CIO Views – Weekly Bulletin

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North Asia markets still look best positioned to weather the energy shock

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The 25% jump in Brent crude prices since Friday to $116/bbl has driven renewed selling across Asia's equity markets. The shock to global energy markets is proving worse than we anticipated at the start of the current war.

Yet, even after today's falls Asia's largest markets are still up for the year and are outperforming US markets. We recognise that even Asia's winners are likely to give up some more of this relative outperformance over the next week if crude oil remains over $100/bbl, much less climbs further. However, we continue to think these losses will be temporary and should reverse after hostilities have ceased.

MSCI Index	% chg, 27 Feb – 9 Mar	YTD % Change	FX v USD, % chg, 27 Feb – 9 Mar
China A-share	-3.2%	-5.2%	-0.2%
China	-3.0%	-4.4%	-0.2%
Hong Kong	-2.8%	10.1%	0.1%
India	-3.8%	-7.6%	-0.3%
Indonesia	-11.1%	-16.5%	-0.7%
Japan	-6.7%	8.1%	-1.7%
Korea	-14.0%	34.0%	-1.7%
Malaysia	-1.4%	5.0%	-1.0%
Philippines	-6.5%	5.3%	-2.5%
Singapore	-5.2%	-0.8%	-1.0%
Taiwan	-11.7%	10.2%	-1.1%
S&P 500	-2.0%	-1.5%	na
Nasdaq 100	-3.7%	-5.4%	na

Source: Bloomberg

In the short term, market falls are likely to be greatest for the economies that are the largest net importers of energy. The rise in energy prices represents a negative terms of trade shock that hurts domestic incomes and a shock to inflation. Thailand is Asia's largest net importer of energy as a share of GDP, followed by Singapore, Korea, Taiwan, India, and the Philippines. Of these, inflation in the Philippines, Thailand, and Korea appear to us to be most sensitive to increases in oil prices.

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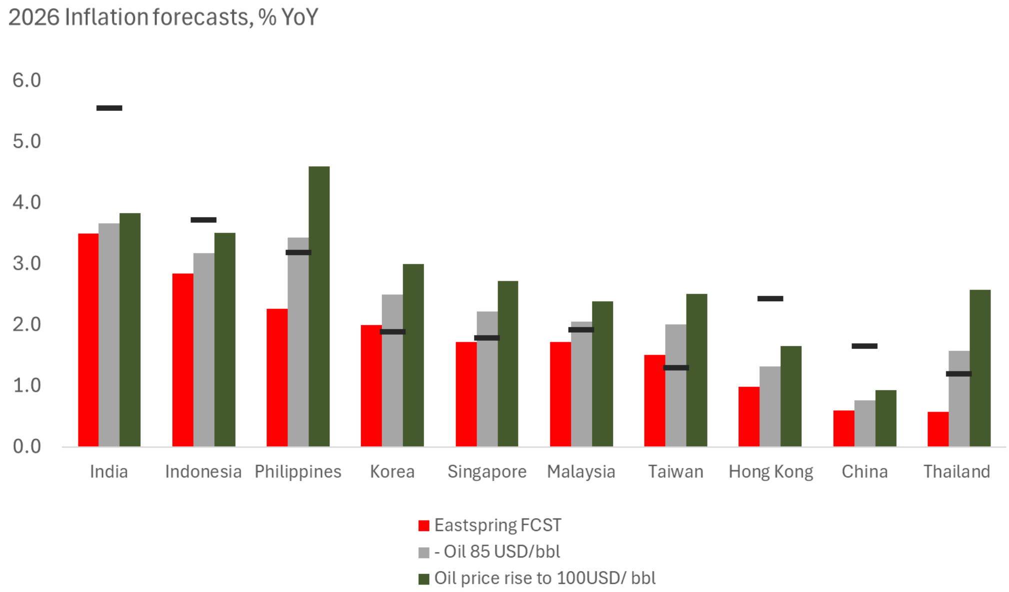
However, starting conditions act as key differentiators. Most Asian economies entered this shock with current account surpluses that provide some cushion to absorb higher energy costs. India, Indonesia, and the Philippines are the main exceptions that are running current account deficits.

Asia also entered this shock with inflation below historical averages and central bank policy thresholds. We believe a worst case scenario of oil prices sustained at close to $100bbl for several quarters would be necessary to create a risk of monetary policy tightening in the Philippines, Korea, Thailand, and perhaps Taiwan. Singapore is the exception because we expected policy tightening in April before the war began and higher oil prices now make this close to a certainty.

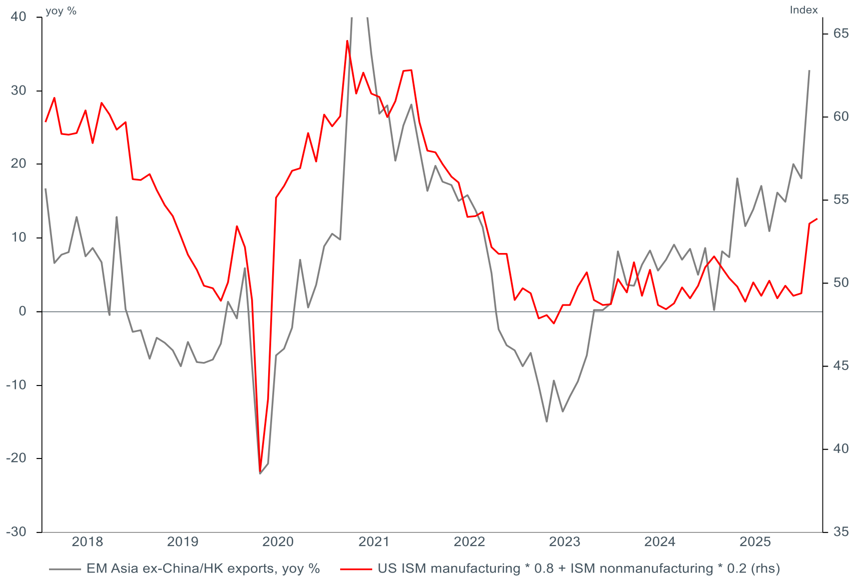


Source: Eastspring Investments

The position in the global economic cycle is also key and differentiates North Asia from Asia's other markets. The global economy entered this shock with a healthy growth, fiscal and monetary easing in the US, and fiscal easing in Europe. Crucial for Asia, the global capex cycle is in an upswing driven by the massive global AI infrastructure buildout and the tailwind of strong corporate profit growth.

We doubt that higher energy prices will change the AI infrastructure spending of the US hyperscalers much. Similarly, China is unlikely to curtail its AI and tech spending. This provides Asia's electronics-oriented economies with a firm underpinning for continued growth in exports. Korea and Taiwan stand out for their preeminent position in the tech value chain.

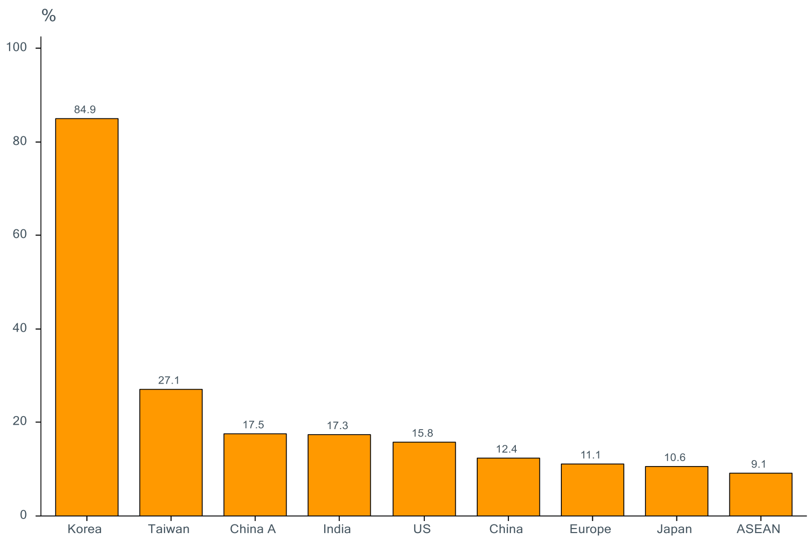
Asia's export growth has accelerated



Source: LSEG Datastream

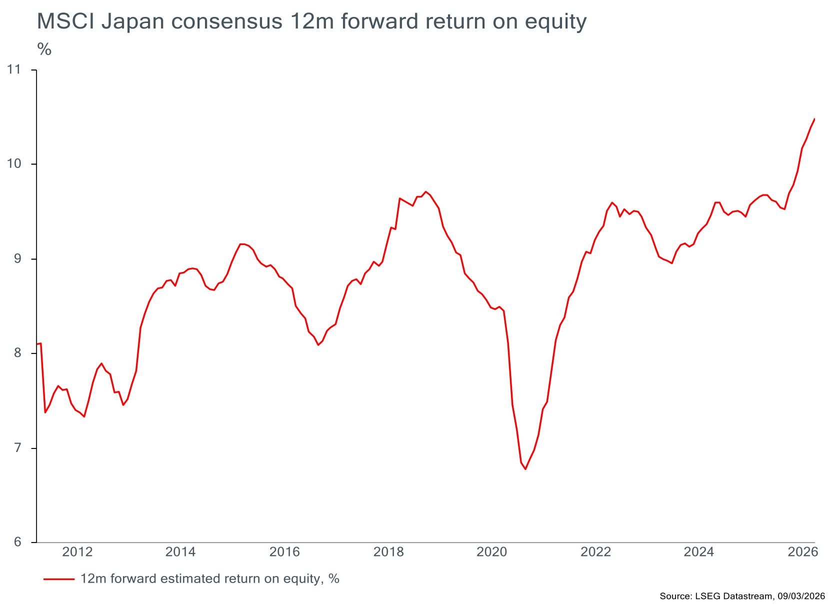
To be sure, AI exposure in Asian equity markets is a critical longer-term differentiator from past periods of energy shocks. We estimate that the IT weight in Korea's equity market has risen from 8% going into the first Gulf War in 1990 and 35% during the Arab Spring in 2011 to about 53% now. In Taiwan this share has climbed from 10% in 1990 to 57% in 2011 and about 80% today. This tech concentration underpins Korea and Taiwan's superior earnings outlook. This leads us to think the greatest risk to these markets is prolonged inability to produce chips, not domestic economic weakness.

IBES 12m forward earnings growth estimate



Source: LSEG Datastream

Regulatory pressure for improvements in corporate governance may also create greater long-term resilience in markets than during earlier oil shocks. Japan's corporate reforms are driving a gradual rise in return on equity among listed companies. Korea's "Value Up" program is similar, but at an earlier stage, as are the regulatory reforms China introduced in its A-share market with the publication of Document #10 in November 2024.



China's position going into this shock is more nuanced. China's growth is structurally weaker than during the energy shocks of 2011 and 2019, but stronger than it was in 2022. The key differentiators we see are three. First, China's oil reserves are huge at about 1.2bn barrels, just over 100 days of cover, and it has increased its capacity to source oil from Russia. Second, the renewables share of China's electricity is about 30% and is rising.
Finally, as we wrote about last week, China's government appears strongly committed to sustaining GDP growth at or above its targets, 4.5% - 5.0% for this year, and to expansion of its priority industrial sectors. We think these will be robust investment themes regardless of oil prices.

Some Southeast Asia's economies are, in contrast, less favourably positioned. Indonesia stands out for entering the shock with a current account deficit and a spike in inflation that pushed real interest rates to low levels. Crucially, Indonesia's credit ratings were already under pressure because of the rise in its budget deficit to 2.9% of GDP, just below the constitutional limit of 3%. The Philippines current account deficit and strained fiscal account make it poorly positioned for this shock.

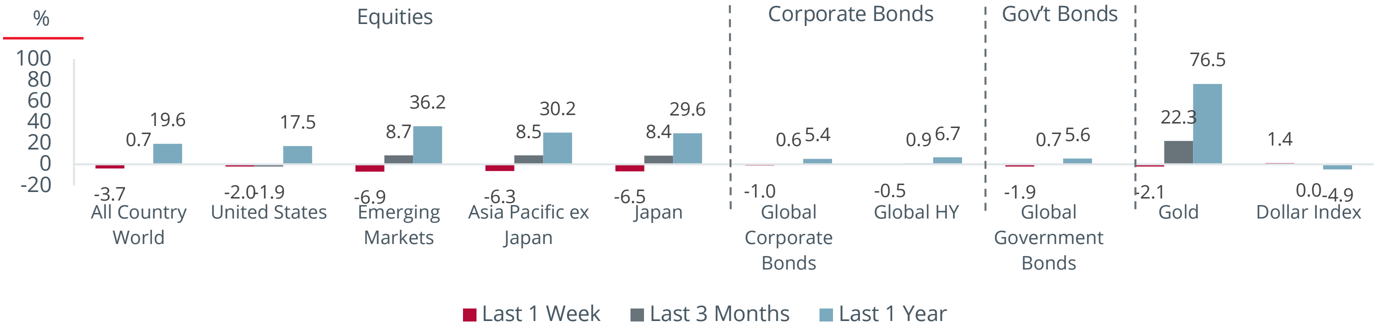
India is in a similar position of a current account deficit, weak currency, and limited room for fiscal offset. Renewed weakness in the INR could force monetary tightening that would threaten the recovery in urban consumption we have expected.

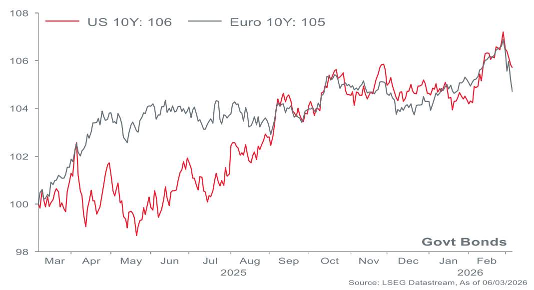
Market Review

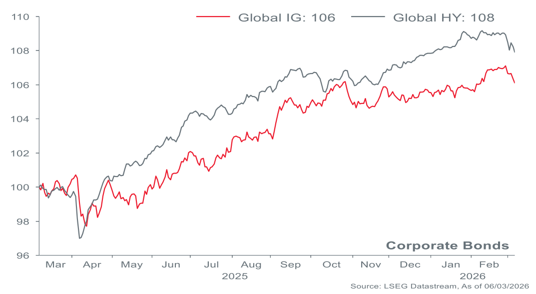
Global equities declined over the week, with the MSCI AC World Index falling 3.7% as sentiment weakened amid escalating geopolitical tensions following U.S.- Israel strikes on Iran. The pullback was led by the US, where the S&P 500 dropped 2.0% and the NASDAQ slid 1.2%, reversing the gains seen earlier in the month. Europe also softened, with the MSCI Europe Index down 7.3% over the week. Asia broadly followed the weaker tone, with notable declines in Korea (-10.6%), Taiwan (-5.1%) and Japan (-5.5%), contributing to a 6.3% drop in Asia Pacific ex-Japan equities. Emerging Markets were similarly weaker, falling 6.9% over the week.

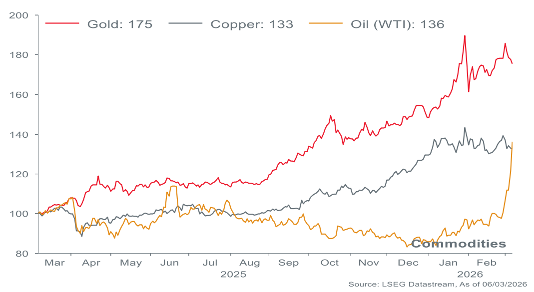
US Treasury yields rose slightly, with the 10-year yield increasing 4.29 bps over the week, while global government bonds fell 1.9%. Gold eased 2.1% over the week and the US Dollar Index was broadly stable, ticking up 1.4%,

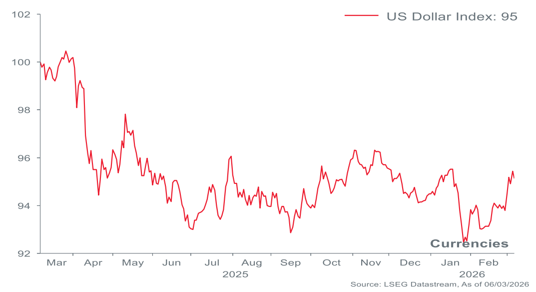
Asset Performance

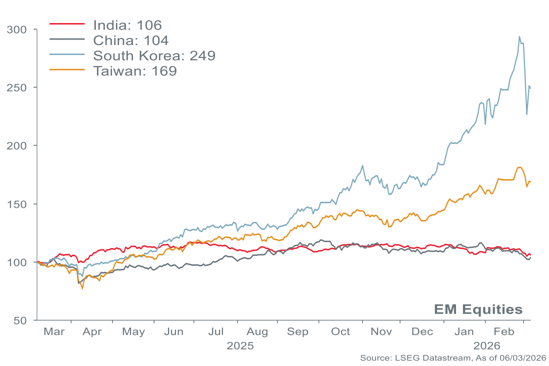


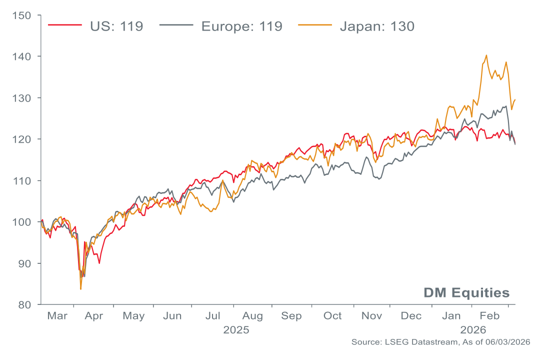












Market Data

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	4.13	4.29	-1.76	-0.17	-3.50	-0.51	4.60	3.95
10 Year Bond Yield (%)								
Japan	2.16	2.27	-3.18	11.03	42.74	4.54	2.34	1.12
China	1.80	-1.75	-0.55	-3.28	1.41	-3.49	1.96	1.63
Australia	4.85	4.10	0.69	3.22	7.98	1.79	4.87	4.10
Singapore	1.99	2.73	-0.15	-6.78	-27.65	-10.30	2.77	1.75
Malaysia	3.56	1.80	-0.39	1.95	-5.97	1.83	3.79	3.36
Indonesia	6.59	2.76	2.23	6.43	-4.34	7.66	7.21	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	94.62	-1.12	-0.05	-0.05	0.97	-0.03	95.69	93.25
Bloomberg U.S. Aggregate USD	94.20	-1.06	0.11	0.27	2.45	0.14	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)	1,017.41	-3.72	-2.44	0.66	19.64	0.28	1,061.41	742.96
North America								
US S&P 500 Index	6,740.02	-2.02	-2.77	-1.90	17.45	-1.54	7,002.28	4,835.04
US Nasdaq Composite Index	22,387.68	-1.24	-2.79	-5.05	23.90	-3.68	24,019.99	14,784.03
Europe								
MSCI Europe	2,637.04	-7.34	-4.68	2.82	14.93	-0.22	2,845.88	1,976.06
Asia Pacific								
MSCI Asia Pacific ex Japan	774.23	-6.29	1.05	8.51	30.16	7.21	829.20	513.60
Japan Nikkei 225	55,620.84	-5.49	2.52	10.16	47.52	10.49	59,332.43	30,792.74
Shanghai Stock Exchange Composite	4,124.19	-0.93	1.44	5.67	21.98	3.91	4,197.23	3,040.69
Hong Kong Hang Seng	25,757.29	-3.28	-3.02	-1.26	5.69	0.49	28,056.10	19,260.21
Taiwan TAIEX	33,599.54	-5.12	5.72	20.08	47.92	16.01	35,579.34	17,306.97
Korea KOSPI	5,584.87	-10.56	9.74	36.21	116.79	32.53	6,347.41	2,284.72
India NIFTY 50	24,450.45	-2.89	-4.84	-6.63	8.45	-6.43	26,373.20	21,743.65
Australia Stock Exchange 200	8,851.00	-3.78	1.63	2.51	9.34	1.57	9,202.90	7,169.20
Indonesia Jakarta Composite	7,585.69	-7.89	-4.41	-12.13	14.63	-12.27	9,174.47	5,882.61
Thailand SET	1,410.37	-7.71	4.16	10.72	18.56	11.96	1,545.31	1,053.79
Malaysia FTSE Bursa KLSE	1,718.06	0.08	-0.85	6.28	10.21	2.26	1,771.25	1,386.63
Philippines Stock Exchange PSE	6,320.41	-4.40	-1.10	6.24	1.62	4.42	6,673.61	5,584.35
Singapore FTSE Straits Times Index	4,848.25	-2.94	-1.75	6.99	23.77	4.35	5,041.33	3,372.38

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	0.09	-1.65	-1.68	-0.21	7.74	-1.08	1.20	1.08
GBP	0.42	-0.54	-1.45	0.62	4.11	-0.46	1.38	1.27
CHF	-0.63	0.91	-	-3.57	-12.19	-2.10	0.89	0.76
JPY	0.14	1.12	0.38	1.58	6.65	0.73	159.12	140.85
Asia								
CNY	0.08	0.56	-0.61	-2.45	-4.83	-1.38	7.35	6.84
HKD	0.04	-0.01	0.11	0.48	0.65	0.51	7.85	7.75
INR	0.19	0.97	1.49	2.22	5.65	2.31	92.10	84.27
MYR	0.05	1.39	-0.08	-4.02	-10.92	-2.81	4.49	3.88
KRW	0.00	2.91	1.21	0.52	2.33	2.82	1,485.83	1,352.45
SGD	-0.16	1.12	0.63	-1.33	-4.03	-0.53	1.35	1.26
TWD	-0.23	1.39	0.75	1.72	-3.26	1.53	33.25	28.90
IDR	0.15	0.84	0.24	1.59	3.52	1.38	16,945.00	16,106.00

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Sources

Asset performances: (bar charts) Eastspring Investments, Refinitiv, as at 6 March 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 at 6 March 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.