

Relief rally masks a persistent shock

Peace deal pending reality check

The press reports that U.S. and Iranian officials have said they have agreed on a deal to end the war and reopen the Strait of Hormuz. If the deal is signed this Friday, Asian economies and markets should be among the largest beneficiaries. As such, the Nikkei is up 5.4%, Kospi has rallied 5.8%, and the Jakarta Composite is up 4.4% as we write while the PHP and IDR have jumped 1.3% and 0.9% respectively vs. the USD.

While we certainly welcome a deal that begins the normalisation of energy flows from the Middle East, we also caution that investors need to reengage with care. A deal may remove upside risk to oil prices, but with Brent already down 4.5% from Friday, crude may not have much more room to fall quickly; prices above \$80bbl seem likely to persist.

- Rebuilding Persian Gulf crude exports from the recent roughly 5mbpd to the 2025 baseline of about 19mbpd is likely to take months if not quarters. Mines need to be cleared, shipper confidence needs to be rebuilt, and, after an initial bounce in East bound transits of existing floating storage through the Strait, ships and crews need to return.
- Inventories are likely to continue to draw in the interim.
- Countries and refiners will likely increase purchases to rebuild reserves.

Unless oil prices fall well below \$80bbl and stay down, existing damage to supply chains points to a period of higher inflation and tighter monetary policy even with a deal this week.

Crucially, the potential for occasional setbacks to the deal's terms seems high. Iran appears to expect release of \$25bn of frozen funds and a cessation of Israeli military activity in Lebanon as part of the deal. The U.S. expects future progress in negotiations with Iran about its nuclear programme. Adherence of the relevant parties to these expectations is uncertain.

This leads us to focus on companies and credits with strong fundamentals that can be resilient to potential flareups in tension and oil prices, rather than strategies that just buy the largest losers since the start of the war.

Asia rates & FX rebounded on relief, but fundamental weaknesses persist

Fiscal policy has thus far kept Asian inflation contained, except in the Philippines. However, we remain cautious about the inflation outlook given the time needed to rebuild supply chain and higher demand to replenish strategic oil reserves.

We continue to see upside risks to Asian policy rates from fundamentally weak currencies. As we flagged in previous weeks, Asia rates have been highly correlated with FX movements since the war due in large part to currency



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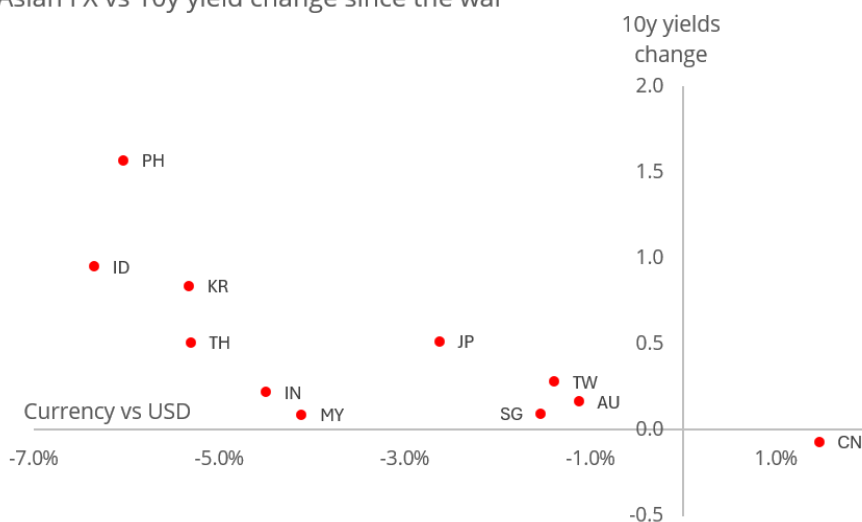
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weakness. Indonesia, the Philippines, and to a lesser extent India, face a triple whammy from deteriorating trade balances, a lack of AI participation and slowing FDI inflows. If oil prices remain above \$80/bbl, as we expect, these pressures are likely to keep currencies soft and pressure on central banks to raise policy rates in defense. Any Fed shift toward rate hikes would intensify this pressure.

Bank Indonesia will reconvene this week after delivering an off-cycle 25bp hike last week. While structural weaknesses in the IDR leave the door open for further tightening, we think BI’s decision will hinge on progress toward a peace deal. Should the IDR strengthen meaningfully ahead of the meeting, BI may opt to defer further hikes to a later stage. Elsewhere, the Philippines’ central bank is expected to hike again this week, while we see the Bank of Korea as likely to pivot to a hike at its next policy meeting.

Asian FX vs 10y yield change since the war

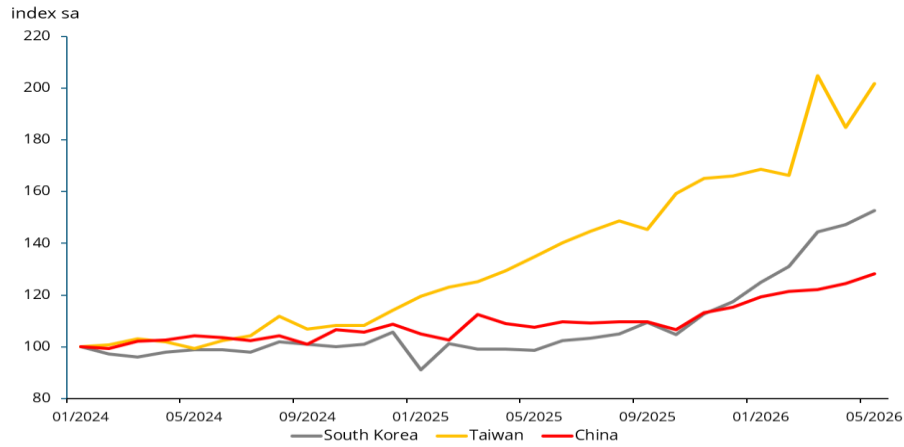


Source: Eastspring Investments, Bloomberg

Exports led growth story remains intact so far...

Meanwhile, despite the ongoing concern over demand destruction, AI demand has continued to lead selected countries’ exports to record highs. In China, Korea, and Taiwan, May exports growth beat expectations and showed no sign of slowing down. External demand has remained strong and US capital goods imports have broadened out from IT to non-IT goods. The broad export-led growth story has remained intact and in support of higher earnings growth through the IT hardware supply chain.

North Asia exports at record high in May



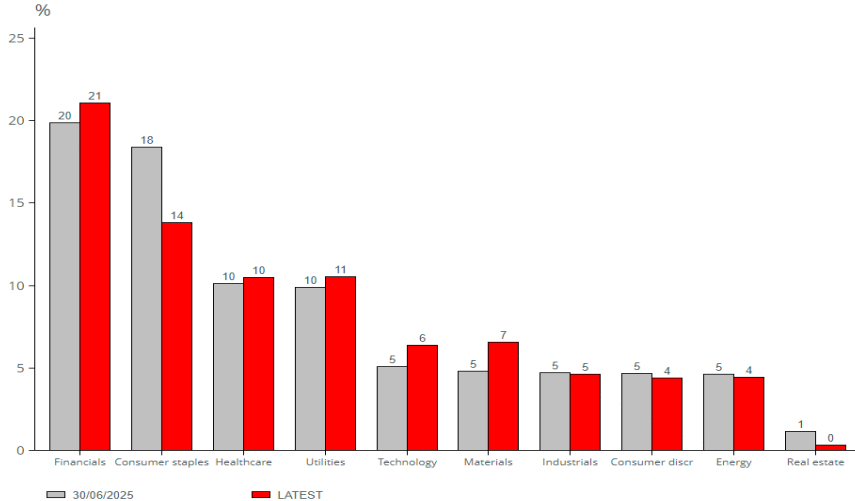
Source: Eastspring Investments, CEIC

Margin protection separates winners and losers amid China’s K-shape growth. In China, recent developments continue to confirm a deeply entrenched K-shaped economy, led by strong exports but weak domestic demand. Higher commodity prices have pushed PPI inflation firmly back into positive territory, while CPI inflation remains soft, squeezing margins of downstream producers and retailers.

Importantly, Total Social Financing growth, a key leading indicator for domestic demand, came in weak, with subdued loan growth and soft government bond issuance. However, we do not expect the government to announce new stimulus or shift meaningfully to support private consumption soon. Accelerated execution of previously laid out investment programmes, such as the CNY 2 trillion data centre buildout, should help stabilise investment growth in the 2H.

Against the backdrop of greater policy focus on the industrial sector and rising cost pressures, we expect China equity outperformance to remain concentrated in sectors and companies that support the government’s investment objectives and are able to preserve net profit margins.

China A net profit margin by sector



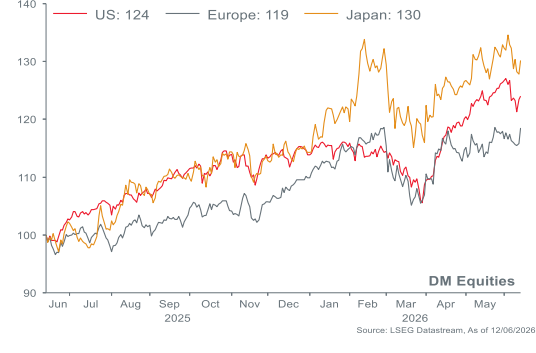
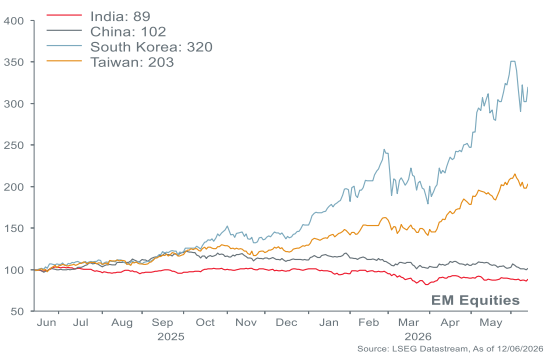
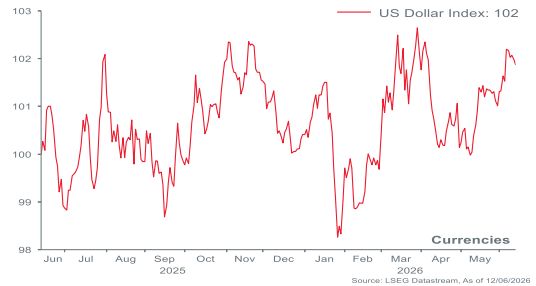
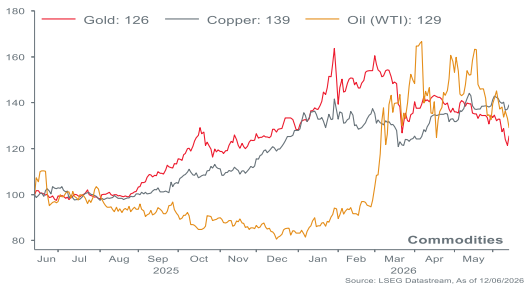
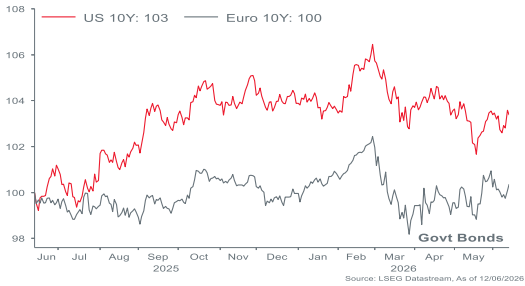
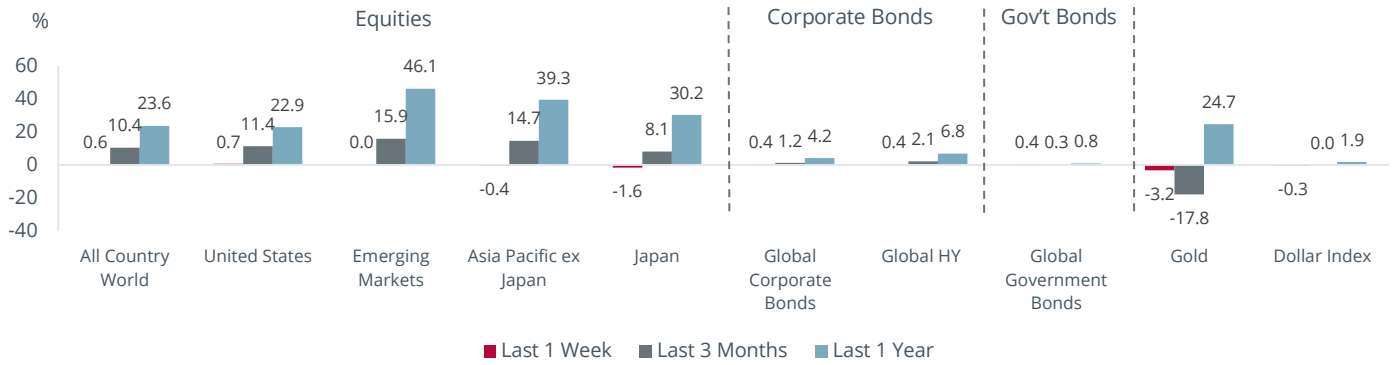
Source: Eastspring Investments, LSEG

Market Review

Global equity markets rose over the week, with the MSCI AC World Index up by 0.6%. The US performed positively with the S&P 500 rising by 0.6%, and the Nasdaq posting similar gains of 0.7%. Asia Pacific (ex Japan) declined -0.4% while Emerging Markets remained flat with mixed individual country performance across the region. Japan underperformed, returning around -1.6% on a USD basis.

Gold sold off (-3.2%) and the US Dollar index declined by 0.3%. Meanwhile global government bonds, global corporate bonds and global high yield bonds all rose by 0.4% each.

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	4.49	-1.12	0.49	4.96	2.94	7.99	4.67	3.95
10 Year Bond Yield (%)								
Japan	2.64	-0.94	3.69	20.96	81.40	27.68	2.80	1.40
China	1.74	-0.85	-3.59	-3.91	4.37	-6.34	1.93	1.63
Australia	4.82	-1.89	-4.19	-2.57	13.70	1.28	5.12	4.10
Singapore	2.02	-3.54	-3.08	-2.75	-11.65	-9.27	2.40	1.75
Malaysia	3.59	0.48	0.22	0.98	0.98	2.75	3.65	3.36
Indonesia	7.17	3.81	6.35	5.74	7.08	17.09	7.48	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	93.68	0.32	0.34	-0.37	-0.69	-1.02	95.69	92.66
Bloomberg U.S. Aggregate USD	92.93	0.49	0.15	-0.51	1.07	-1.21	95.21	91.40
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)	1,112.31	0.59	0.81	10.37	23.64	9.63	1,136.59	885.76
North America								
US S&P 500 Index	7,431.46	0.65	0.41	11.37	22.93	8.56	7,620.90	5,943.23
US Nasdaq Composite Index	25,888.84	0.70	-0.76	16.03	31.67	11.39	27,190.21	19,334.98
Europe								
MSCI Europe	2,788.51	1.86	3.21	6.22	15.02	5.51	2,845.88	2,340.03
Asia Pacific								
MSCI Asia Pacific ex Japan	882.14	-0.35	0.97	14.65	39.34	22.15	923.18	620.47
Japan Nikkei 225	66,020.06	-0.85	5.22	21.24	72.95	31.15	68,786.50	37,540.20
Shanghai Stock Exchange Composite	4,031.51	0.09	-4.34	-2.36	18.48	1.58	4,258.86	3,347.65
Hong Kong Hang Seng	24,718.10	-0.98	-6.19	-3.88	2.84	-3.56	28,056.10	23,185.58
Taiwan TAIEX	44,169.04	-2.00	5.42	31.53	98.18	52.50	46,552.16	21,551.58
Korea KOSPI	8,123.62	-0.45	6.29	45.50	178.20	92.77	8,933.62	2,877.07
India NIFTY 50	23,622.90	1.10	1.04	-0.07	-5.08	-9.59	26,373.20	22,182.55
Australia Stock Exchange 200	8,804.00	2.07	1.54	2.03	2.79	1.03	9,202.90	8,262.40
Indonesia Jakarta Composite	6,007.66	7.38	-12.41	-18.40	-16.61	-30.52	9,174.47	5,317.91
Thailand SET	1,592.41	0.62	7.34	11.37	41.09	26.41	1,607.25	1,053.79
Malaysia FTSE Bursa KLSE	1,683.63	-0.58	-3.82	-1.60	10.28	0.21	1,771.25	1,488.89
Philippines Stock Exchange PSE	5,910.06	-0.48	-1.04	-3.33	-7.39	-2.36	6,673.61	5,584.35
Singapore FTSE Straits Times Index	5,025.80	-0.48	1.61	3.51	28.14	8.17	5,150.69	3,845.78
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	-0.08	0.43	-1.44	0.50	-0.13	-1.51	1.20	1.14
GBP	-0.04	0.50	-0.96	0.49	-1.49	-0.50	1.38	1.30
CHF	0.31	0.09	2.11	1.41	-1.64	0.58	0.82	0.76
JPY	0.18	-0.05	1.65	0.55	11.67	2.27	160.53	143.43
Asia								
CNY	-0.19	-0.04	-0.43	-1.55	-5.72	-3.30	7.21	6.76
HKD	-0.02	0.02	0.08	0.11	-0.18	0.68	7.85	7.77
INR	-0.69	0.16	-0.55	2.96	11.16	5.84	96.82	85.41
MYR	-0.22	0.75	3.13	3.34	-3.84	-0.02	4.29	3.88
KRW	0.13	-2.65	1.65	1.67	12.02	5.36	1,559.08	1,352.45
SGD	0.04	-0.43	0.97	0.41	0.42	-0.12	1.31	1.26
TWD	0.16	0.10	0.31	-0.89	7.17	0.89	32.08	28.90
IDR	-0.61	-0.81	2.14	5.80	10.07	7.17	18,170.00	16,106.00

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Sources

Asset performances: (bar charts) Eastspring Investments, Refinitiv, as of 12 June 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 Ounce. 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 12 June 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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