korea	China A
2027 estimate, % chg from 27/02/26	3.4	9.7	-1.2	0.7	17.7	-1.6
2025 - 27 cumulative growth	40.6	84.2	26.5	21.6	208.8	39.0



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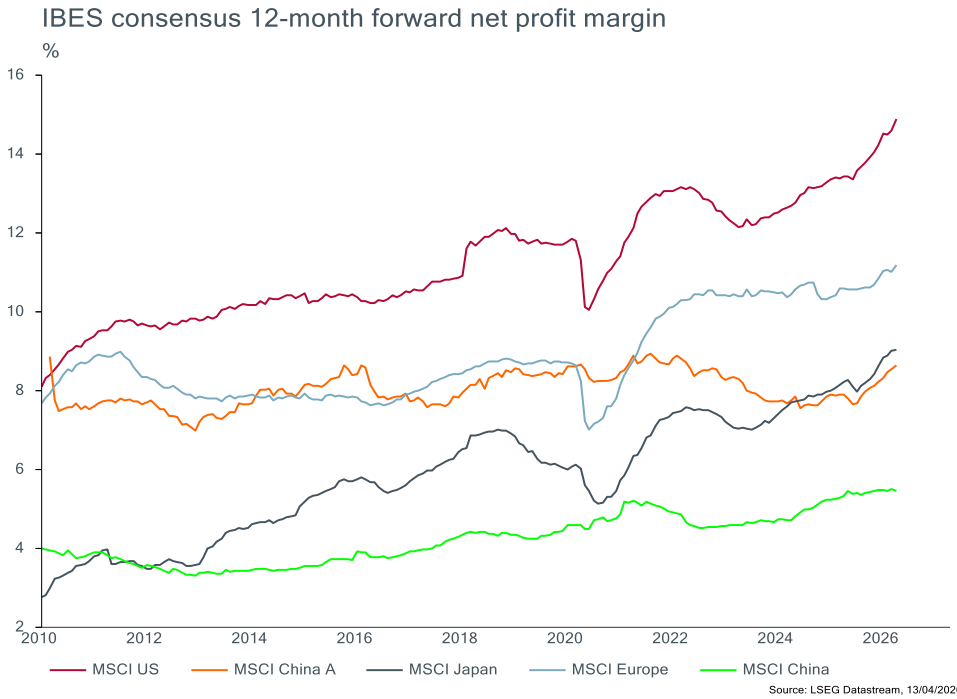


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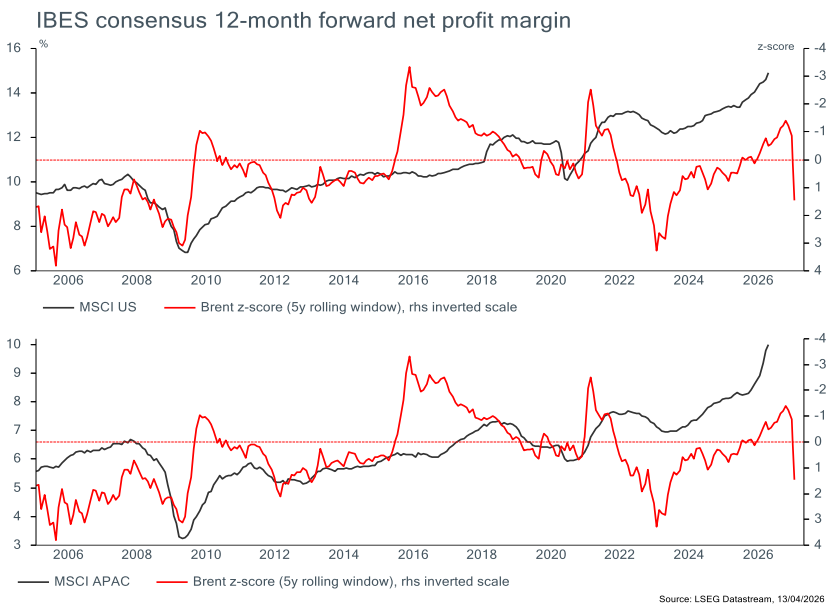
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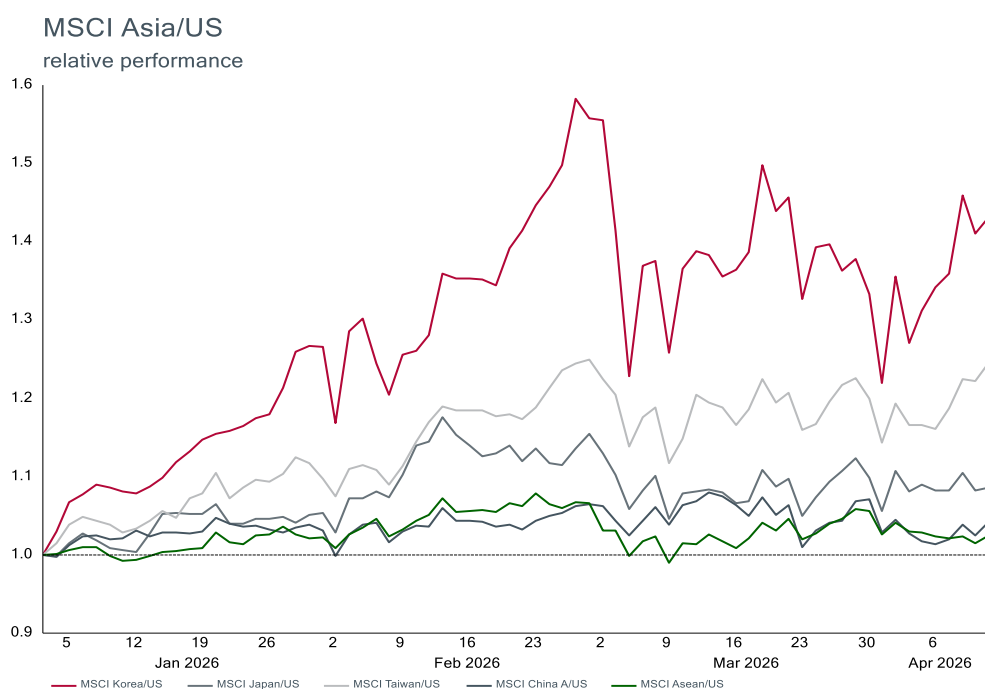
The chart below shows that a key factor underlying these upward revisions and high earnings growth forecasts is the expectations for record high margins in the US, Europe, and Japan over the next year.



However, historically, the chart below suggests that corporate margins tend to deteriorate following energy price shocks, as these shocks tend to weaken economic growth and increase costs. This raises the question of whether the period ahead will be different because AI-related earnings make up a rising share of aggregate market earnings in the US, Korea, and Taiwan, which may potentially prove immune to higher energy costs.



This earnings optimism has limited the S&P 500's year-to-date loss through April 10 to only 0.4%. However, this resilience pales in comparison to the Asian markets'. The MSCI Korea and MSCI Taiwan indexes have resumed their outperformance of the US over the past week, pushing year-to-date returns through April 10 to 46.4% and 24.5% respectively. MSCI Japan and MSCI China A-shares are up 9.5% and 2.8% year-to-date respectively.

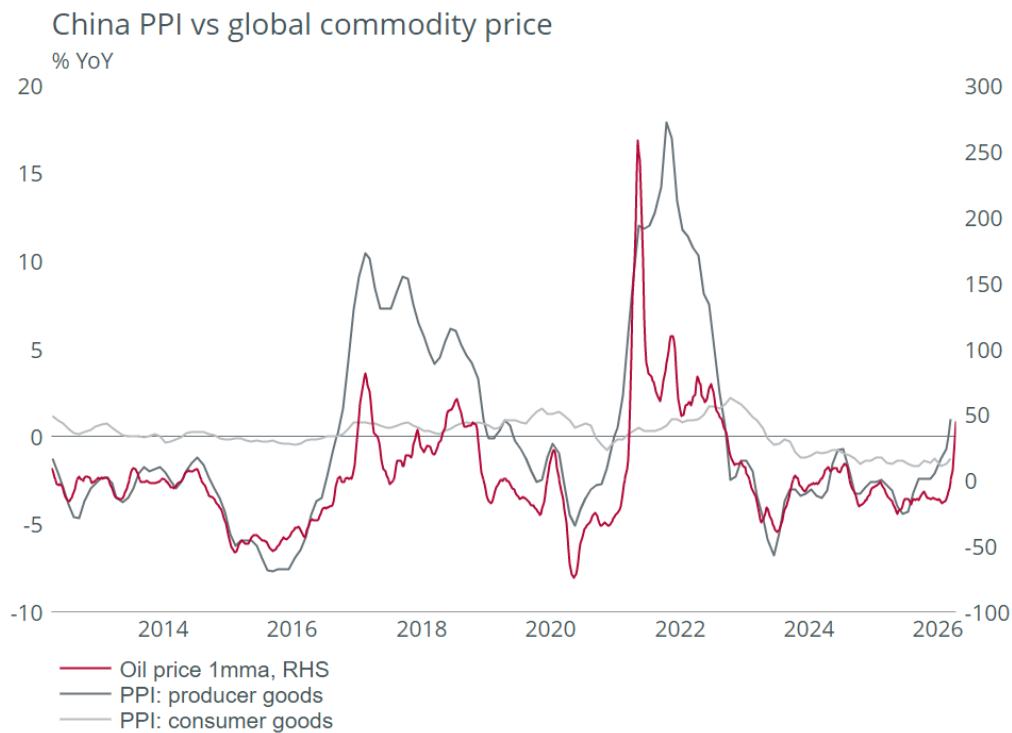


Investing in Chinese resilience is best done selectively

China's relatively stable access to oil supplies and its diversified energy mix have led to a growing consensus that China will emerge as a relative winner from the current energy shock. We broadly agree with this view, as we have argued here over the past several weeks.

However, we also continue to stress the need for research driven, active selection of assets in China. Although China is better positioned than many countries to weather the current energy price shock, domestic energy prices are nonetheless rising with differential effects on sectors and companies.

Domestic fuel prices jumped by a record 10% month-on-month in March, and China's Producer Price Index (PPI) inflation turned positive at 0.5% year-on-year. This marked the first instance of PPI inflation since 2022. The tight co-movement between China's PPI and global oil prices suggests that PPI inflation will continue in the coming months.

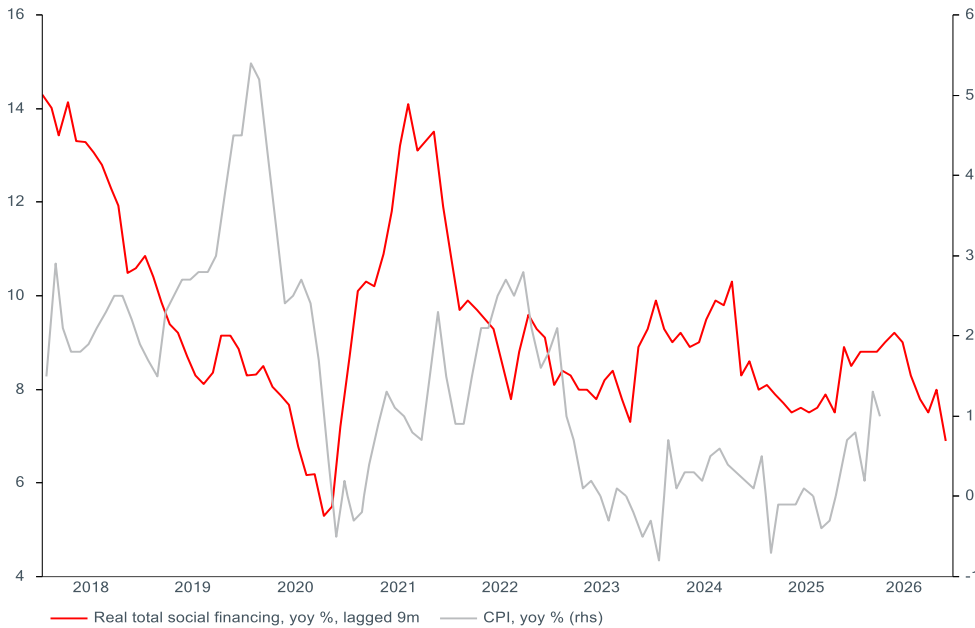


Source: CEIC, Eastspring Investments. 13 April 2026.

Although rising energy prices may end Chinese deflation, they do so for the wrong reason – costs – rather than stronger domestic demand growth. Fundamental disinflationary forces, including excess capacity and subdued income growth, remain firmly in place. Weak domestic demand continues to limit the pass-through from rising PPI to CPI. As shown by the pale grey line in the chart above, consumer goods PPI inflation remained deeply negative in March.

Looking forward, slowing credit growth acts as a proxy for the disinflationary pressure on the economy from ongoing property market deflation and the absence of growth in government subsidies for consumer goods consumption.

Support for reflation will fade without new stimulus

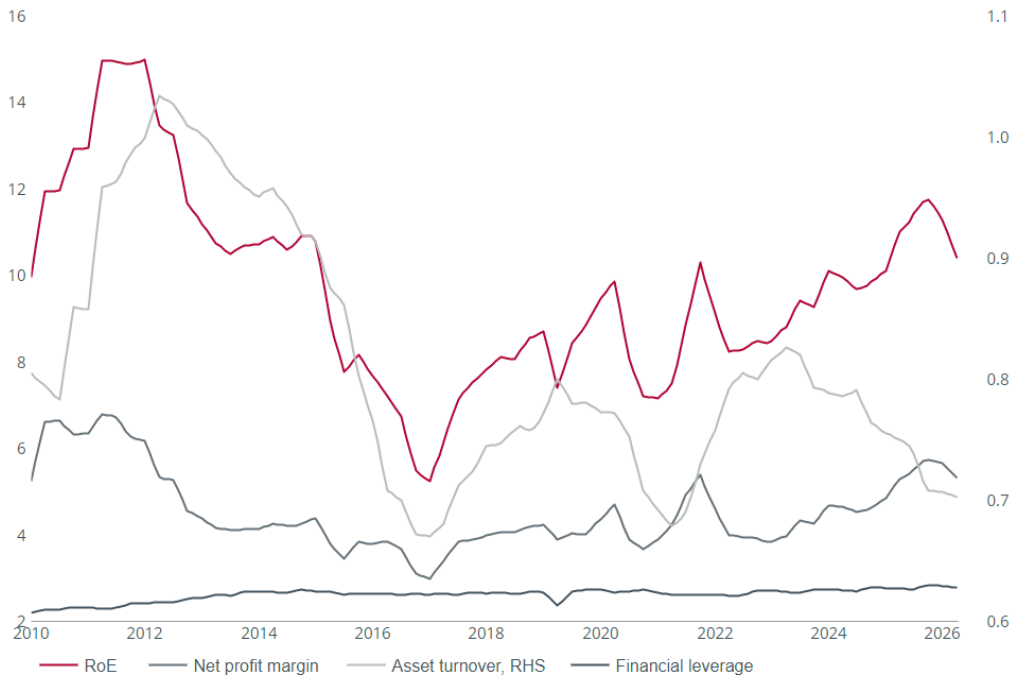


Source: CEIC, Eastspring Investments. 13 April 2026.

Partly in response to rising input cost pressures, Chinese authorities have issued new guidance in recent weeks to strengthen anti-involution enforcement. This includes measures targeting excessive price competition across platforms and in new energy sectors. These are steps in the right direction, but implementation will need to be carefully calibrated to ensure that higher prices do not further undermine the still fragile domestic demand.

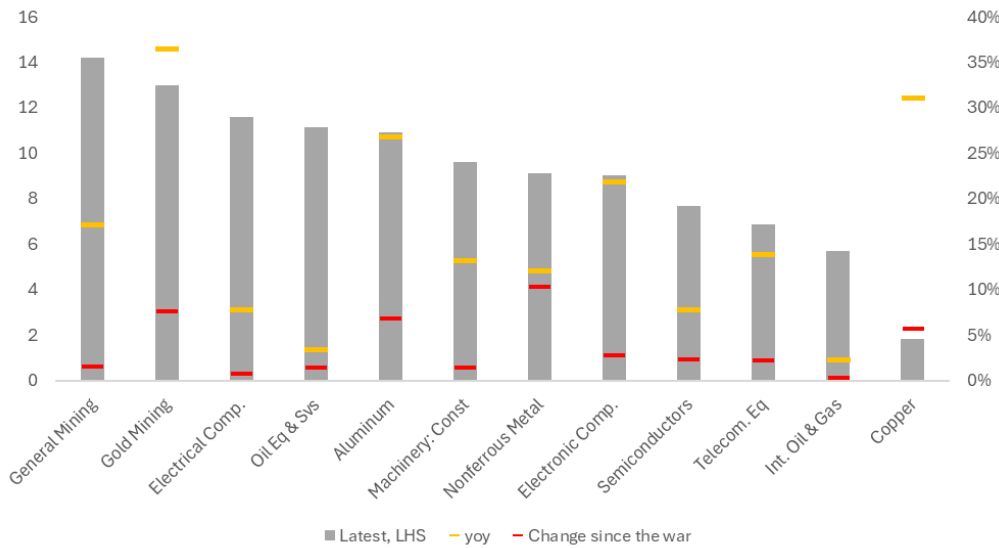
The relative winners in this environment of rising costs but subdued consumer demand growth are likely to be companies that can sustain return on equity improvement through net profit margin (NPM) expansion. These are firms with stronger pricing power, policy support, and stable access to global markets, underpinned by clear competitive advantages. Screening across the China A-share universe indicates that the NPM outlook is most favourable in the energy and materials sectors, as well as among AI beneficiaries.

China equity RoE Dupont breakdown ex financials



Source: CEIC, Eastspring Investments. 13 April 2026.

China A forward 12m net profit margin by sector



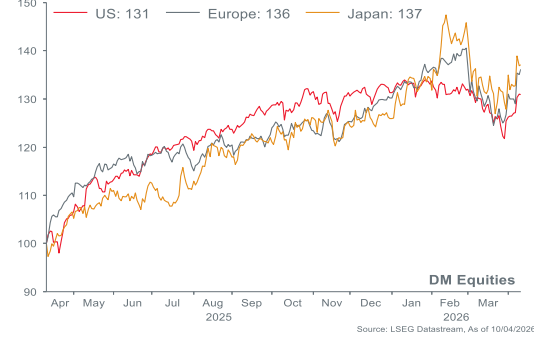
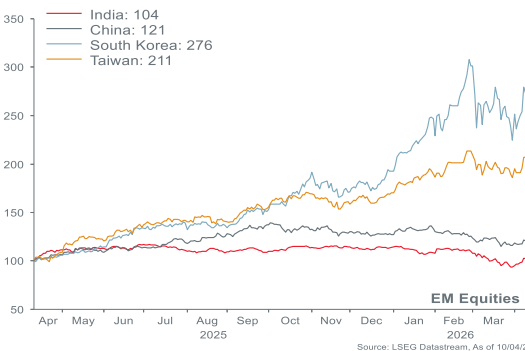
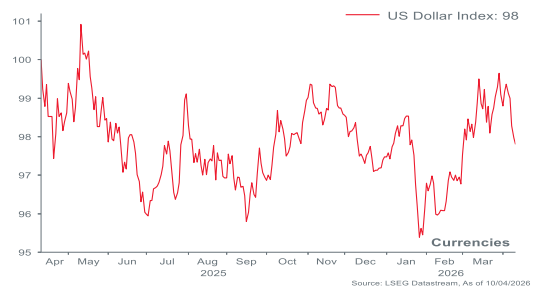
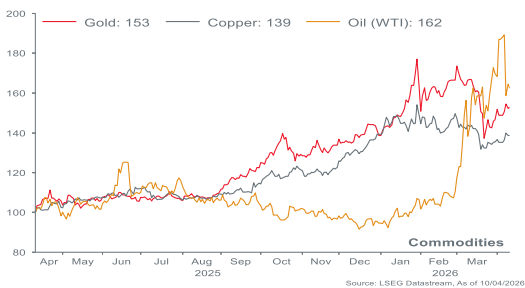
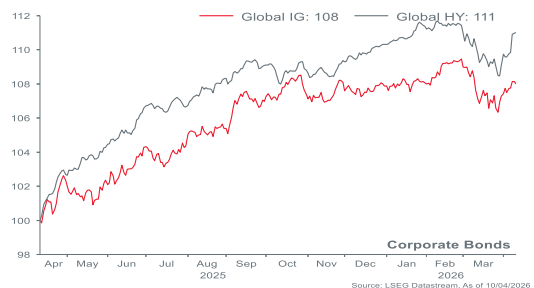
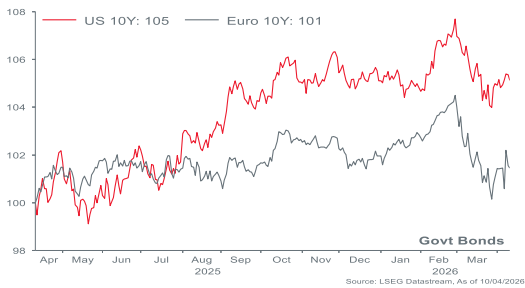
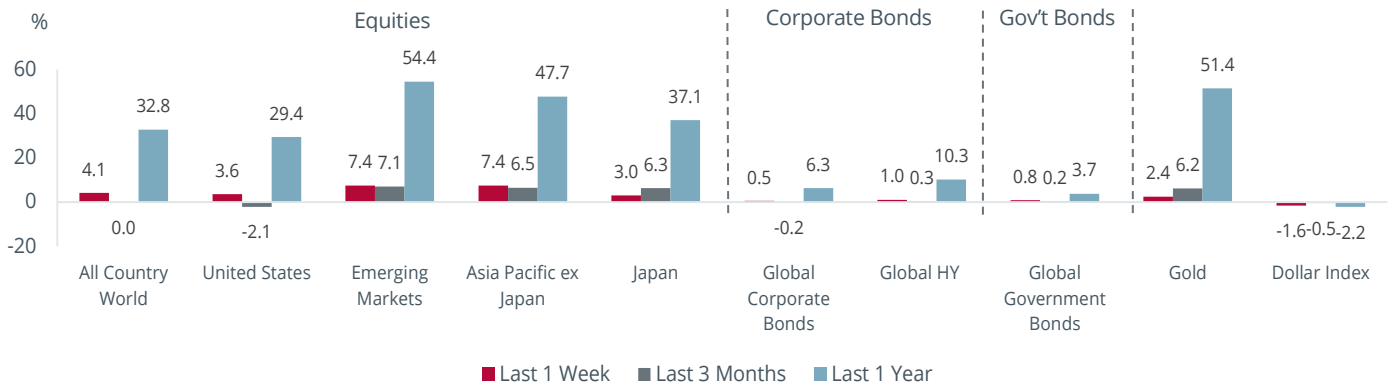
Source: CEIC, Eastspring Investments. 13 April 2026.

Market Review

Global markets delivered a broadly positive performance over the week. The MSCI AC World Index rose 4.1% with the US markets showing resilience - the S&P 500 gained 3.6% and the Nasdaq advanced 4.7%. European equities demonstrated relative strength, posting a gain of 4.6%. Asia Pacific ex Japan and Emerging Markets outperformed by rising 7.4%.

US Treasury yields closed at 4.3%, declining 0.7% over the week. Global government bonds rose 0.8%. Gold rose 2.4% whereas the US Dollar Index declined by 1.6%.

Asset Performance



Market Data

Government Bonds	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
US Treasury Yield (%)								
10 Year	4.32	-0.67	4.38	3.50	-1.71	3.95	4.60	3.95
10 Year Bond Yield (%)								
Japan	2.44	2.31	11.69	16.33	77.55	17.68	2.44	1.26
China	1.82	-0.22	0.28	-3.30	10.27	-2.52	1.93	1.63
Australia	4.97	-1.41	2.35	6.27	16.67	4.39	5.11	4.10
Singapore	2.07	-7.41	0.19	-5.77	-22.50	-6.75	2.68	1.75
Malaysia	3.60	-0.69	1.30	1.81	-3.57	2.89	3.75	3.36
Indonesia	6.55	-1.15	-2.15	6.52	-6.94	7.01	7.07	5.92

	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
Bond Indices								
Bloomberg Global Aggregate USD	93.83	0.16	-0.89	-0.93	0.34	-0.87	95.69	93.14
Bloomberg U.S. Aggregate USD	93.44	0.29	-0.76	-0.70	2.90	-0.67	95.21	90.43

Equity Indices	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
World								
MSCI AC World Index (USD)	1,034.85	4.09	1.05	-0.00	32.80	1.99	1,061.41	779.27
North America								
US S&P 500 Index	6,816.89	3.56	0.52	-2.14	29.40	-0.42	7,002.28	5,101.63
US Nasdaq Composite Index	22,902.89	4.68	0.91	-3.25	39.76	-1.46	24,019.99	15,685.33
Europe								
MSCI Europe	2,738.67	4.56	1.98	1.58	31.84	3.63	2,845.88	2,077.21
Asia Pacific								
MSCI Asia Pacific ex Japan	792.13	7.40	2.59	6.51	47.68	9.69	829.20	536.39
Japan Nikkei 225	56,924.11	7.15	4.93	9.60	64.48	13.08	59,332.43	32,320.66
Shanghai Stock Exchange Composite	3,986.22	2.74	-3.32	-3.26	23.66	0.44	4,197.23	3,201.57
Hong Kong Hang Seng	25,893.54	3.09	-0.26	-1.29	25.20	1.03	28,056.10	20,444.04
Taiwan TAIEX	35,417.83	8.74	8.07	16.93	86.41	22.28	35,579.34	18,256.47
Korea KOSPI	5,858.87	8.96	5.90	27.75	139.62	39.03	6,347.41	2,391.39
India NIFTY 50	24,050.60	5.89	-0.87	-6.36	7.37	-7.96	26,373.20	22,182.55
Australia Stock Exchange 200	8,960.60	4.44	3.08	2.79	16.23	2.83	9,202.90	7,375.00
Indonesia Jakarta Composite	7,458.50	6.14	0.24	-16.54	19.26	-13.74	9,174.47	6,148.78
Thailand SET	1,506.84	3.63	7.19	20.15	32.88	19.62	1,545.31	1,053.79
Malaysia FTSE Bursa KLSE	1,691.31	-0.25	-0.61	0.28	15.60	0.67	1,771.25	1,434.92
Philippines Stock Exchange PSE	6,098.21	1.66	-0.46	-3.94	0.34	0.75	6,673.61	5,584.35
Singapore FTSE Straits Times Index	4,989.41	0.85	2.65	5.16	39.45	7.39	5,041.33	3,464.44

Currencies (vs USD)	Latest	1 week Change	1 Month Ago	3 Months ago	1 Year Ago	YTD	52 week high	52 week low
Developed Markets								
EUR	0.17	1.77	0.94	0.70	4.66	-0.22	1.20	1.11
GBP	0.19	2.04	0.31	0.44	3.79	-0.11	1.38	1.30
CHF	-0.09	-1.46	1.40	-1.50	-4.15	-0.40	0.85	0.76
JPY	0.22	-0.17	0.79	0.89	10.27	1.69	160.31	140.85
Asia								
CNY	-0.05	-0.79	-0.71	-2.14	-6.65	-2.36	7.32	6.83
HKD	-0.05	-0.08	0.08	0.46	0.92	0.61	7.85	7.75
INR	0.67	0.41	1.22	3.16	7.98	3.58	94.78	84.27
MYR	-0.50	-1.69	1.02	-2.70	-11.33	-2.37	4.47	3.88
KRW	0.71	-1.71	0.78	1.90	2.21	3.07	1,517.25	1,352.45
SGD	0.08	-1.03	0.04	-1.06	-4.36	-0.95	1.33	1.26
TWD	0.00	-0.79	-0.10	0.42	-3.28	1.26	32.80	28.90
IDR	0.03	0.56	1.36	1.73	1.73	2.49	17,090.00	16,106.00

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Sources

Asset performances: (bar charts) Eastspring Investments, Refinitiv, as of 10 April 2026. Equities: using MSCI indices in USD, United States is using the S&P 500. Corporate Bonds: using ICE BofA indices in USD. Government Bonds: using the FTSE Global Sovereign Bond index, in USD. Gold is London Bullion Market US Dollar per Metric Tonne. DXY is US Dollar Index. **(line charts)** Eastspring Investments, Refinitiv, as at the end of the prior week, rebased to 100 as at 1 year ago. Equities: MSCI indices, in USD. Corporate Bonds: using Bloomberg indices in USD. Government Bonds: using ICE BofA US 10 Year US Treasury and ICE BofA 7-10 Year Euro Government indices. Commodities: Gold is London Bullion Market US Dollar per Metric Tonne. Copper is LME Copper Grade A Cash US Dollar per Metric Tonne. Oil is Crude Oil WTI Spot Cushing US Dollar per Barrel. US Dollar is US Dollar Index.

Market data: Eastspring Investments, Refinitiv, as of 10 April 2026. Equities: MSCI indices in USD, other indices in local currency. Other indices or assets as stated. Please note that there are limitations to the use of such indices as proxies for the past performance in the respective asset classes/sector. The historical performance or forecast presented in this slide is not indicative of and should not be construed as being indicative of or otherwise used as a proxy for the future or likely performance of the Fund.



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