

Japan offers outperformance with diversification in a volatile world

Iran-US peace deal proves choppy

Last week we cautioned that the Iran-US peace deal would be subject to occasional setbacks. As we write the press reports that Iran has paused negotiations with the US in Switzerland and said that it has “closed” the Strait of Hormuz in response to Israeli strikes on Lebanon and US threats of strikes of Iran. Prior to this, the press also reported that Iran plans to collect “insurance fees” from ships transiting the Strait after the current 60-day peace deal negotiation period expires.

Although these developments are concerning, the good news is that oil flows through the Strait have increased over the past week. We judge both Iran and US as still likely to pursue negotiations over hostilities and so expect the weekend’s tensions as likely to be temporary. Nonetheless, as we argued last week, portfolios will benefit from careful selection of assets that are resilient to these bouts of volatility.

Japan offers outperformance diversification benefits

Japan offers an attractive way to insulate against this volatility. Despite US equity futures trading down about 0.5%, Japanese equities are up over 1% as we write. To be sure, MSCI Japan has risen 18% YTD in US dollar terms vs. 9% for MSCI US.



Strong upward revisions to consensus earnings are a key driver of Japan’s outperformance. Japan’s role in specialist electronics feeding into the global AI capex boom has boosted IT sector earnings expectations. However, earnings breadth is good with estimates for consumer services, materials, industrials, financials, and energy all rising over the past month.



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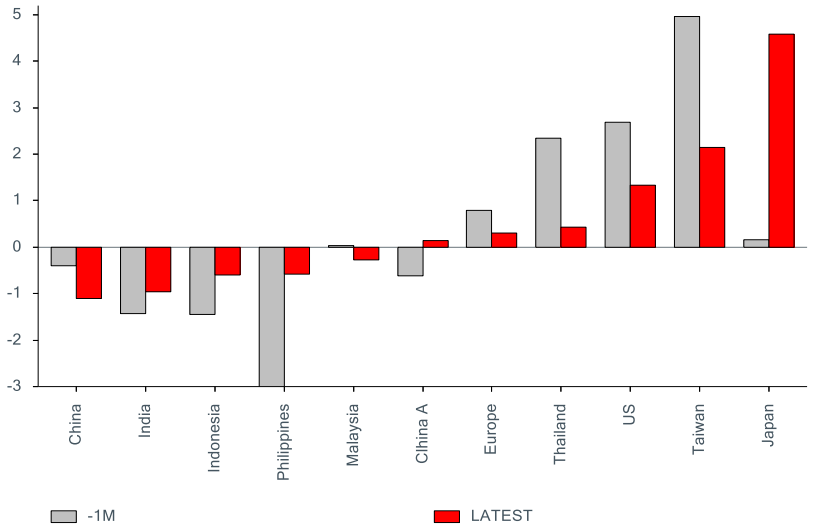


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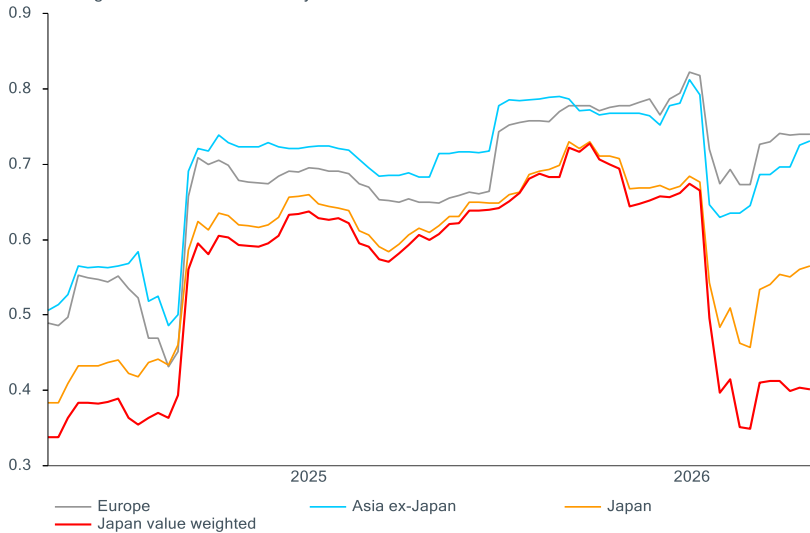
MSCI index earnings estimate momentum
1 month change in 12m forward earnings



Source: LSEG Datastream, 22/06/2026

Importantly, Japanese outperformance provides investors portfolio diversification benefits because Japanese equity correlation to US equities is among the lowest of major markets. The Japan “Value” style stands out for historically being very lowly correlated with the US.

MSCI Index vs S&P 500
Rolling 52w correlation of weekly total return

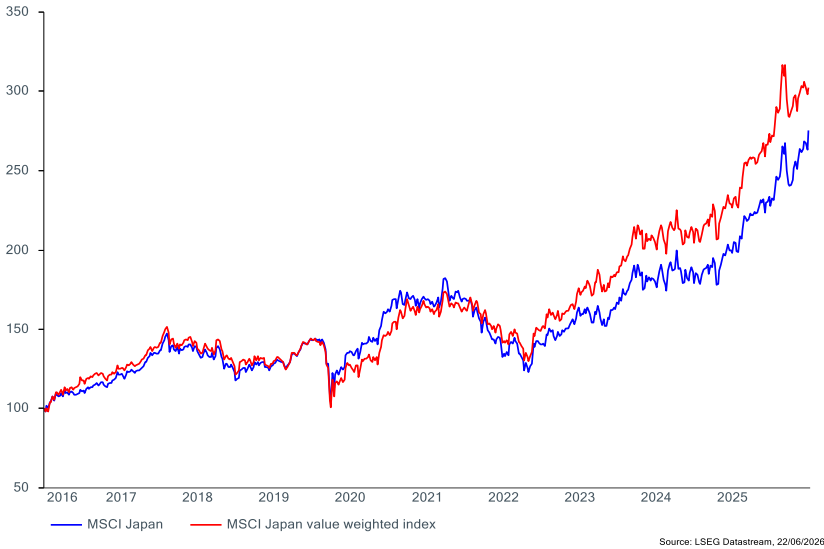


Source: LSEG Datastream, 22/06/2026

We focus on the Value style in Japan for two key reasons. First, Value has outperformed in Japan over 3, 5, and 10 years.

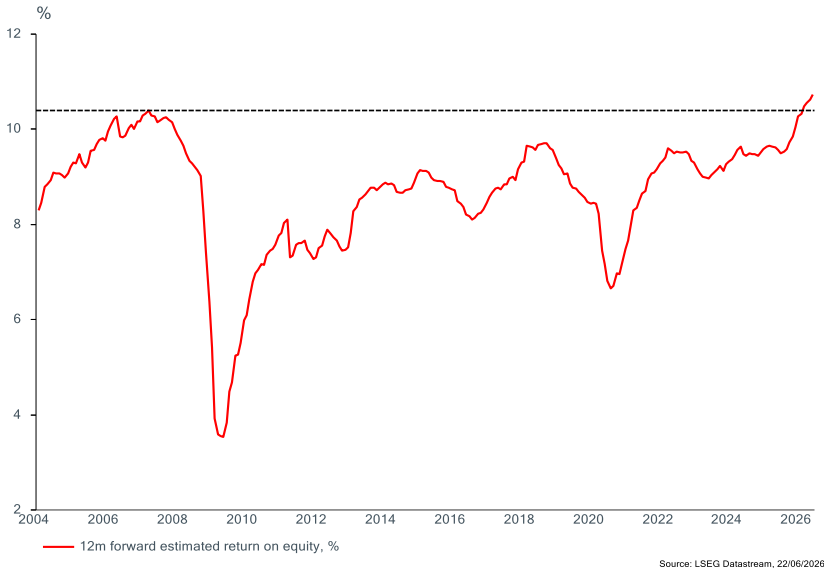
Value tends to outperform in Japan

Index = 100, USD



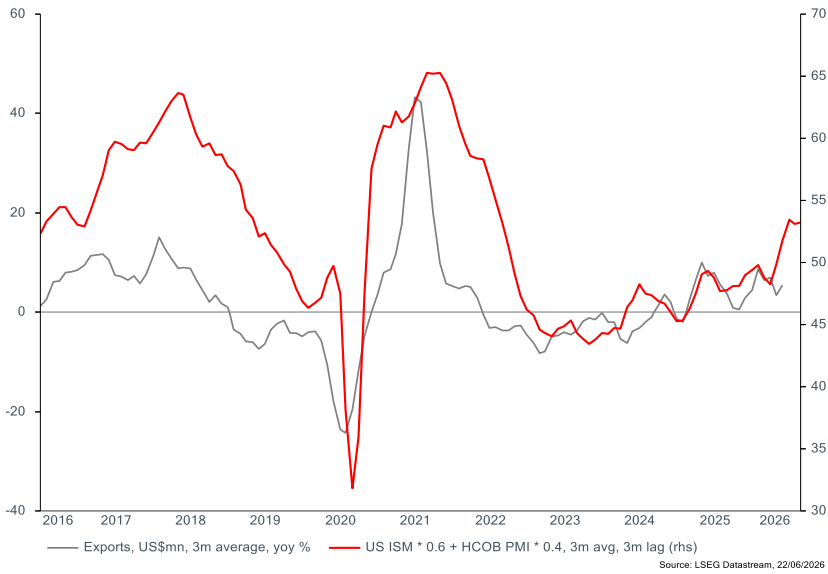
Second, we think this stems in large part from ongoing corporate reform in Japan that is unlocking shareholder value via reductions in cross shareholdings, distribution of excess cash on balance sheets via increased dividends and share buybacks, and mergers & acquisitions. The corporate reforms are pushing Japan’s return on equity to a historic high.

MSCI Japan consensus 12m forward RoE at a record high



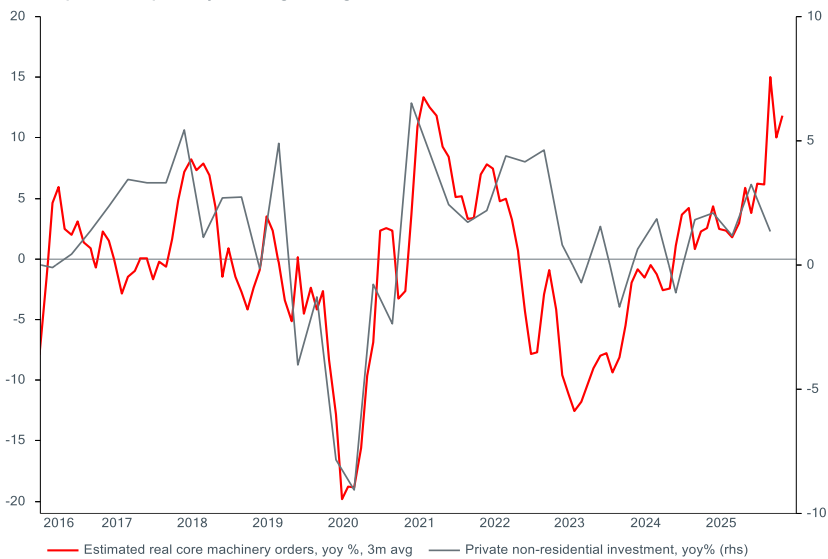
Our analysis suggests Japan’s economic outlook supports a continuation of these trends. The chart below show that demand indicators in Japan’s major export markets point to stronger Japanese export growth in the coming quarters. The depreciation of the Japanese yen over the past several years to a historic low on a real effective exchange rate basis contributes to this by improving Japanese export competitiveness.

Stronger DM PMIs point to stronger Japan exports

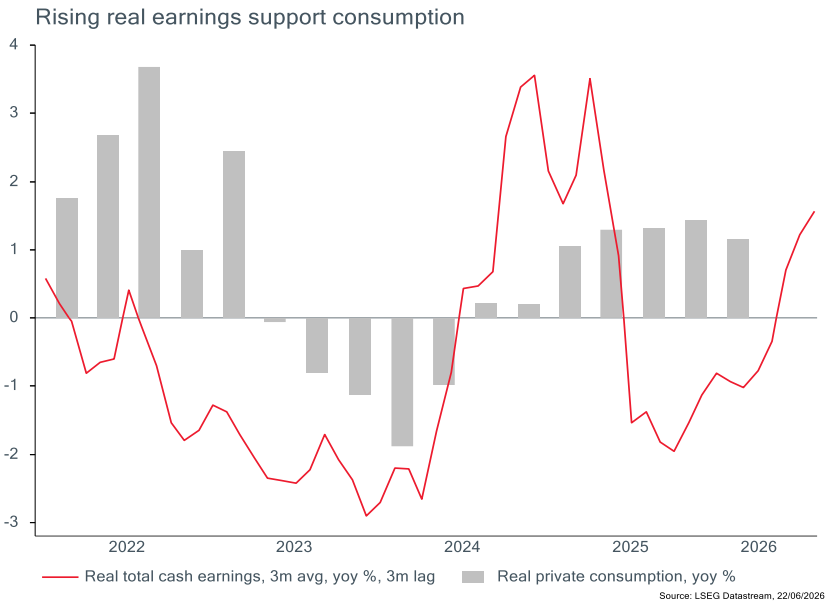


Continued export growth, rising return on equity, and new fiscal support for strategic sectors is spurring the strongest capex growth in Japan in five years.

Japan's capex cycle is gaining momentum



Finally, these factors are combining to push real earnings growth for households up to close to 2%, improving the outlook for what has been surprisingly resilient consumption growth over the past year.

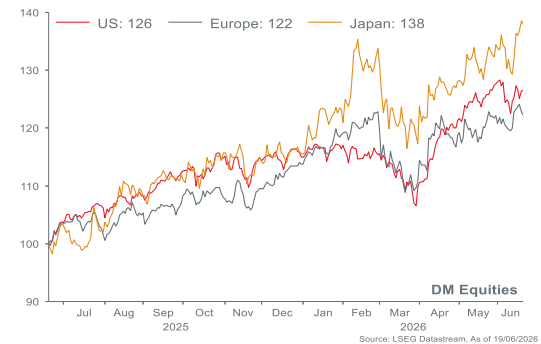
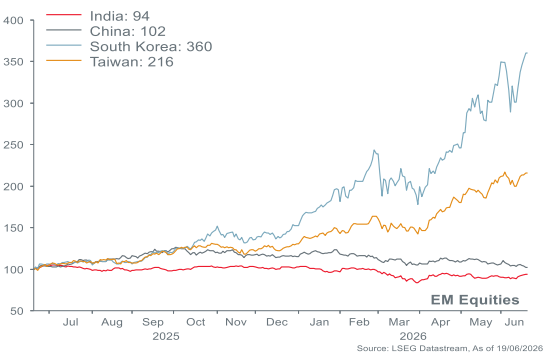
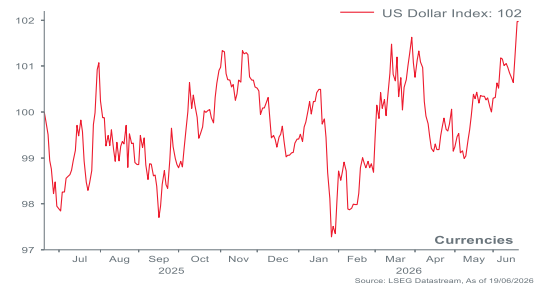
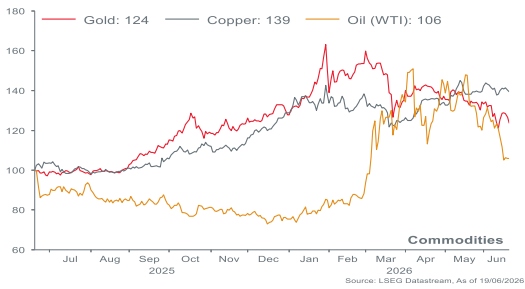
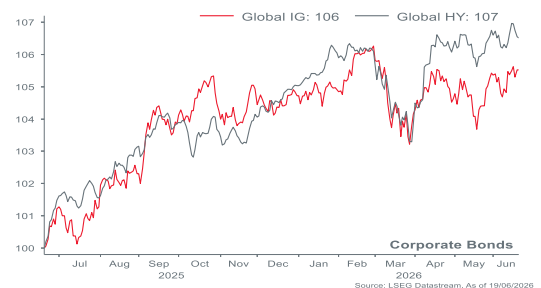
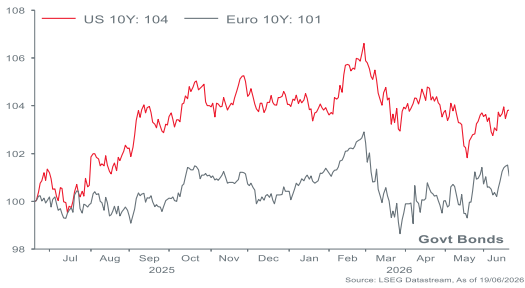
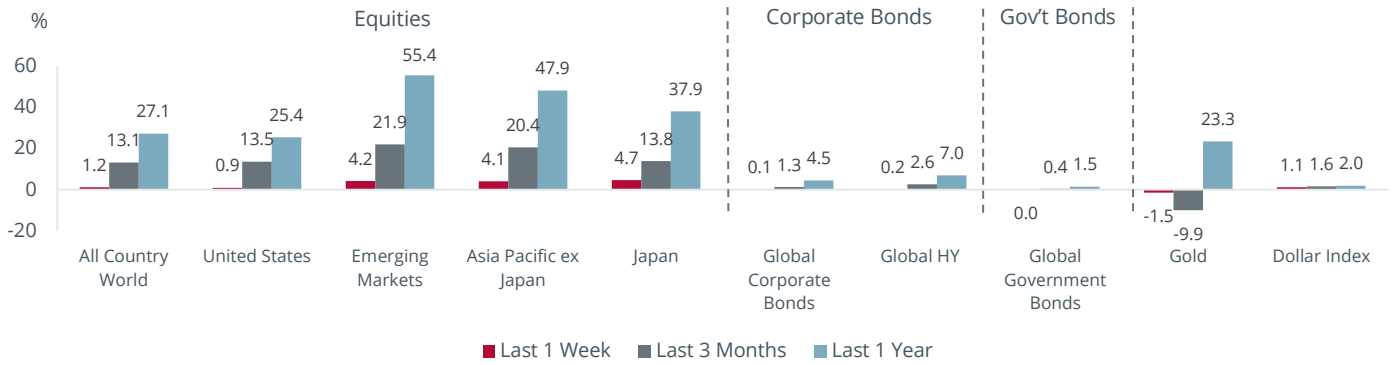


Market Review

Global equity markets delivered positive returns over the week, with the MSCI AC World Index up by 1.2%. The US performed positively with the S&P 500 rising by 1.0%, and the Nasdaq posting gains of 2.4%. Asia Pacific (ex Japan) and Emerging Markets also posted modest gains of 4.1% and 4.2% respectively. Japan outperformed, returning around 4.7% on a USD basis.

Gold sold off (-1.5%) while the US Dollar index rose by 1.1%. Meanwhile global government bonds remained flat with global corporate bonds gaining 0.1% and global high yield bonds rising 0.2%.

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	4.45	-0.76	-4.67	3.92	1.27	7.18	4.67	3.95
10 Year Bond Yield (%)								
Japan	2.65	0.30	-5.32	17.09	87.48	28.07	2.80	1.40
China	1.75	0.46	0.40	-4.21	6.18	-5.91	1.93	1.64
Australia	4.81	-0.25	-4.96	-3.49	13.93	1.03	5.12	4.10
Singapore	2.06	2.27	-5.94	-3.93	-10.71	-7.21	2.40	1.75
Malaysia	3.61	0.46	-0.15	1.22	0.38	3.22	3.65	3.36
Indonesia	7.07	-1.33	4.29	3.26	4.94	15.54	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	93.79	0.12	1.22	-0.17	-0.44	-0.91	95.69	92.66
Bloomberg U.S. Aggregate USD	93.05	0.13	1.36	-0.47	1.42	-1.08	95.21	91.50
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)	1,125.91	1.22	3.13	13.14	27.10	10.97	1,136.59	885.76
North America								
US S&P 500 Index	7,500.58	0.93	2.00	13.53	25.41	9.57	7,620.90	5,943.23
US Nasdaq Composite Index	26,517.93	2.43	2.50	20.04	35.67	14.09	27,190.21	19,334.98
Europe								
MSCI Europe	2,776.74	-0.42	3.16	8.68	18.66	5.07	2,845.88	2,340.03
Asia Pacific								
MSCI Asia Pacific ex Japan	917.89	4.05	8.57	20.41	47.94	27.10	923.18	620.47
Japan Nikkei 225	71,250.06	7.92	17.67	33.50	85.12	41.54	71,953.00	38,026.32
Shanghai Stock Exchange Composite	4,090.48	1.46	-1.90	2.10	21.66	3.07	4,258.86	3,347.65
Hong Kong Hang Seng	23,924.81	-3.21	-7.26	-6.18	2.96	-6.66	28,056.10	23,185.58
Taiwan TAIEX	46,465.20	5.20	15.66	37.92	111.17	60.43	46,565.70	21,551.58
Korea KOSPI	9,052.42	11.43	24.49	57.07	204.00	114.81	9,385.59	2,954.47
India NIFTY 50	24,013.10	1.65	1.67	4.40	-3.15	-8.10	26,373.20	22,182.55
Australia Stock Exchange 200	8,828.70	0.28	2.60	3.89	3.58	1.31	9,202.90	8,262.40
Indonesia Jakarta Composite	6,177.14	2.82	-3.04	-13.08	-11.36	-28.56	9,174.47	5,317.91
Thailand SET	1,572.50	-1.25	3.68	10.94	47.14	24.83	1,609.71	1,053.79
Malaysia FTSE Bursa KLSE	1,712.03	1.69	-0.88	-0.50	14.03	1.90	1,771.25	1,488.89
Philippines Stock Exchange PSE	6,135.35	3.81	4.05	1.94	-3.49	1.36	6,673.61	5,584.35
Singapore FTSE Straits Times Index	5,192.70	3.32	2.37	4.53	33.35	11.76	5,226.03	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	0.10	-0.86	-1.17	-1.04	-0.23	-2.36	1.20	1.14
GBP	0.23	-1.30	-1.20	-1.47	-1.74	-1.79	1.38	1.30
CHF	0.31	1.27	2.31	2.41	-1.16	1.86	0.82	0.76
JPY	-0.06	0.67	1.41	2.26	10.88	2.96	161.37	143.43
Asia								
CNY	-	0.09	-0.67	-1.90	-5.83	-3.21	7.21	6.76
HKD	-0.00	0.02	0.05	0.05	-0.17	0.70	7.85	7.77
INR	-0.01	-0.82	-2.29	1.54	8.65	4.97	96.82	85.41
MYR	0.46	1.95	4.00	5.03	-2.89	1.92	4.29	3.88
KRW	-0.53	0.80	1.50	2.72	11.15	6.21	1,559.08	1,352.45
SGD	0.04	0.49	0.66	1.02	0.31	0.37	1.31	1.26
TWD	0.20	0.19	0.09	-0.51	7.10	1.08	32.08	28.90
IDR	0.42	-0.50	0.45	4.71	8.45	6.63	18,170.00	16,106.00

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Sources

Asset performances: (bar charts) Eastspring Investments, Refinitiv, as of 19 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 19 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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