

### Global / US

Even before the latest escalation in the Middle East, the U.S. economy had begun to exhibit signs of fatigue beneath otherwise resilient headline growth figures. Labor market indicators have softened noticeably, and consumption strength is increasingly concentrated among higher income cohorts rather than the middle income households that typically underpin broad based demand. With pandemic era savings exhausted and fiscal transfers now normalized, households no longer possess the buffers that previously supported elevated spending.

Our core view of a slowing U.S. growth trajectory remains unchanged, and energydriven price pressures are likely to cause a bigger drag on consumer sentiment and growth. Prior to the conflict, we expected roughly 100 basis points (bps) of additional the federal reserve (Fed) cuts in 2026. However, the inflation risk from a prolonged geopolitical shock could keep the Fed on hold for longer, and in a tailrisk scenario even raise the possibility of rate hikes if inflation expectations become unanchored.

Even if tensions ease, we do not expect sentiment to swing sharply toward optimism in a sustained manner. As such, U.S. rate dynamics will ultimately depend on the interplay between conflict related inflation risks and ongoing domestic growth deterioration. At the long end, fiscal concerns and inflation fear may keep yields elevated, though weaker growth should exert some anchoring pressure. At the front end, the government's policy response to inflation concerns will remain the dominant driver, reinforcing the need for a more tactical approach.

Equity valuations have become more fragile and risk sentiments oscillate headline to headline on geopolitical news. We still see the risk of renewed sell offs should the conflict escalate meaningfully. For fixed income investors, this environment reinforces the importance of disciplined credit allocation - focusing on quality and steering clear of stretched segments.

### Asia

For the Bank of Japan, rising oil prices paired with an undervalued yen adds more certainty to its path of monetary policy normalization. We continue to expect policy rates to move toward 1.5-2%, with 10year Japanese Government bonds (JGBs) likely settling between 2-2.5%. Notably, 30year JGBs remain attractively valued, as Japan maintains the steepest yield curve among developedmarket rates. In our view, the case for continued policy normalization remains intact, despite domestic political uncertainties, as currency weakness increasingly fuels imported inflation.

China's recovery, while gaining traction, remains uneven and fragile. Growth momentum is still weak, employment subdued, and deflationary pressures present. With U.S.-China trade tensions persisting, expectations for further fiscal stimulus continue to build, given that monetary easing alone has not been sufficient to reinvigorate activity. We believe additional fiscal measures will be essential to stabilizing growth.

More broadly, Asian markets appear resilient enough to withstand the initial geopolitical shock, with near term fundamentals largely intact. However, the longer term implications are harder to ignore. Asia is the world's largest recipient of crude flows through the Strait of Hormuz - a chokepoint that becomes even more critical in conflict periods. Strategic reserves will help cushion disruptions, but can only slow - not prevent - the inflationary impact on living costs. Economies such as Thailand, India, and the Philippines are particularly vulnerable to sustained energy price increases; even moderate but persistent rises could push inflation higher from currently benign levels.

In this context, fiscal strength becomes an important buffer. Countries with healthier balance sheets and enough flexibility to deploy targeted subsidies or temporary support measures will be better equipped to soften the transmission of higher energy costs to households and businesses. These steps cannot fully remove inflationary pressures, but they can meaningfully mitigate them.

### Credit

After a strong start to 2026 for Asian credit spreads, the recent geopolitical shock reminds us of underlying fragilities. We continue to see the risk reward profile as asymmetric, with heightened geopolitical tensions increasing the likelihood of abrupt risk off episodes. Although Asian credits overall remain resilient and carry remains the dominant driver of returns, pockets of the market exposed to oil prices and the middle east have become increasingly vulnerable to near term volatility.

In this environment, we remain highly selective - reducing exposure to weaker segments while favouring idiosyncratic issuers with robust fundamentals that can better withstand external shocks. Such issuers are still capable of delivering compelling risk adjusted returns, even as the broader geopolitical landscape becomes more unsettled.

### Currencies

A stronger U.S. dollar is likely to remain the dominant theme as long as geopolitical tensions run high, with the currency's path continuing to depend on the length and severity of the conflict

in the Middle East. Should tensions ease, however, we expect the USD to weaken as underlying economic softness becomes more visible beneath the resilient headline figures. Political preference also matters: Trump's inclination toward a weaker dollar reinforces this bias.

The euro stands to benefit most if U.S. outflows accelerate, supported by Europe's commitment to fiscal expansion. While our long term view remains that the USD is structurally

overvalued, we remain tactical in the near term on the back of near-term market volatility.

The yen presents a more nuanced outlook. Although its recent weakness reflects Japan's heavy reliance on imported energy, narrowing U.S.-Japan rate differentials could gradually unwind the carry trades that have weighed on the currency. As such, we see room for yen appreciation over the longer term.

Source: First Sentier Investors as at 18 March 2026.

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