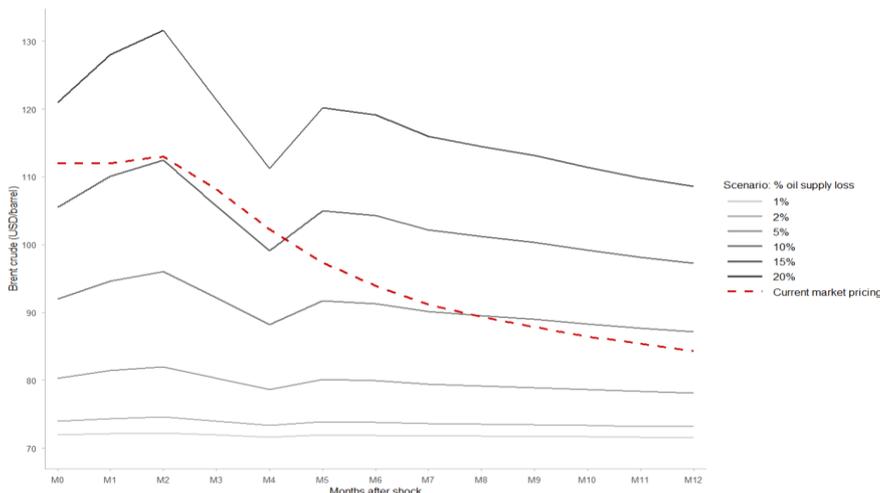


Brace for further energy price hikes; market to reassess inflation and growth risks

With the conflict in Iran officially entering its one-month mark this week, no sign of a fast resolution is in sight. News over the weekend points to further escalation risk. Both Iran and the US have threatened attacks on energy and transport infrastructure that could cause permanent damage to energy supply from the Middle East. Thus far, traffic remains stalled through the Strait of Hormuz, resulting in an about 16% loss of global oil supply. The impact would be higher if we factor in the loss of natural gas supply.

The risk of a protracted war has triggered risk reassessment across the market, erasing some earlier complacency. At the time of writing, spot Brent crude prices have spiked again to USD112/bbl, up 53% from the pre-war level. Oil futures prices have rallied as well, with the September contract at USD92/bbl, an 8% increase from a week ago. However, the risk remains tilted to the upside. Our structured VAR model suggests that a one-month loss of about 15% of oil supply, assuming no increase in supply in subsequent months, will hold oil prices above USD100/bbl in six months.

Modelled oil price path from supply shock



Note: Estimates by Brent crude spot and futures prices as of 20 March 2026. Source: Eastspring Investments; Bloomberg

The size and durability of the higher energy prices therefore require updates to the inflation and growth outlooks. Plugging the current spot and futures oil prices into our model suggests that CPI inflation will rise by an average of 0.4 percentage points across major global and Asian economies. The chart below makes it clear that most of the inflationary pressure will be driven by the increase in futures prices — i.e., the risk premium of a permanent supply disruption. While central banks are likely to look through a one-off supply shock, the prospect of a higher-for-longer energy price will gradually feed into inflation expectations.



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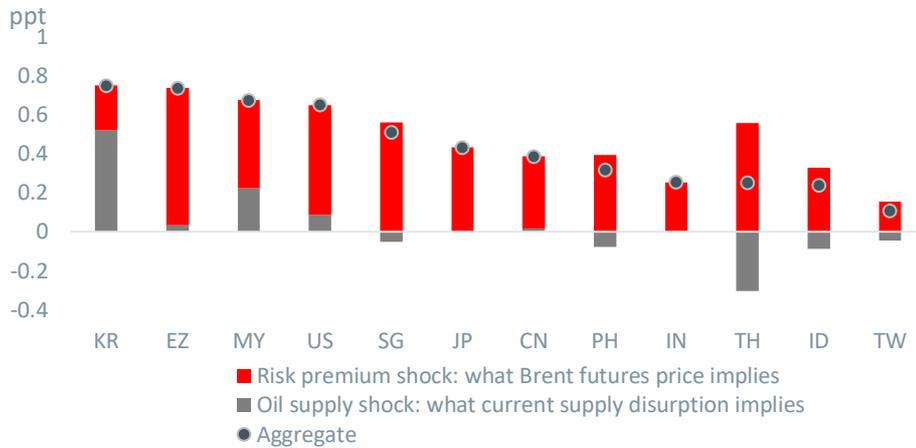


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12m CPI inflation impact following higher oil price

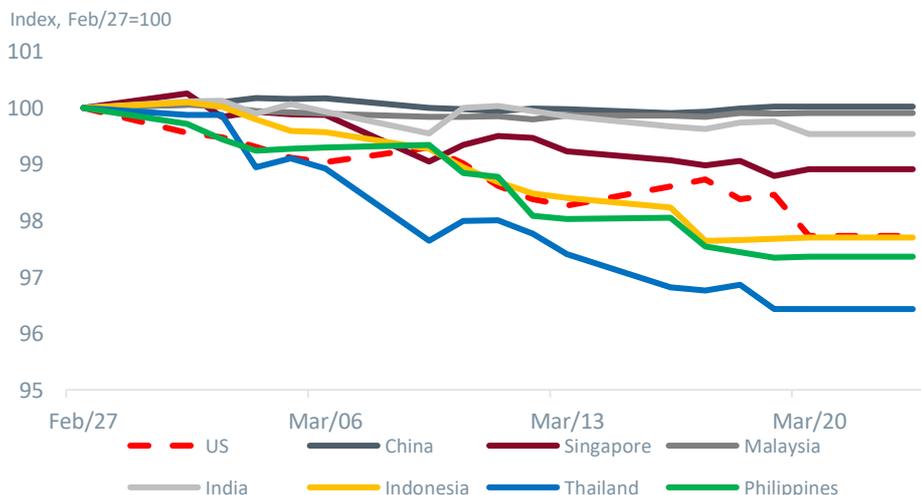


Note. Estimates by Brent crude spot and futures prices as of 20 March 2026.
Source: Eastspring Investments; CEIC

Indeed, global central banks have made a sharp hawkish pivot in the past week. Both the European Central Bank and the Bank of England are no longer looking at further rate cuts, while the Reserve Bank of Australia delivered a second consecutive rate hike. In the US, the Fed made a hawkish pause. Though it still expects one cut this year given rising unemployment risks, the market has become more concerned about inflation risk. Pricing in the Overnight Index Swap market no longer expects a rate cut. In Asia, both Bank Indonesia and Bangko Sentral ng Pilipinas, where there was room to cut rates further, stayed on hold and effectively dismissed the chance of more cuts.

Compared to the US, most Asian economies entered the crisis with low underlying inflation. While we do not see imminent cuts, tension will build over time. The repricing of rate expectations has driven sharp rate sell-offs in Asian economies whose currency and current account are most exposed to an energy price shock, namely Indonesia, Thailand and the Philippines. On the other hand, China and Malaysia outperformed. These are also the markets where we see the least chance of a rate hike this year.

Local currency bonds total returns since Feb 27

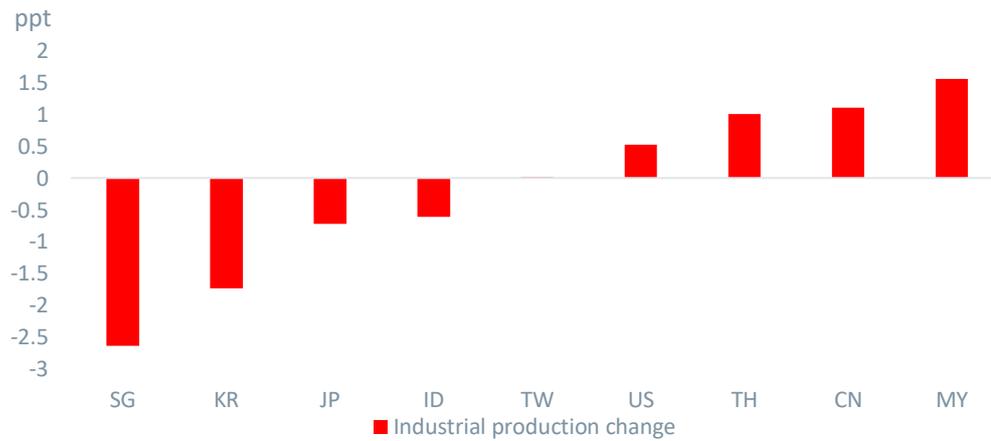


Source: Eastspring Investments; Bloomberg, 20 March 2026

The lingering hope of an imminent end to the war has kept equity market reactions relatively mild thus far. Year to date performance remains in the green for most equity indices. However, as risk shifts increasingly from inflation to growth, we expect further correction in the equity markets.

Among Asia's manufacturing exporters, our econometrics model suggests that the current level of oil price shock leads to divergent performances of industrial production in the following 12 months.

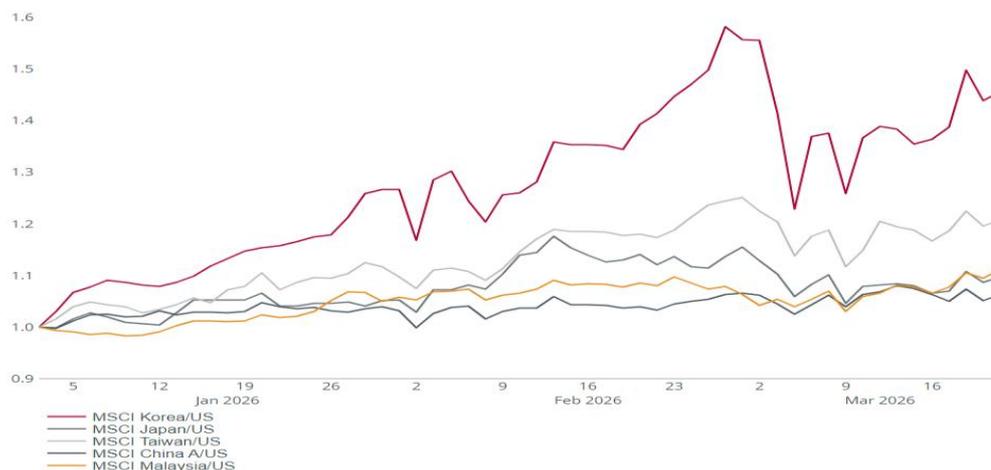
12m industrial production impact following higher oil price



Note. Estimates by Brent crude spot and futures prices as of 20 March 2026.
Source: Eastspring Investments; CEIC

While North Asia's tech-heavy exporters look the most exposed, it is important to keep in mind that the strong AI demand that lifted growth expectations in the first place has remained solid. As noted in last week's CIO Weekly, the strong global demand that preceded the war is a key factor that separates this oil price shock from previous episodes. The continuous outperformance of MSCI North Asia suggests a still favorable market positioning. In the meantime, markets that are relatively more insulated from the oil price shocks — i.e., China and Malaysia — are potential beneficiaries.

MSCI Asia/MSCI US relative performance



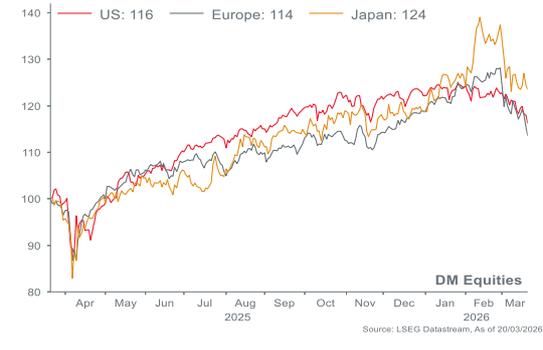
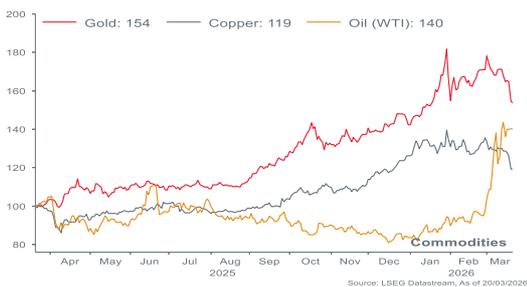
Source: Eastspring Investments; LSEG

Market Review

Global equities remained under pressure over the week, with the MSCI AC World Index declining 1.8% as sentiment softened amid ongoing geopolitical uncertainties. The US market also closed lower with the S&P 500 falling 1.9% and the NASDAQ sliding 2.1%. Europe also softened, with the MSCI Europe Index down 3.1% over the week. Asian markets were mixed: Korea (5.4%), Taiwan (0.4%) while Japan fell 0.8%. Overall, Asia Pacific ex-Japan equities fell by 0.2%. Emerging Markets were similarly weaker, falling 0.3% over the week. Emerging Markets were similarly weaker, falling 0.3% over the week.

US Treasury yields rose, with the 10-year yield increasing 2.5% over the week, while global government bonds fell 0.1%. Gold witnessed a sharp drop, falling 8.8% over the week and the US Dollar Index also weakened, falling by 0.7% during the week.

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	4.39	2.50	7.52	5.81	3.76	5.75	4.60	3.95
10 Year Bond Yield (%)								
Japan	2.26	1.07	7.55	11.91	49.05	9.37	2.34	1.12
China	1.83	-0.65	1.22	0.55	-5.08	-1.61	1.93	1.63
Australia	5.02	1.37	6.02	5.37	15.06	5.44	5.02	4.10
Singapore	2.12	0.76	8.18	-8.08	-20.64	-4.86	2.77	1.75
Malaysia	3.56	-0.22	1.14	0.03	-4.88	1.97	3.78	3.36
Indonesia	6.85	0.43	6.02	11.77	-3.70	11.90	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	93.95	0.09	-1.46	-0.65	0.02	-0.74	95.69	93.25
Bloomberg U.S. Aggregate USD	93.49	0.23	-1.36	-0.54	1.31	-0.62	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)	981.31	-1.79	-6.81	-2.69	16.34	-3.28	1,061.41	742.96
North America								
US S&P 500 Index	6,506.48	-1.90	-5.83	-4.80	14.90	-4.95	7,002.28	4,835.04
US Nasdaq Composite Index	21,647.61	-2.07	-5.41	-7.12	22.36	-6.86	24,019.99	14,784.03
Europe								
MSCI Europe	2,516.12	-3.05	-10.93	-3.81	9.98	-4.79	2,845.88	1,976.06
Asia Pacific								
MSCI Asia Pacific ex Japan	756.87	-0.21	-5.66	7.61	27.55	4.80	829.20	513.60
Japan Nikkei 225	53,372.53	-0.83	-6.08	7.81	41.38	6.03	59,332.43	30,792.74
Shanghai Stock Exchange Composite	3,957.05	-3.38	-3.06	1.71	16.08	-0.30	4,197.23	3,040.69
Hong Kong Hang Seng	25,277.32	-0.74	-4.30	-1.61	4.37	-1.38	28,056.10	19,260.21
Taiwan TAIEX	33,543.88	0.43	-0.18	21.11	49.90	15.81	35,579.34	17,306.97
Korea KOSPI	5,781.20	5.36	-0.47	43.79	119.23	37.18	6,347.41	2,284.72
India NIFTY 50	23,114.50	-0.16	-9.61	-10.98	-0.33	-11.54	26,373.20	21,743.65
Australia Stock Exchange 200	8,428.40	-2.19	-7.19	-2.24	6.43	-3.28	9,202.90	7,169.20
Indonesia Jakarta Composite	7,106.84	-0.43	-14.08	-17.45	11.36	-17.81	9,174.47	5,882.61
Thailand SET	1,432.99	1.68	-3.16	14.44	21.26	13.76	1,545.31	1,053.79
Malaysia FTSE Bursa KLSE	1,720.71	1.29	-1.83	3.29	14.40	2.42	1,771.25	1,386.63
Philippines Stock Exchange PSE	6,018.62	-0.67	-6.91	1.65	-4.82	-0.57	6,673.61	5,584.35
Singapore FTSE Straits Times Index	4,948.87	2.20	-1.37	8.30	25.91	6.51	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	-0.16	1.35	-1.78	-1.18	6.63	-1.49	1.20	1.08
GBP	-0.68	0.88	-1.06	-0.27	2.90	-0.99	1.38	1.27
CHF	-0.01	-0.42	1.56	-0.92	-10.66	-0.56	0.88	0.76
JPY	0.95	-0.31	2.69	0.93	7.02	1.64	159.86	140.85
Asia								
CNY	-0.20	-0.15	-0.32	-2.20	-4.99	-1.54	7.35	6.84
HKD	-0.02	0.06	0.21	0.65	0.76	0.63	7.85	7.75
INR	0.84	1.26	3.28	4.58	8.52	4.25	93.67	84.27
MYR	-	-	0.92	-3.39	-11.03	-2.96	4.49	3.88
KRW	1.07	0.27	4.10	2.02	2.70	4.49	1,508.15	1,352.45
SGD	0.35	-0.12	1.22	-0.84	-3.99	-0.30	1.35	1.26
TWD	0.57	-0.20	1.64	1.62	-3.02	2.18	33.25	28.90
IDR	-	0.24	0.68	1.43	3.07	1.83	16,985.00	16,106.00

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Sources

Asset performances: (bar charts) Eastspring Investments, Refinitiv, as at 20 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 20 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.



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