

Markets position for an Iran-US deal

Getting closer to a deal, perhaps

US President Trump announced on Saturday that an Iran-US deal to reopen the Strait of Hormuz (SoH) is almost finalised only to qualify that on Sunday, saying he is in no rush for a deal. Nonetheless markets perceive a deal may finally emerge this week and are using Asia to position given that US equity market is closed today for the Memorial Day holiday. As we write, most Asian equity markets are up as are all Asian currencies except for the Indonesian rupiah.

Formal announcement of a deal would likely further this rally and potentially extend it to markets and currencies most hurt by the War, such as India and Indonesia. Press reports suggest a “memorandum of understanding” for a 60-day extension of the ceasefire and a reopening of the SoH.

Reasons for caution beyond the rally

Nonetheless, we see reasons for sober thinking about the extent of any resulting rally in markets.

One reason is the deal under discussion appears likely to come with contestable conditions on both sides. The US wants Iran to rapidly clear mines from the SoH and allow unrestricted, toll free shipping in return for graduated removal of sanctions and return of frozen assets. Iran wants funds unfrozen immediately and permanent sanctions relief. Future disagreement about adherence by either side could emerge.

Another is that the 60-day period is expressly for negotiation about Iran’s nuclear material and development programme. That seems to be a very ambitious time line given that the JCPOA negotiated under the Obama Administration took two years and yielded terms many in the current US Administration view as excessively lenient for Iran.

Additionally, Israel’s acceptance of the deal and willingness to refrain from military action in Lebanon or even Iran is unclear.

Finally, shipping industry representatives stress that a return to pre-war shipping volumes will take at least a month for oil and longer for gas. Shippers want demonstration of safe transit and lower insurance rates before returning to normal volumes.

Normalisation of energy supply is likely to be slow

We judge this to imply that energy and related commodity prices will fall only gradually this year. We continue to expect Brent crude to end the year above \$90/bbl. Persistently high energy prices will maintain strain on Asia’s weaker trade balances in India, Indonesia, and the Philippines. Crucially, it will sustain a large cost shock even as there is support from Asian export growth from the global AI capex boom. This points to a greater likelihood of energy inflation feeding into



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broader core goods inflation in many countries, including the United States.

We expect monetary policy in Asia will continue turning more hawkish.

- We expect the Bank of Japan to raise its policy rate 25bps in July and signal the possibility of another hike late this year versus market pricing of 38bps of hikes this year.
- We see IDR weakness driving another 50bps of hikes from Bank Indonesia.
- We agree with the market pricing of 100bps of further hikes in the Philippines.
- We expect the Bank of Korea to shift to a hawkish policy stance in the next month or two and to hike 50bps in H2, in line with market pricing.
- In India we expect only 50bps of rate hikes in H2 vs. market pricing for 86bps.

This outlook for policy tightening is contingent on Asian currencies remaining weak. Stabilisation and a shift back towards appreciation in IDR and INR would stall the outlook for rate hikes and might forestall a Korean hike.

How Asian currencies trade will depend not just on oil prices, but also direction of the USD vs. the major currencies and that will depend on new Federal Reserve Chairman Kevin Warsh.

Welcome to the Kevin Warsh Fed

Kevin Warsh was signed in as the 17th Chair of the Federal Reserve (Fed) last Friday, likely ushering in significant changes to Fed policy over time. As it stands, markets now price a 76% probability that the Fed will hike rates by year-end and a 113% probability by March 2027 (i.e. 28.5bps of hikes priced). Yet US President Trump appears to have chosen Warsh in hope that he will cut rates. So what do Warsh's prolific speeches and interviews suggest about how he will run the Fed?

Warsh has argued recently for the Fed to stick to a narrow remit of a focus on price stability as the "condition precedent" to employment rather than "mission creep" of setting policy to attempt to effect social objectives.

He appears to prefer a rules-based approach to monetary policy, for example, something like a Taylor Rule that determines the Fed Funds rate formulaically as a tradeoff between inflation and unemployment, rather than data driven discretion. Most Taylor Rule models suggest the Fed Funds rate is currently too low, not too high.

His strongest view appears to be opposition to Fed "Quantitative Easing". He describes Fed security purchases as "fiscal policy in disguise", enabling otherwise unsustainable deficits and debt issuance. He argues these security purchases disproportionately benefit the minority of the population that are financial asset owners at the expense of generating inflation that taxes the majority of the population that are wage earners with little or no financial assets. He further argues this has led the Fed to focus excessively on financial market performance over performance of the real economy.

Yet Warsh has said the Fed should work with the Treasury in a new Fed-Treasury accord. The Fed should be independent in its judgments about inflation, but willing to work with Treasury about the USD dollar, payment systems, and bank regulation.

Finally, he has recently argued that the AI boom will increase productivity growth and be structurally disinflationary and may justify pre-emptive rate cuts.

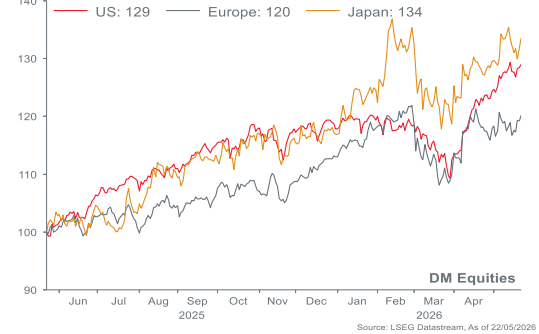
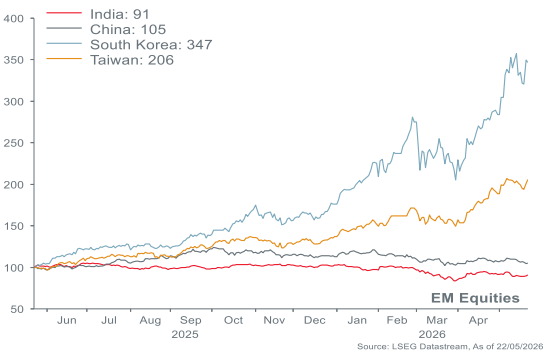
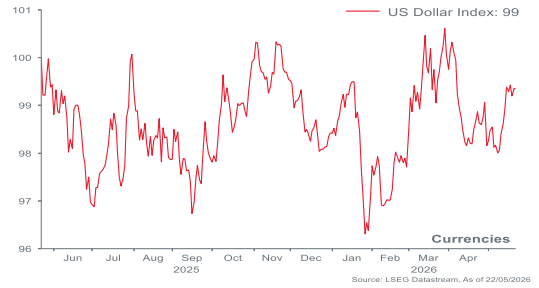
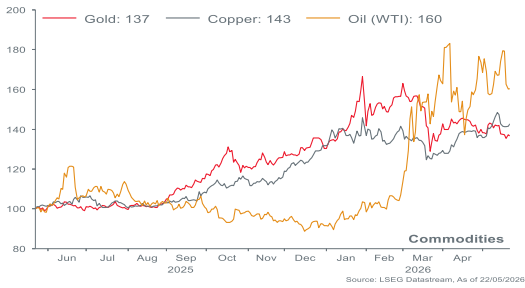
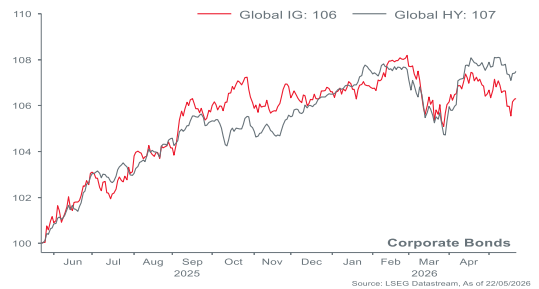
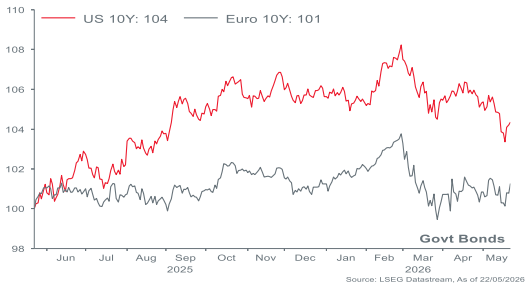
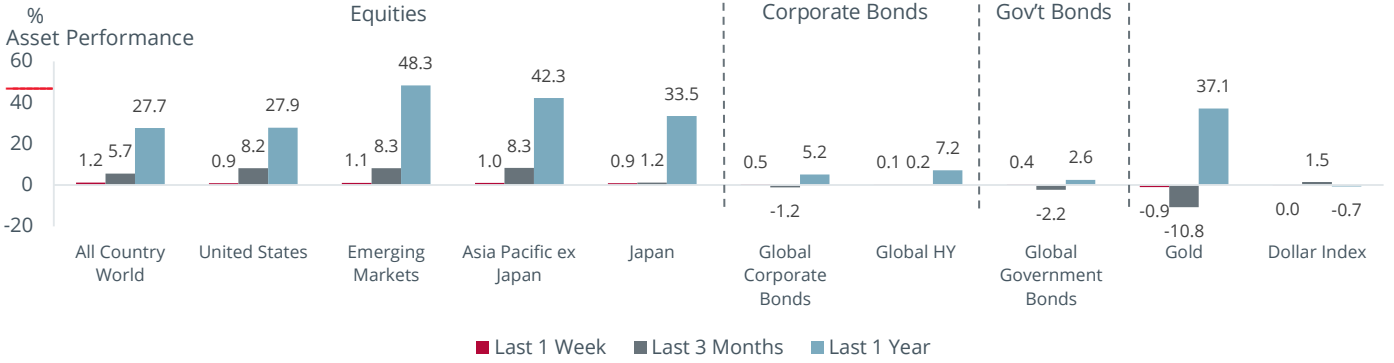
This mix of views has led him to argue for a monetary policy reset. One pillar of this is reducing the Fed's holdings of Treasuries and MBS. Another is offsetting the contractionary impact of security sales with cuts to the Fed Funds rate.

Yet Warsh enters the Fed at a time of institutional support for its large balance sheet and "ample reserve framework" and an FOMC that is turning hawkish, increasingly guiding to the possibility of a rate hike. How rapidly Warsh can win influence and shift FOMC views is uncertain, but we expect markets to bias risk around pricing of the Federal Funds rate in his favour as he begins to make his views known.

Market Review

Global equity markets witnessed a broadly positive trend over the week, supported by gains across major developed and emerging markets. MSCI AC World Index increased by 1.2%, while the US equities posted moderate gains with the S&P 500 rising 0.9%. However, the Nasdaq underperformed broader US markets, advancing only 0.5% during the week. European equities outperformed developed peers with the MSCI Europe gaining 2.8%. Asian markets delivered mixed performance and the MSCI Asia Pacific ex Japan index rose 1.0%. Emerging Markets equities remained resilient, advancing 1.1%.

US treasury yields declined 0.5% during the week while Global government bonds increased by 0.4% over the week. The US Dollar index remained flat while Gold fell significantly by 0.9% over the week.



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	4.57	-0.50	6.47	11.92	0.42	10.09	4.67	3.95
10 Year Bond Yield (%)								
Japan	2.76	2.14	15.07	31.31	76.39	33.53	2.80	1.40
China	1.75	-0.79	0.81	-3.26	3.61	-5.96	1.93	1.63
Australia	4.93	-2.97	-0.73	4.06	10.13	3.49	5.12	4.10
Singapore	2.13	-0.75	2.06	8.75	-16.13	-4.36	2.54	1.75
Malaysia	3.61	0.84	1.46	2.53	0.72	3.38	3.65	3.36
Indonesia	6.74	0.42	1.49	4.32	-1.56	10.10	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	93.25	0.37	-0.86	-2.19	-0.05	-1.48	95.69	92.66
Bloomberg U.S. Aggregate USD	92.39	0.24	-1.29	-2.52	1.94	-1.79	95.21	90.63
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)	1,112.55	1.23	3.85	5.66	27.73	9.65	1,116.06	868.15
North America								
US S&P 500 Index	7,473.47	0.88	4.70	8.16	27.93	9.17	7,517.12	5,767.41
US Nasdaq Composite Index	26,343.97	0.45	6.84	15.11	39.20	13.35	26,707.14	18,599.69
Europe								
MSCI Europe	2,755.85	2.81	0.94	-2.45	16.65	4.28	2,845.88	2,340.03
Asia Pacific								
MSCI Asia Pacific ex Japan	869.04	1.02	5.64	8.33	42.27	20.33	887.04	607.50
Japan Nikkei 225	63,339.07	3.14	6.30	11.46	71.25	25.82	63,799.32	36,855.83
Shanghai Stock Exchange Composite	4,112.90	-0.54	0.16	0.76	21.68	3.63	4,258.86	3,332.49
Hong Kong Hang Seng	25,606.03	-1.37	-2.13	-3.06	8.76	-0.10	28,056.10	22,668.35
Taiwan TAIEX	42,267.97	2.66	11.59	25.78	95.04	45.93	42,408.66	20,940.98
Korea KOSPI	7,847.71	4.73	22.28	35.11	202.57	86.22	8,046.78	2,588.09
India NIFTY 50	23,719.30	0.32	-2.70	-7.24	-3.62	-9.22	26,373.20	22,182.55
Australia Stock Exchange 200	8,657.00	0.30	-2.11	-4.67	3.69	-0.66	9,202.90	8,262.40
Indonesia Jakarta Composite	6,162.04	-8.35	-18.29	-25.51	-14.02	-28.74	9,174.47	5,966.86
Thailand SET	1,538.67	1.36	3.98	3.98	31.13	22.15	1,545.31	1,053.79
Malaysia FTSE Bursa KLSE	1,712.67	-1.58	0.13	-2.29	12.16	1.94	1,771.25	1,488.89
Philippines Stock Exchange PSE	5,961.40	-0.26	-0.47	-7.79	-5.46	-1.51	6,673.61	5,584.35
Singapore FTSE Straits Times Index	5,068.15	1.58	1.31	1.01	30.62	9.08	5,073.11	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	-0.14	-0.20	-0.86	-1.51	2.85	-1.22	1.20	1.13
GBP	-0.01	0.80	-0.55	-0.41	0.09	-0.34	1.38	1.30
CHF	-0.23	-0.25	-0.01	1.15	-5.32	-0.96	0.83	0.76
JPY	0.14	0.27	-0.18	2.67	10.54	1.62	160.39	142.54
Asia								
CNY	-0.12	-0.22	-0.48	-1.64	-5.68	-2.84	7.21	6.79
HKD	0.01	0.06	0.02	0.25	0.10	0.67	7.85	7.77
INR	-0.53	-0.28	2.03	5.50	11.31	6.50	96.82	85.06
MYR	0.13	0.46	0.38	1.67	-7.14	-2.24	4.29	3.88
KRW	1.09	1.49	2.83	5.12	10.05	5.53	1,520.10	1,352.45
SGD	0.15	-0.05	0.34	1.05	-1.00	-0.47	1.31	1.26
TWD	-0.27	-0.35	-0.06	-0.16	4.67	0.37	32.08	28.90
IDR	0.28	1.32	3.03	4.92	8.36	6.12	17,695.00	16,106.00

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Sources

Asset performances: (bar charts) Eastspring Investments, Refinitiv, as of 22 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.

Market data: Eastspring Investments, Refinitiv, as of 22 May 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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