

Implications of rising US yields for Asia

Pageantry over policy China-US summit risks higher energy prices

Last week's Trump-Xi summit ended with virtually no policy change and, most importantly, no signal of impending Chinese intervention into the Middle East to reopen the Strait of Hormuz. This contributed to 10-year US Treasury yields rising 11bps to 4.59% and 30-year yields increasing 9bps to 5.11% on Friday, their highest level since 2007 as concerns about energy driven inflation resumed. Brent crude rose 3.7% to USD110.4/bbl on Friday and is up a further 0.8% to USD111.3/bbl as we write.

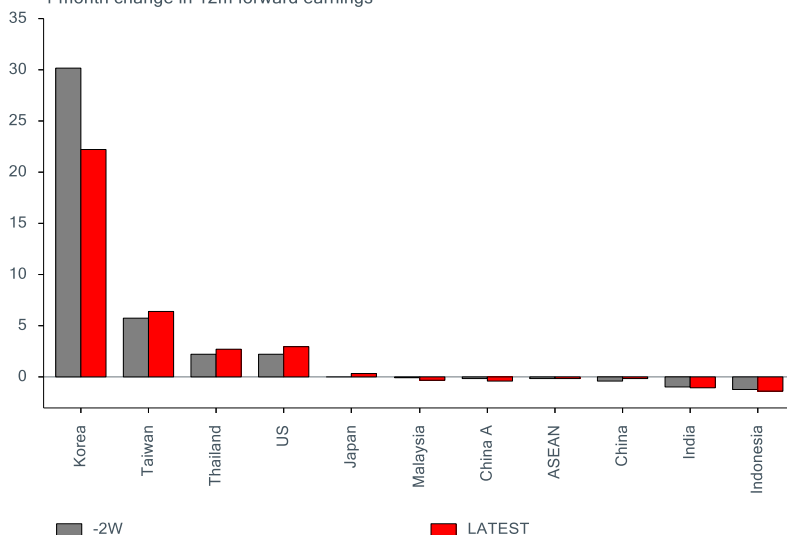
Some technical indicators suggest that Treasuries are oversold and we don't rule out a temporary 10bps – 15bps dip in yields over the next week. However, if a US-Iran deal that reopens the Strait of Hormuz does not emerge by early June, global energy prices would likely inflect higher, worsening the outlook for US inflation and Treasury yields.

We have written in detail in our last two issues about already rising inflationary pressure in Asia's supply chain that may ultimately feed into US goods inflation. It's too soon for the April US PCE inflation data release next week to reflect this, but we expect the ISM Manufacturing and Services surveys for May to show a further increase in prices paid and deterioration in order delivery times.

We see several key implications for Asian financial assets:

- 1) For equities, rising yields and pricing of Fed rate hikes early next year increase the importance of positive revisions to consensus earnings revisions. These remain strong in Korea, Taiwan, and Thailand because of IT hardware and energy.

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



Source: LSEG Datastream, 18/05/2026



Vis Nayar
Chief Investment Officer
Eastspring Investments



Ray Farris
Chief Economist
Eastspring Investments



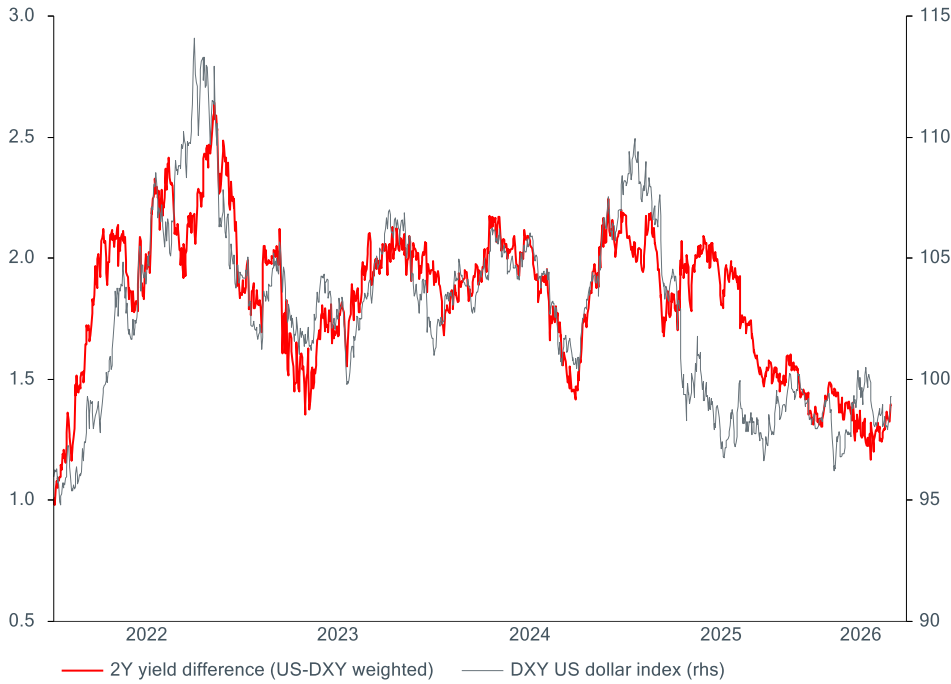
Viola Wang
Economist
Eastspring Investments

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- 2) In a year that started with expectations for Fed rate cuts to weaken the USD, now rising US yields are giving the USD new support. This is adding to depreciation pressure on Asian currencies, particularly those of the large net energy importers: India, Indonesia, Korea, and Thailand.

Rising US yields are giving the USD new support

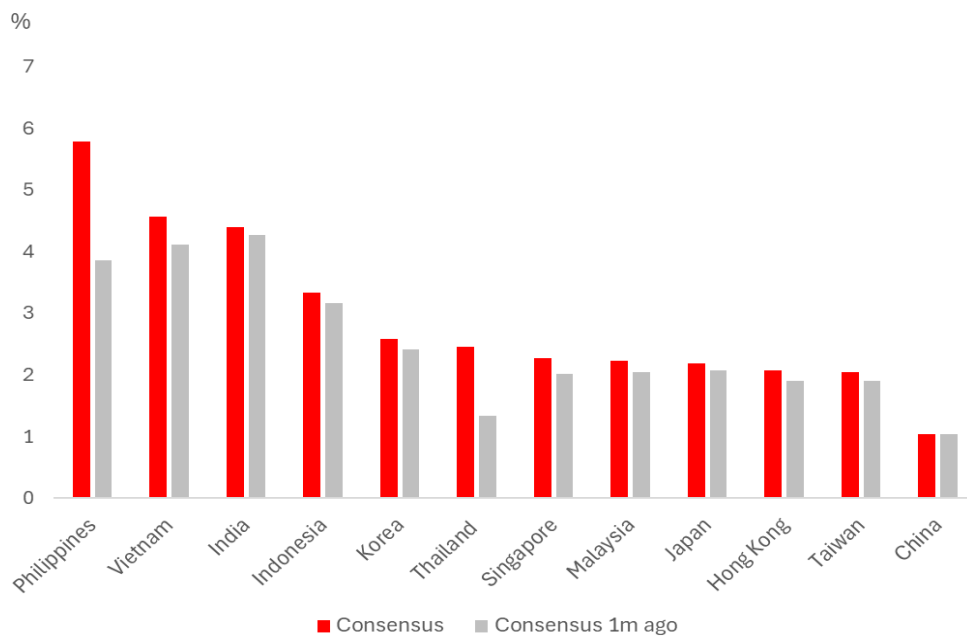


- 3) Although Asian bond yields have so far risen less than US yields in most countries since the end of April, currency depreciation is rapidly increasing the risk of rate hikes in India and Indonesia (See section below).

Asian yields have room to rise further

The protracted standoff between the US and Iran implies intensifying cost-push inflation pressures. Across Asia, inflation forecasts have been revised higher over the past month. While administrative measures have kept April inflation prints relatively subdued, greater pass-through will likely be allowed over time, pointing to further upward revisions ahead.

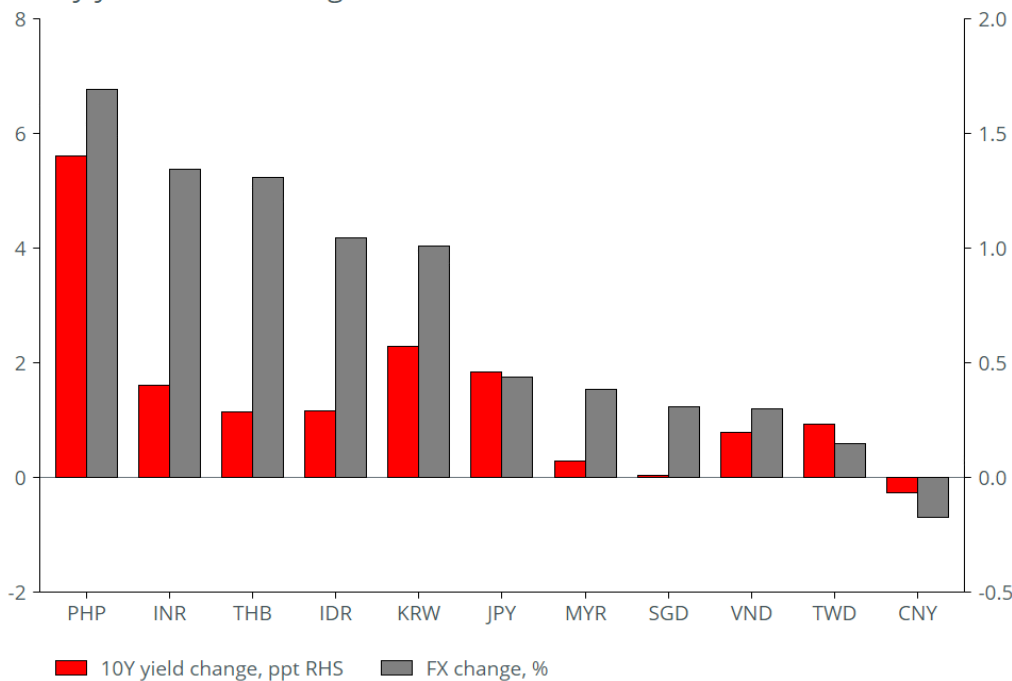
Consensus has been upgrading Asia inflation forecasts everywhere



Source: Bloomberg. May 2026.

Crucially, pressure on current account balances from higher energy costs is translating into accelerated currency depreciation. In economies such as the Philippines and Indonesia, declining remittances from the Middle East and weaker tourism revenues are compounding deterioration in current account balances while portfolio flows remain negative amid lacklustre equity market performance.

10y yield and FX change since the war

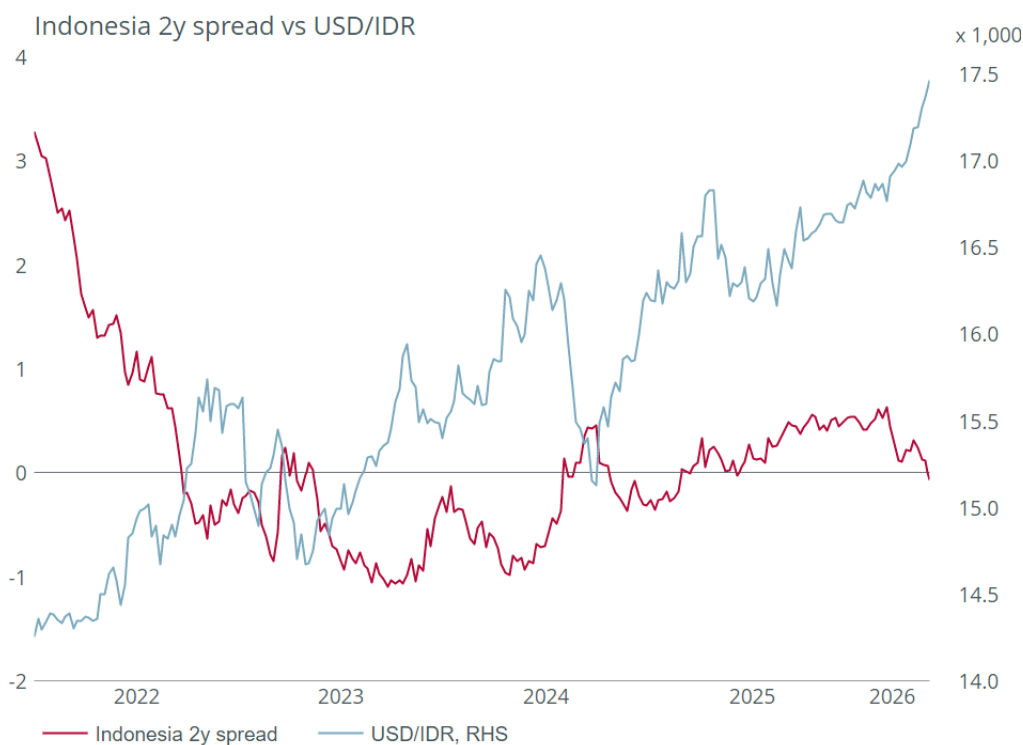


Source: LSEG Datastream, 18/05/2026

Pressure on emerging Asia yields is set to intensify as US rates rise meaningfully. The inflection higher in US yields since early May has compressed the spread between US and emerging markets, implying that local yields need to catch up or risk further currency weakness.

Within the region, India and Indonesia appear particularly exposed. Both INR and IDR have depreciated sharply since the start of the conflict, approaching an annualised depreciation pace of around 30%. In this context, we expect both the Reserve Bank of India and Bank Indonesia to tighten policy, with the latter likely to hike at its upcoming meeting this week.

Asian USD credit spreads have already widened to reflect elevated global yields and heightened geopolitical risks, and with fundamentals still broadly stable - especially within investment grade credits - this may underpin relative resilience, although our Asian bond team maintains a prudent and selective approach to risk-taking.



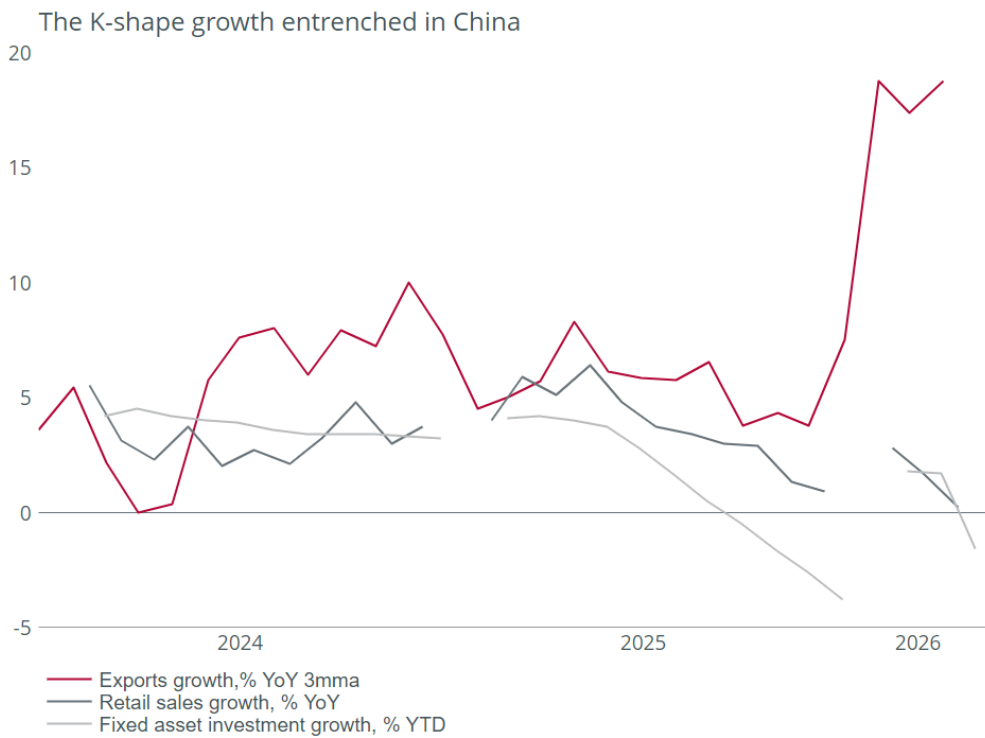
Source: LSEG Datastream. May 2026.

The China growth story remains export driven

China has remained an outlier in both rates and FX markets. Yields have stayed at historically low levels, while the CNY has continued to strengthen, testing the 6.8 level against the US dollar. Part of the divergence reflects a two-speed economy, with resilient export performance offsetting a weak domestic sector. April activity data confirm this dynamic. Export growth remained robust in the

mid-teens, while retail sales were broadly flat and fixed asset investment fell back to contraction.

Although higher energy prices will exert upward pressure on inflation, a broad-based recovery in domestic demand remains out of sight. Strong external demand has reduced the urgency for further policy stimulus, but at the same time increases the risk of over-reliance on exports, particularly if the energy shock ultimately leads to global demand destruction. For now, the outlook hinges on continued strength in the AI trade and Chinese firms' competitive advantages.



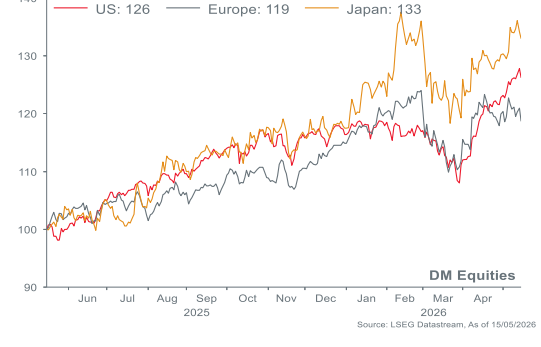
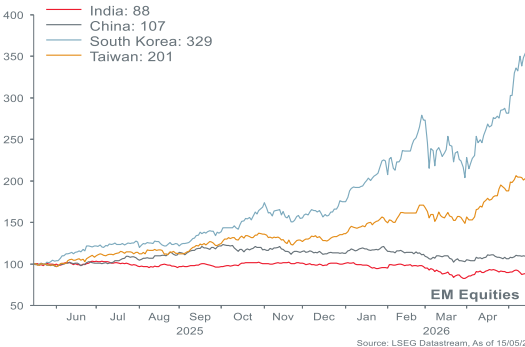
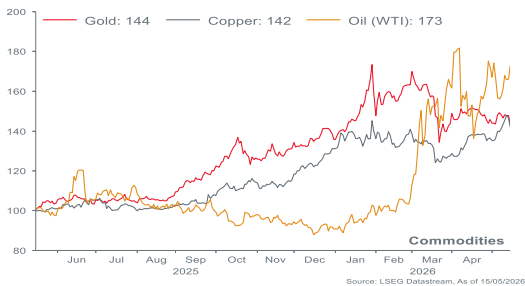
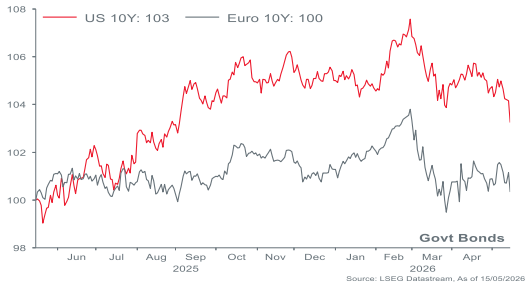
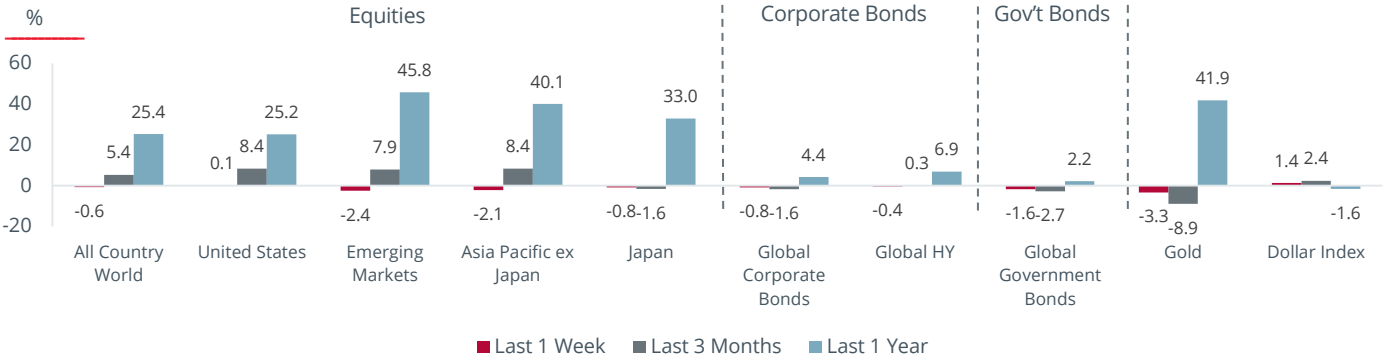
Source: LSEG Datastream. May 2026.

Market Review

Global equity markets witnessed a broad-based decline over the week amid weakness across major developed and emerging market indices. The MSCI AC World Index declined by 0.6%, while the US equities remained resilient with the S&P 500 rising 0.1% and the Nasdaq remained flat, declining 0.1% over the week. European markets underperformed with the MSCI Europe falling 2.0%. Asian markets also weakened during the week. The MSCI Asia Pacific ex Japan index declined 2.1%. Emerging Markets equities also underperformed developed peers, declining 2.5%.

US treasury yields increased to 4.6%, rising 5.3% during the week, indicating persistent concerns around inflation and interest rate expectations. Global government bonds fell 1.6%, while the US Dollar strengthened by 1.4%. Gold fell significantly by 3.3% over 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	4.60	5.29	7.38	13.29	3.14	10.64	4.60	3.95
10 Year Bond Yield (%)								
Japan	2.71	9.20	12.38	22.22	82.84	30.72	2.71	1.40
China	1.77	-0.11	-0.84	-2.49	4.93	-5.21	1.93	1.63
Australia	5.08	1.70	2.94	6.86	11.83	6.66	5.11	4.10
Singapore	2.14	2.78	5.15	10.87	-17.20	-3.64	2.59	1.75
Malaysia	3.58	0.56	0.20	1.21	-0.61	2.52	3.65	3.36
Indonesia	6.71	0.12	1.91	4.68	-2.94	9.64	6.96	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	92.91	-0.98	-1.19	-2.47	-0.81	-1.84	95.69	92.91
Bloomberg U.S. Aggregate USD	92.17	-1.21	-1.62	-2.88	1.11	-2.02	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)	1,099.00	-0.60	3.59	5.39	25.40	8.32	1,116.06	868.15
North America								
US S&P 500 Index	7,408.50	0.13	5.49	8.37	25.21	8.22	7,517.12	5,767.41
US Nasdaq Composite Index	26,225.14	-0.08	9.20	16.31	37.22	12.84	26,707.14	18,599.69
Europe								
MSCI Europe	2,680.43	-1.95	-3.08	-3.58	15.09	1.42	2,845.88	2,328.95
Asia Pacific								
MSCI Asia Pacific ex Japan	860.26	-2.09	6.23	8.37	40.14	19.12	887.04	607.50
Japan Nikkei 225	61,409.29	-2.08	5.63	7.85	62.65	21.99	63,799.32	36,855.83
Shanghai Stock Exchange Composite	4,135.39	-1.07	2.69	1.31	22.32	4.20	4,258.86	3,332.49
Hong Kong Hang Seng	25,962.73	-1.63	0.06	-2.27	10.70	1.30	28,056.10	22,668.35
Taiwan TAIEX	41,172.36	-1.04	12.12	22.52	89.47	42.15	42,408.66	20,940.98
Korea KOSPI	7,493.18	-0.06	23.01	36.07	185.85	77.81	8,046.78	2,588.09
India NIFTY 50	23,643.50	-2.20	-2.43	-7.18	-5.66	-9.51	26,373.20	22,182.55
Australia Stock Exchange 200	8,630.80	-1.30	-3.88	-3.22	4.02	-0.96	9,202.90	8,257.40
Indonesia Jakarta Composite	6,723.32	-3.53	-11.81	-18.13	-4.50	-22.25	9,174.47	6,705.43
Thailand SET	1,517.95	1.17	0.74	6.12	27.08	20.50	1,545.31	1,053.79
Malaysia FTSE Bursa KLSE	1,740.22	-0.45	3.37	0.04	10.63	3.58	1,771.25	1,488.89
Philippines Stock Exchange PSE	5,976.77	0.27	-1.43	-6.39	-7.58	-1.26	6,673.61	5,584.35
Singapore FTSE Straits Times Index	4,989.08	1.36	-0.64	1.04	28.19	7.38	5,041.33	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	-0.37	-1.35	-1.47	-2.04	3.92	-1.02	1.20	1.12
GBP	-0.58	-2.28	-1.75	-2.40	0.18	-1.13	1.38	1.30
CHF	0.41	1.34	0.65	2.51	-5.85	-0.71	0.84	0.76
JPY	0.26	1.35	-0.13	3.98	8.99	1.35	160.39	142.54
Asia								
CNY	0.36	0.13	-0.13	-1.43	-5.52	-2.63	7.22	6.79
HKD	-0.04	0.01	-0.05	0.19	0.30	0.61	7.85	7.77
INR	0.21	1.67	2.79	6.00	12.21	6.80	95.96	85.06
MYR	0.43	0.74	-0.08	1.08	-7.78	-2.69	4.30	3.88
KRW	0.31	2.48	1.54	3.98	7.27	3.97	1,517.25	1,352.45
SGD	0.34	1.07	0.74	1.50	-1.32	-0.42	1.31	1.26
TWD	0.09	0.83	-0.08	0.48	4.63	0.73	32.08	28.90
IDR	-	0.58	1.93	3.77	5.75	4.74	17,490.00	16,106.00

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Sources

Asset performances: (bar charts) Eastspring Investments, Refinitiv, as of 15 May 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.

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