

The Asian Equities and Asian Fixed Income team assess the recent Middle East developments and implications for Asia asset classes.

## Implications for Asian equities

Key points:

- Energy import-heavy equity markets (e.g. India, the Philippines, Taiwan, Korea) may face near-term pressure, as higher oil prices could lift input costs, weigh on corporate margins, and delay expected monetary easing, particularly for transport, airlines, logistics, financials, and real estate sectors.
- Chinese mainland's equity impact may be more sentiment-driven than fundamental, as strategic oil inventories could buffer near-term supply risks.
- Relative equity resilience may emerge in energy-producing economies (e.g., Malaysia, Indonesia), while broader Asian equities may remain sensitive to the duration of elevated oil prices and any disruption to shipping through the Strait of Hormuz, which could raise logistics costs and amplify volatility.
- Potential negatives may include India and the Philippines. Energy-intensive sectors (transport, airlines, logistics) could face higher input costs; rate-sensitive sectors (financials, real estate) may weaken if higher inflation contributes to delayed rate-cut cycles. Higher oil prices could also be a headwind for Taiwan and Korea, given their oil and gas trade deficits.
- Chinese mainland had been stockpiling through most of 2025 and may be able to draw down strategic reserves. Chinese mainland could also slow or pause additional stockbuilding and rely on existing inventories of approximately 1.3 billion barrels. Risk may also come through sentiment, given relative outperformance since 2025.
- Potential beneficiaries may include energy-producing economies such as Malaysia and Indonesia.
- Higher logistics costs could affect vessels traveling across the Strait of Hormuz, where a significant share of global crude passes through.
- We may see a near-term move in gold prices on the back of safe-haven demand, alongside higher oil prices on concerns about supply disruptions and higher shipping costs.

Asia remains one of the most dependent regions with regards to oil and gas imports. The rapidly evolving situation in the Middle East – including heightened tensions and military activity involving Iran, Israel and the United States – may be influencing global risk sentiment across oil, currency, and equity markets. The duration of the situation and the extent of any sustained oil price increase may be key factors to assess.

One of the primary concerns for Asia would be an energy shock should the Strait of Hormuz experience significant disruption, as almost 20 per cent of global crude shipments passes through the Strait.

There may be downside risk for Asia, even with limited direct exposure to the Middle East, as an oil price surge could lead to inflationary pressures, which may weigh on Asia equities. Asian countries may be relatively well positioned in 2026 with respect to fiscal and monetary policy flexibility. However, a material shift in domestic or global growth conditions could challenge this flexibility.

From a market perspective:

## Implications for Asian fixed income

### Key points:

- Higher oil prices may pose inflation and growth challenges for Asia as many economies are net energy importers, which could influence interest rates, currencies, and market sentiment.
- Higher-yielding bond markets are more sensitive to oil prices and currency weakness, while lower-yielding markets have seen some safe-haven support.
- While underlying fundamentals for many Asian Investment Grade and corporate issuers appear broadly intact, credit markets may see near-term valuation adjustments, especially in higher-risk segments.

The current Iran situation remains fluid and continues to evolve. We believe higher oil prices that may result from the situation could have the most direct impact on Asian economies, given most countries in the region are net importers of oil.

### Asia local rates

Higher yielding markets (Indonesia, India, and the Philippines) have seen a modest sell off, broadly in line with weaker Asian currencies and higher oil prices, with 10 year yields roughly 1–5 basis points (bps) higher. In contrast, lower yielding markets (including Chinese mainland, Japan, Hong Kong, Singapore, Thailand, and Malaysia) have seen 10 year yields move lower by a few bps in tandem with U.S. Treasuries, as investors appeared to seek safe havens in government bonds. If there is no immediate easing in the situation, we see some risk of higher yields in Indonesia, India, and Philippines bond markets. Yields for the lower yielding markets may remain relatively contained and could continue to track U.S. Treasuries.

### Asia FX

The U.S. dollar is generally trading stronger across the board against Asian currencies on concerns that higher oil prices may lead to a deterioration in the region's trade balance.

### Asia Credit

After a strong start to 2026, we believe valuations may see some pullback, particularly in higher beta credits, while fundamentals appear broadly intact. Asian Investment Grade corporates continue to be supported by solid balance sheets, sovereign parental links, and access to domestic bank capital, which may help anchor credit profiles even if credit spreads reprice.

Asian High Yield performance may see some retracement, led by frontier sovereign credits, which make up over 10 per cent of the JP Morgan Asia Credit Index (JACI) and include markets such as Sri Lanka and Pakistan. These economies tend to be more vulnerable given high dependence on energy imports and more limited external buffers. However, we believe corporates and financials could prove relatively resilient, with values driven primarily by issuer specific credit factors, and with many issuers having limited direct sensitivity to energy prices. Sector wise, airlines, utilities, and petrochemicals could see more direct impacts on margins due to volatile crude prices. However, these industries account for only 1.5 per cent of JACI, and some issuers may also benefit from some level of government related support.

We continue to closely monitor ongoing developments in the Middle East and potential spillover effects from high energy prices and any sharp changes in global risk sentiment. We would potentially look to add risk should the market selloff deepen.

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