

Finding outperformance in Asia as inflation pressure builds

Asia continues to outperform, but selection is key

Another week, another round of dashed hopes of a US-Iran deal that reopens the Strait of Hormuz (SoH) and begins the end of the still worsening global energy crisis. US President Trump announced yesterday that Iran's proposals are "totally unacceptable".

Energy market specialists stress that global energy inventories are falling rapidly so failure to reopen the SoH meaningfully by June risks a new upward inflection in global energy prices. This risk is rapidly approaching. Progress on a US-Iran deal seems unlikely in the next few days given President Trump is likely turning his attention to his meetings with Chinese President Xi Jinping later this week.

This increasingly hostile investment environment reinforces two of our core themes.

- 1) Asian markets are likely to outperform US markets. MSCI Asia Pacific is up 19% year to date in US dollar terms vs. 8% for the S&P 500 and 13% for the Nasdaq.
- 2) Investors need well researched, active selection to maximise performance. North Asian markets have delivered the bulk of this performance, particularly Korea. Chinese returns have come from A-shares, our preferred market, not H-shares. Returns in Thailand have come mainly from energy and tech while in Malaysia the story has been around energy.



Vis Nayar
Chief Investment Officer
Eastspring Investments



Ray Farris
Chief Economist
Eastspring Investments



Viola Wang
Economist
Eastspring Investments

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our investment experts
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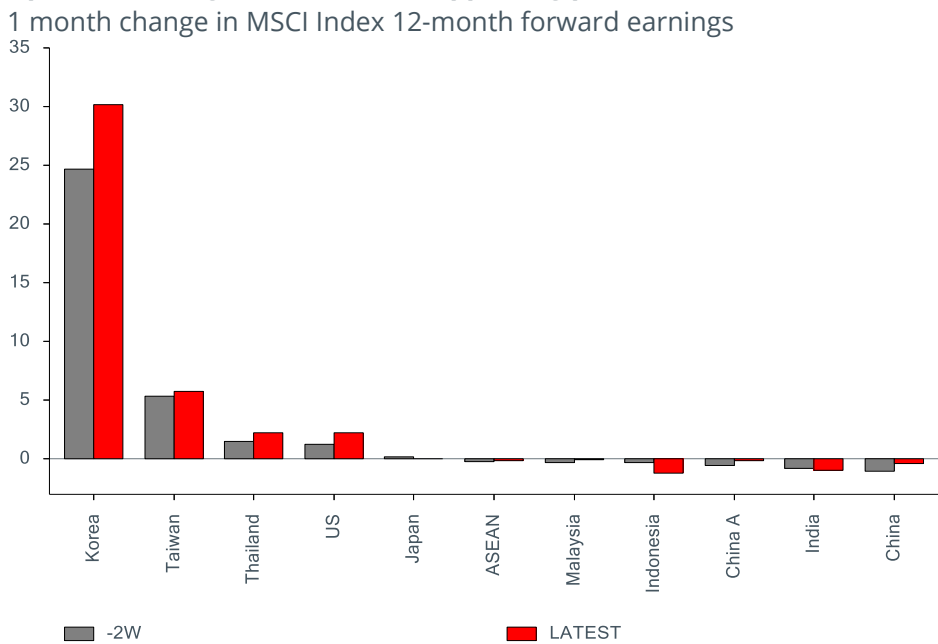


Asian performance is differentiated, not regional



Looking forward, we are focused on where companies can continue to generate positive earnings revisions and where economies are best positioned to weather energy driven inflation and pressure on currencies. Korea and Taiwan continue to stand out for their gearing to the boom in AI infrastructure investment. We see potential for this to stimulate Japanese earnings but at the stock specific level rather than the market level; high energy prices may damage auto sector earnings further. We also expect selected parts of China’s industrial sector to benefit from both IT hardware demand and the global energy shock. In contrast, China’s consumer sector looks more challenged. Less positively, as we discussed last week, we expect energy cost driven currency weakness to drive monetary policy tightening in India, Indonesia, and the Philippines.

Upward earnings revisions are supporting performance



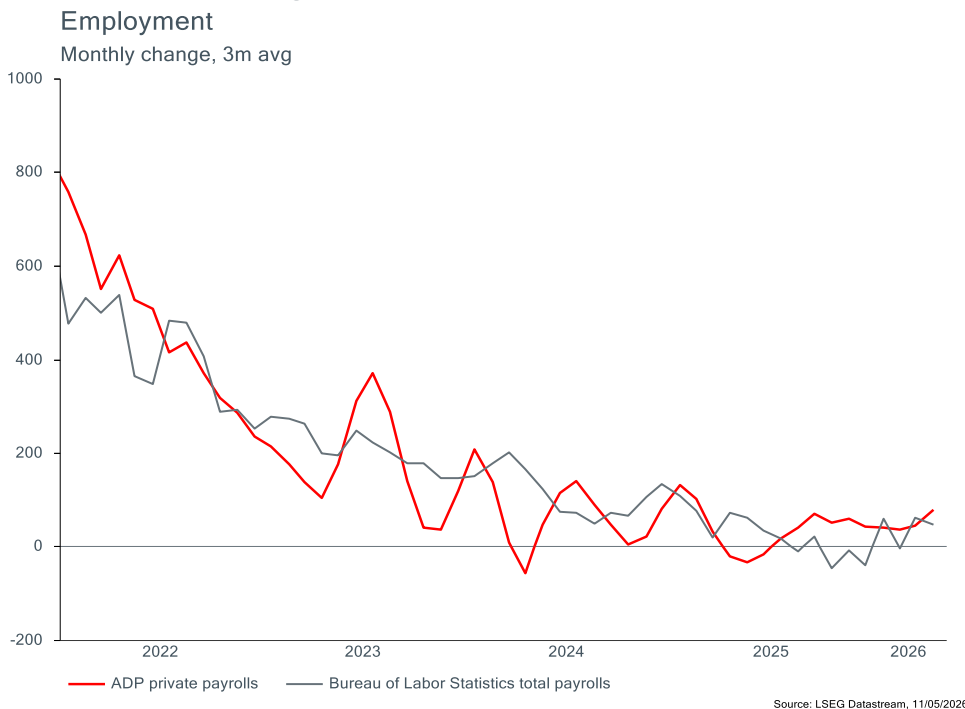
The rapidly shifting outlook for the Federal Reserve

We doubt that incoming Fed Chairman Kevin Warsh will be able to cut the Fed Funds rate this year. Our view is line with market pricing of no change in the Fed Funds rate this year, but contrasts with the Bloomberg economist consensus forecast for at least one 25bps cut. Below we show that the outlooks for the US labour market and inflation argue against rate cuts and may evolve into one that justifies rate hikes. If we are correct, the need for investors to focus portfolios on strong earnings growth and resilient currencies will intensify.

Much of the argument for rate cuts has rested on concerns about US labour market weakness. However, last Friday, we received another month of better than consensus US labour data with the US payroll employment rising 115k vs expectations for 65k and the unemployment rate remaining unchanged at 4.3%. As much as we like to torture the data looking for qualifications, at this stage we think investors are best served by focusing on the big picture.

The chart below shows that the mid-2025 weakness in US jobs that came from the Liberation Day shock and DOGE related cuts to Federal employment looks over. We find it particularly telling that the ADP measure of private employment has risen consistently for 10 consecutive months.

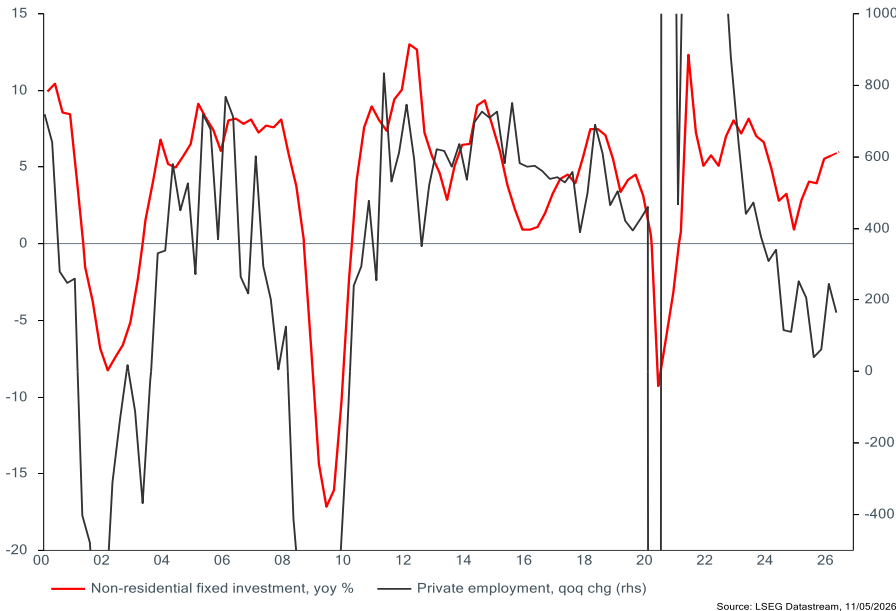
The mid-2025 US hiring lull seems to be over



This makes sense because robust US capital expenditure growth points to an outlook for continued US job growth. The next chart shows that periods of growth in business capex have supported US employment growth. Looking forward, profit growth tends to lead US business capex growth by 2 - 3 quarters. S&P 500 profit growth accelerated strongly to close to 25% in Q1 from 13% in Q4

last year, and the bottom-up consensus forecasts earnings growth of 18% over the next year. This points to continued strong capex growth that should support employment growth.

Robust US profit growth supports employment growth



Rate cut optimists might retort that wage growth is slowing, reducing labour market pressure on inflation in the future. Average hourly earnings growth slowed to 0.2%mom in April or about 2.4% annualised, a second consecutive month at this rate. However, the chart below shows that broader measures of employment cost growth, while moderating, remain at their highest levels since 2006 and are consistent with slightly higher, not lower inflation.

Broad employment cost growth remains historically high



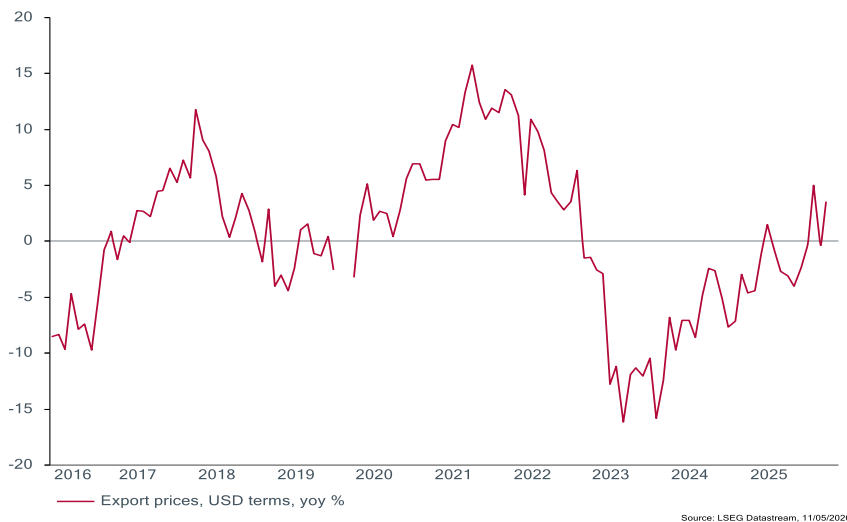
Crucially, the outlook for goods inflation is deteriorating both because of the AI boom and Iran War driven energy crisis. The chart below shows that the output price components of Asian PMIs have surged in the last several months and these have historically correlated with US goods inflation. AI infrastructure demand has created an unprecedented shortage of semiconductors and components not just for data centers but also phones, games, PCs, and automotive electronics. The roughly 50% increase in energy and petrochemical costs since February are worsening the outlook by increasing production and shipment expenses.

Asian output inflation may increase US goods inflation



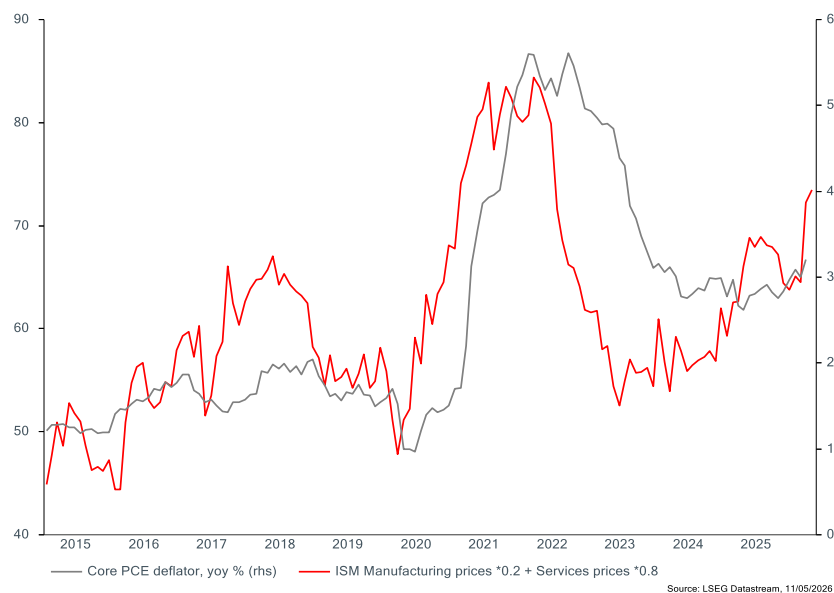
Note also that China’s export prices have begun rising in US dollar terms after contracting the previous three years.

China’s export prices have begun rising in USD terms



To be sure, the most recent US ISM surveys also report sharp increases in input and output prices. This points to some upward pressure on US inflation, even at a broad level.

US business surveys point to higher inflation



We think markets are not fully priced for higher for longer US inflation with continued job growth. If core inflation reaccelerates from 2.6% in March to close to 3% with the unemployment rate remaining below 4.5% markets would likely need to increase pricing for the chance of a 25bps rate hike by year end from 26% at present to at least 50%. That would imply higher US Treasury yields and persistent US dollar strength. It would also create a new headwind for equities that don't sustain upward earnings revision momentum.

The Bloomberg consensus is for a 0.6%mom rise in the US CPI to 3.7%yoy in April, but only a 0.3%mom rise at the core level to 2.7%yoy. We don't rule out a consensus or just below consensus reading at the core level because April may simply be too early for the effects we describe above to have effect.

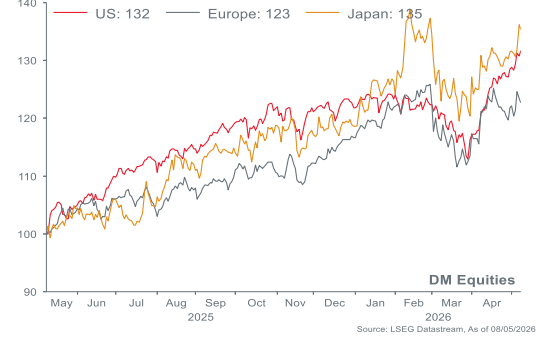
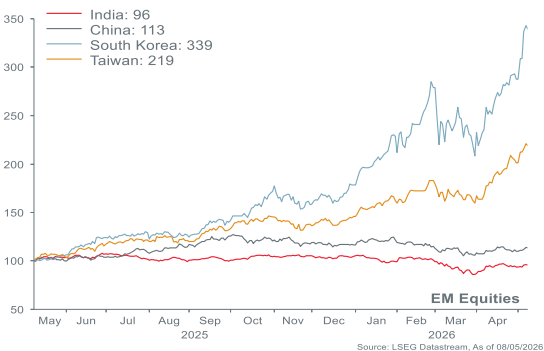
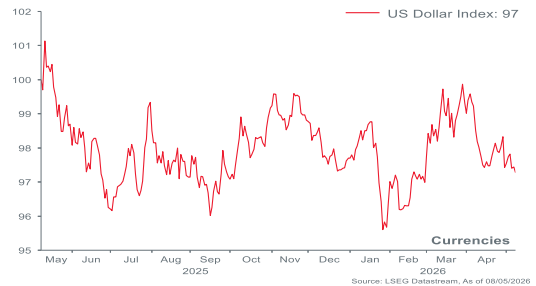
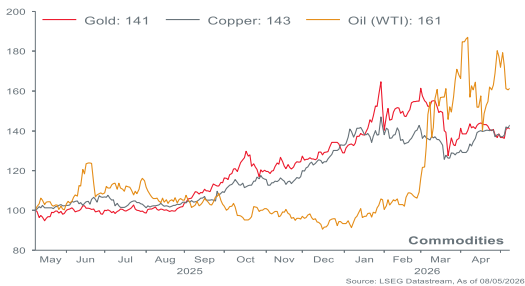
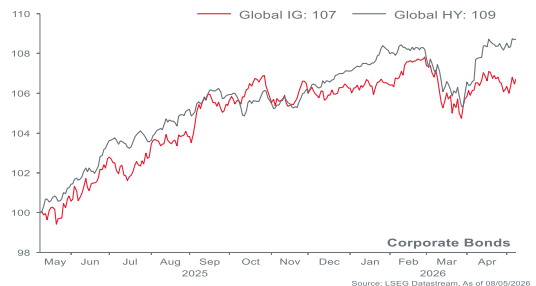
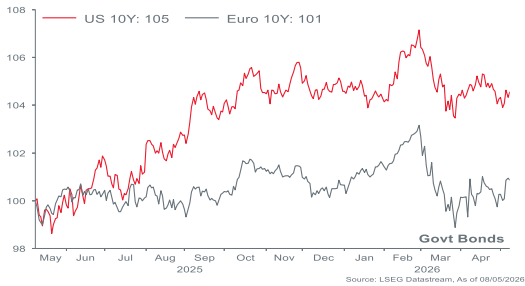
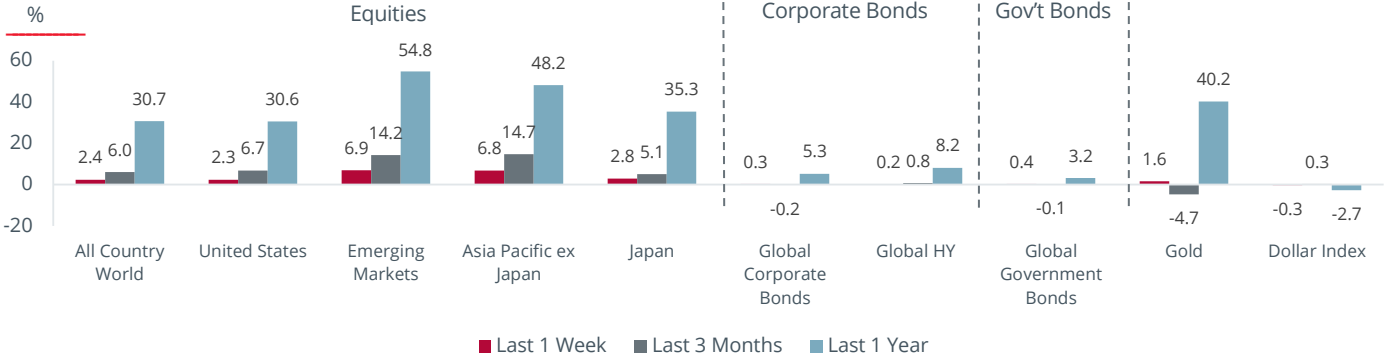
A surprise US-Iran deal that rapidly reopens the SoH would offset some of our concerns above by creating an outlook for the energy shock to moderate into 2027. However, this might actually give some added support to the US labour market by removing corporate hiring concerns in the current environment of strong profit growth.

Market Review

Global equity markets continued to show positive momentum over the week, supported by gains across major developed and emerging markets. The MSCI AC World Index advanced by 2.4%, while the US equities remained resilient with the S&P 500 rising 2.3% and the Nasdaq rising significantly by 4.5% over the week. Asian markets outperformed global peer, led by the MSCI Asia Pacific ex Japan index which surged 6.8% over the week. Emerging Markets equities also delivered robust returns, gaining 6.9% while Japan equities increased 2.8%. European equity posted modest gains of 0.5% during the week.

US treasury yields declined marginally by 0.3% over the week and Global government bonds gained of 0.4%. The US Dollar weakened by 0.3%, while gold increased by 1.6%.

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	4.36	-0.32	1.70	3.76	-0.21	5.08	4.60	3.95
10 Year Bond Yield (%)								
Japan	2.48	-1.12	4.51	10.87	86.88	19.71	2.52	1.33
China	1.77	0.80	-2.48	-2.21	8.21	-5.10	1.93	1.63
Australia	4.99	-0.66	2.40	3.74	17.60	4.87	5.11	4.10
Singapore	2.08	-1.19	-2.43	4.36	-13.92	-6.25	2.59	1.75
Malaysia	3.56	-0.28	-0.89	-0.28	-1.27	1.95	3.65	3.36
Indonesia	6.70	-1.87	1.16	3.99	-2.26	9.51	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	93.83	0.25	-0.27	-0.89	-0.19	-0.87	95.69	93.14
Bloomberg U.S. Aggregate USD	93.30	0.21	-0.28	-0.85	2.13	-0.82	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)	1,105.63	2.38	7.23	6.02	30.71	8.97	1,105.63	845.85
North America								
US S&P 500 Index	7,398.93	2.33	9.08	6.73	30.63	8.08	7,401.50	5,635.38
US Nasdaq Composite Index	26,247.08	4.51	15.96	13.96	46.40	12.93	26,248.62	17,776.00
Europe								
MSCI Europe	2,733.78	0.14	0.31	-1.19	18.84	3.44	2,845.88	2,300.38
Asia Pacific								
MSCI Asia Pacific ex Japan	878.59	6.76	11.34	14.67	48.21	21.66	887.04	592.80
Japan Nikkei 225	62,713.65	5.38	11.38	15.59	69.82	24.58	63,091.14	36,606.71
Shanghai Stock Exchange Composite	4,179.95	1.65	4.63	2.81	24.70	5.32	4,197.23	3,327.90
Hong Kong Hang Seng	26,393.71	2.39	1.93	-0.63	15.88	2.98	28,056.10	22,589.13
Taiwan TAIEX	41,603.94	6.88	19.68	30.90	102.52	43.64	42,156.06	20,543.40
Korea KOSPI	7,498.00	13.63	27.68	47.33	190.68	77.92	7,531.88	2,571.20
India NIFTY 50	24,176.15	0.74	0.75	-5.91	-0.40	-7.48	26,373.20	22,182.55
Australia Stock Exchange 200	8,744.40	0.17	-2.32	0.41	6.75	0.35	9,202.90	8,154.80
Indonesia Jakarta Composite	6,969.40	0.18	-4.26	-12.17	2.08	-19.40	9,174.47	6,745.15
Thailand SET	1,500.36	0.45	1.03	10.81	24.35	19.11	1,545.31	1,053.79
Malaysia FTSE Bursa KLSE	1,748.06	1.51	3.05	0.88	13.31	4.04	1,771.25	1,488.89
Philippines Stock Exchange PSE	5,960.97	2.18	-2.12	-6.73	-6.71	-1.52	6,673.61	5,584.35
Singapore FTSE Straits Times Index	4,921.90	0.19	-1.48	-0.25	27.90	5.93	5,041.33	3,839.14

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	0.50	0.55	1.05	-0.27	4.96	0.33	1.20	1.11
GBP	0.60	0.44	1.79	0.17	2.91	1.18	1.38	1.30
CHF	-0.49	-0.67	-1.88	0.08	-6.69	-2.02	0.85	0.76
JPY	-0.17	-0.24	-1.22	-0.35	7.36	-	160.39	142.54
Asia								
CNY	-0.01	-0.39	-0.41	-1.99	-5.99	-2.75	7.24	6.80
HKD	-0.05	-0.07	-0.04	0.20	0.71	0.60	7.85	7.77
INR	0.14	-0.53	1.95	4.20	10.38	5.04	95.18	84.86
MYR	0.28	-1.24	-1.41	-0.68	-8.39	-3.40	4.32	3.88
KRW	0.21	-0.64	-1.14	-0.13	4.11	1.46	1,517.25	1,352.45
SGD	-0.16	-0.53	-0.55	-0.32	-2.58	-1.47	1.31	1.26
TWD	-0.31	-0.99	-1.32	-0.87	3.42	-0.10	32.08	28.90
IDR	0.17	0.32	2.09	2.97	5.28	4.14	17,410.00	16,106.00

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Sources

Asset performances: (bar charts) Eastspring Investments, Refinitiv, as of 8 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 8 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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