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Building Resilience

Global Growth Resilient for Now

Monthly Outlook

by OCBC Wealth Panel

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For **now**,
and **beyond**

IN THIS ISSUE

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Building Resilience

The strikes on Iran in late February escalated into a wider conflict through the Middle East in March, resulting in attacks on infrastructure across the Gulf Cooperation Council (GCC) countries and the effective closure of the Strait of Hormuz, the world's most critical oil transit chokepoint. With much of the fundamental impact riding on the duration of the conflict, asset prices are expected to remain volatile as US and Iran look for an off-ramp to the conflict, albeit with differing views of what the interim endgame or peace deal entails. Given the binary outcomes of a rapid rebound in sentiments with a ceasefire in the near term and the substantive and wide-ranging disruptions from energy and petrochemicals shortages from a prolonged conflict, investors should consider additional portfolio overlays and active hedges to buttress overall portfolio performance during such periods of uncertainty.

We remain in risk management mode in our tactical asset allocation after shifting our positioning in Asia ex-Japan equities from Overweight to Neutral in mid-March. A prolonged economic and earnings recession, as well as a significant swing to monetary tightening globally are not our base cases, which supports a Neutral positioning in equities overall. Within equities, we maintained our preference for China, Hong Kong and Singapore, as these markets possess the necessary buffers in energy supply, monetary and fiscal policy.

GLOBAL OUTLOOK

SELENA LING
Chief Economist & Head, OCBC Group Research

Global Growth Resilient for Now

"We maintain our US growth forecast for 2026 at 2.2% but are watchful for rising stagflation risks. Our baseline continues to assume a degree of resilience in global growth, underpinned by several factors."

- 1Q2026 market sentiment shifted sharply from optimism to risk aversion as the Iran conflict escalated into a full-fledged energy supply shock. Disruptions to the Strait of Hormuz, which accounts for roughly one-fifth of global oil flows, triggered a rapid repricing across asset classes. Oil prices surged above US$100, equities pulled back from their January highs, and volatility rose across bonds, FX, and commodities.
- Thus far, the sell-off appears to reflect an increase in geopolitical risk premium rather than a broad-based deterioration in earnings, even as markets begin to price in higher-for-longer inflation risks.
- Looking ahead to 2Q2026, market direction will hinge critically on the duration and containment of the Iran conflict. A prolonged disruption to energy supply, compounded by damage to neighbouring infrastructure, has amplified stagflation concerns. Energy-importing economies are particularly exposed. That said, history suggests geopolitical shocks tend to be transitory for markets, with underlying earnings resilience and policy responses providing a medium-term anchor.
- At present, market debate over whether the US Federal Reserve will hike or cut rates this year appears finely balanced. However, Fed Chair Powell's observation that "energy shocks have tended to come and go pretty quickly" signals a preference for a wait-and-see approach for now.
- Against this backdrop, Asian markets remain exposed to energy-import shocks but benefit from relatively resilient domestic demand and a degree of policy flexibility. While many Asian central banks are reassessing their inflation outlooks, downward revisions to 2026 growth prospects have, thus far, been relatively modest.
- Unlike the oil shocks of the 1970s, inflation today is starting from a lower base. In addition, strategic petroleum reserve releases have provided some near-term relief, buying time, even if they cannot fully offset the impact of higher oil prices.
- That said, ongoing disruptions to shipping and logistics, alongside rising costs in sectors such as LNG, petrochemicals, fertilisers, plastic packaging, and helium, point to challenging policy trade-offs in the interim.
- In an increasingly fragmented and volatile macro environment, investors should prioritise diversification, quality income, and inflation hedges, while remaining nimble to capitalise on market dislocations.

United States

- We maintain our US growth forecast for 2026 at 2.2%, despite rising stagflation risks. Our baseline continues to assume a degree of resilience in global growth, underpinned by five key factors.

- First, investment and production tied to artificial intelligence remain robust, providing an important structural tailwind. Second, effective US tariff rates have declined meaningfully following the Supreme Court ruling, easing trade-related cost pressures. Third, growth momentum from 2H2025 continues to carry into the current period. Fourth, fiscal and financial conditions remain broadly supportive. Fifth, the global business sector has repeatedly demonstrated its ability to adapt to geopolitical disruptions and supply-side shocks over recent years.
- From here, the critical variable is the duration of the Middle East conflict. A swift de-escalation would still allow the economy to revert toward a soft-landing trajectory. However, if the conflict becomes protracted, the risk is a more entrenched stagflation dynamic, where inflation remains elevated, growth continues to weaken, and the Federal Reserve is left effectively paralysed.
- Growth momentum softened noticeably toward the end of 2025. Fourth-quarter GDP growth was revised down to a modest 0.7%, while consumer spending was marked lower to 2.0%, a sharp deceleration from the 3.5% pace recorded in 3Q25. This weakness can largely be attributed to the government shutdown, which weighed on household activity.
- Incoming data for 1Q26 has been more mixed. The labour market has begun to turn, with February payrolls contracting by 92,000, the clearest indication so far that underlying demand was already weakening even before the full effects of the energy shock had fed through.
- Complicating the outlook, inflation has yet to fully cool. Core PCE inflation re-accelerated to 3.1% in January, ahead of the energy impulse, underscoring the persistence of underlying price pressures.
- The Federal Reserve's response reflects this tension. While the decision to hold rates at 3.50-3.75% at the 18 March FOMC meeting was widely anticipated, the widening dispersion in the dot plot continues to point to internal divisions over the appropriate policy path. Markets responded with a textbook repricing on stagflation fears, with equity indices lower and US Treasury yields moving higher.
- Fed Chair Powell has emphasised that the Committee will look through the "short-term gyrations of the energy market," reinforcing the Fed's preference for patience amid a highly uncertain macro backdrop.
- Over the past month, major central bank outlooks have undergone a notable hawkish repricing as energy prices have remained elevated. We continue to expect one 25bp cut in the Fed funds rate this year, pencilled in for 3Q26, although the risk of a further delay to this easing remains.
- This forecast reflects a balanced assessment of competing forces - namely, near-term inflation risks versus emerging softness in the US labour market and rising downside risks to growth. Should oil prices remain elevated for a more prolonged period, the drag through the growth channel is likely to become more apparent, partially offsetting inflation-driven upward pressure on rates and bond yields.
- We have previously revised our US Treasury yield forecasts

modestly higher. We now expect the 10-year yield to reach around 4.35% by end-2Q26 before gradually easing to approximately 4.10% by year-end (previously 3.95%). The 2-year yield looks fairly valued at around 3.80% in the near term, with downside likely to materialise later in the year as expectations for the next rate cut draw closer.

Euro-Area

- Incoming sentiment data across the euro area has been mixed. Economic confidence declined to 96.6 in March from 98.2 in February, while industrial confidence remained broadly unchanged. Consumer sentiment, however, weakened further over the month.
- In response to the ongoing energy price crisis, EU officials are exploring coordinated policy measures. These are expected to focus on replenishing gas storage ahead of next winter, stabilising oil product markets, and ensuring the security of energy supplies. While the EU's main oil and gas suppliers remain Norway and the United States, the region continues to be exposed to spillover risks from the Middle East.
- Against this backdrop, ECB officials, including President Lagarde, have signalled a willingness to remain nimble and adjust the course of monetary policy should conditions warrant.
- We revise down our 2026 GDP growth forecast to 0.9% from 1.1% and raise our headline CPI projection to an average of 2.5%, from 1.8%. These changes reflect the macroeconomic impact of the ongoing conflict in the Middle East on the euro area.
- The transmission channels are primarily through higher oil and gas prices, as well as rising fertiliser costs, which are feeding through to food inflation. Against this backdrop, some ECB officials have begun to adopt a more vigilant stance toward emerging price pressures. For example, ECB Governing Council member Müller noted that "it's probable that in the coming quarters interest rates will rise" should energy costs remain elevated for an extended period.
- Consistent with this shift, the European Commission's consumer survey shows a sharp increase in inflation expectations, with the one-year inflation gauge rising from 26.2 in February to 43.4.

Japan

- The economy ended 2025 on a softer footing. Real GDP expanded by just 0.1% QoQ in 4Q25, undershooting the 0.4% market consensus and underscoring the fragility of domestic demand. That said, on a full-year basis, growth rebounded to 1.2% in 2025, following a 0.2% contraction in 2024.
- Japan enters 2026 with improved political clarity, but macroeconomic uncertainty remains elevated. With Brent crude prices up sharply since early March, the lagged pass-through is likely to add around 0.5 percentage points to CPI over the next two quarters. As one of the world's largest energy importers, Japan is facing a fresh and meaningful terms-of-trade shock from the surge in oil prices.
- One encouraging development, however, is that real wages turned positive for the first time in 13 months. This provides some support for the view that inflation is gradually becoming more sustainable from a domestic demand perspective, rather than being driven purely by cost-push pressures.
- Headline CPI eased to 1.3% YoY in

February, while core-core CPI, which excludes both fresh food and energy, held firm at 2.5%, remaining comfortably above the Bank of Japan's target. The recent moderation in headline inflation appears driven largely by temporary factors, including policy support and favourable base effects. Government utility subsidies and more stable food prices have helped suppress headline inflation for now. However, the escalation of the Iran war is likely to reverse part of this relief through renewed energy price pass-through.

- Against this backdrop, the BOJ voted 8-1 to keep the policy rate unchanged at 0.75%. The March Summary of Opinions, released on 30 March, struck a distinctly hawkish tone. Several board members highlighted the need for further rate hikes, with one even raising the possibility of accelerating the pace of tightening. Governor Ueda also acknowledged that exchange-rate movements can influence underlying inflation via their impact on inflation expectations, an important signal amid recent yen weakness.
- The 27–28 April BOJ meeting is therefore a live one. We expect the Board to revise its inflation forecasts higher and potentially adjust its policy language, keeping the prospect of a near-term rate hike firmly on the table.

China

- China has lowered its 2026 GDP growth target from "around 5%" to a range of 4.5%–5%. The lower bound of 4.5% can be interpreted as the minimum growth rate required during the 15th Five-Year Plan period (2026–2030) to keep the economy broadly on track to achieve the 2035 objective of doubling per-capita GDP relative to 2020.
- We maintain our 2026 growth forecast at 4.7% for now, despite the escalation of the Iran war. China's producer price index (PPI) basket has a heavy weighting in sectors such as raw-materials processing and chemical manufacturing, where crude oil is a critical upstream input. Historically, crude oil prices have shown one of the strongest correlations with China's PPI among major macro variables.
- As oil prices rise, upstream producer prices tend to respond quickly. As a result, the recent surge in crude prices could help push China's PPI, and subsequently the GDP deflator, back into positive territory sooner than previously anticipated.
- One of the key highlights of this year's Government Work Report is the introduction of a comprehensive fiscal-financial coordination package aimed at boosting domestic demand. As part of this initiative, authorities have set up a RMB100 billion special fund to support demand expansion through a coordinated mix of fiscal and financial policy tools. The programme is designed to combine interest subsidies, financing guarantees, and risk-sharing mechanisms to ease credit constraints and encourage greater private-sector participation in domestic-demand-related activities.
- Overall, China's fiscal impulse appears broadly stable and came in slightly below market expectations. The broad fiscal deficit ratio is estimated at 8.1%, representing a decline of 0.3 percentage points from last year.
- Interestingly, the escalation of the Iran war could also provide an unexpected tailwind to China's reflation efforts, particularly via its

impact on upstream prices and producer inflation.

- China's equity market came under pressure amid the escalating US-Iran conflict. Unlike developed markets where government bond yields have surged amid rising stagflation concerns, China's bond market outperformed, supported by renewed flight-to-safety demand. The 10-year government bond yield fell in the last week of March. The recent surge in oil prices may delay market expectations for further rate cuts in China, but easing is still not off the table. In our view, China's relatively lower sensitivity to the recent oil shocks, underpinned by structural factors, continues to provide greater flexibility compared to its regional peers. We keep our 10bps rate cut unchanged though the timing is likely to be pushed back to 2H2026.

GDP Growth Rates

% Change YoY	2025F	2026F	2027F
United States	2.1*	2.2	2.0
Euro Area	1.4	0.9	1.1
Japan	1.2	0.8	1.0
United Kingdom	1.4	1.2	1.8
Australia	2.0	2.2	2.2
New Zealand	0.2	2.4	2.6
China	5.0	4.7	4.5
Hong Kong	3.5	2.2	2.8
Macau	4.7	2.8	3.3
Taiwan	8.7	5.2	1.9
South Korea	1.0	2.0	2.0
India	7.1	7.5	6.4
Indonesia	5.1	5.0	5.0
Malaysia	5.2	4.4	4.2
Philippines	4.4	4.8	5.5
Singapore	5.0	3.0	2.5
Thailand	2.4	1.5	2.0
Vietnam	8.0	7.5	8.0

Source: OCBC Group Research

Inflation Rates

% Change YoY	2025F	2026F	2027F
United States	2.7	3.5	2.2
Euro Area	2.1	2.5	2.0
Japan	3.2	2.5	2.1
United Kingdom	3.4	2.8	2.0
Australia	2.8	3.5	2.7
New Zealand	2.8	2.3	2.1
China	0.1	2.0	2.0
Hong Kong	1.4	1.9	2.2
Macau	0.3	1.0	1.1
Taiwan	1.7	2.0	1.9
South Korea	2.1	2.1	2.0
India	4.6	1.7	4.0
Indonesia	1.9	3.0	2.5
Malaysia	1.4	2.0	2.0
Philippines	1.7	3.9	3.0
Singapore	0.9	2.2	2.0
Thailand	-0.1	2.1	1.0
Vietnam	3.3	4.5	4.0

Source: OCBC Group Research

US interest rate forecasts

	2Q2026	3Q2026	4Q2026	1Q2027	2Q2027
Federal Funds Rate*	3.75	3.50	3.50	3.50	3.50
2Y US Treasury Yield	3.80	3.65	3.60	3.60	3.60
5Y US Treasury Yield	3.80	3.70	3.70	3.65	3.65
10Y US Treasury Yield	4.35	4.20	4.10	4.10	4.10
30Y US Treasury Yield	4.80	4.75	4.75	4.75	4.75

* Upper Limit of Target Range

Source: OCBC Group Research

EQUITIES

ELI LEE
Managing Director, Chief Investment Strategist, Chief Investment Office, Bank of Singapore Limited

Premature To Call an End to The Long-Term Equity Bull Market

"Notwithstanding a short-term correction, we believe it is premature to call an end to the long-term equity bull market that began in 2022 for several reasons."

- Since we moved our overall position in equities to neutral as a risk-management measure on 12 March 2026, equity markets corrected further as uncertainties surrounding the Iran war continued to escalate. he US has agreed to a two-week ceasefire in return for Iran reopening the Strait of Hormuz but a long-term agreement to end the war still needs to be negotiated. We believe the market outlook is likely to remain volatile in the near term, and therefore remain in risk-management mode within our tactical asset allocation, focusing on risk hedging, effective diversification, and enhancing portfolio resilience.
- Notwithstanding the short-term correction, we believe it is premature to call an end to the long-term equity bull market that began in 2022, as: (i) the global economy today is more resilient to oil shocks than in the 1970s; (ii) the correction to date has been driven more by declining price-to-earnings (P/E) multiples rather than deteriorating earnings growth expectations; and (iii) while the market's shift in expectations from rate cuts to rate hikes is directionally correct, it may have been overdone.
- While we moved our position in Asia ex-Japan equities to neutral on 12 March 2026, we have maintained our preference for Hong Kong, China, and Singapore, all of which have outperformed the broader equity market. Within Hong Kong and China, we continue to advocate a barbell strategy—favouring quality yield and low-beta stocks as near-term defensive plays, while selectively positioning for medium- to long-term structural themes, such as artificial intelligence (AI) proxies and policy beneficiaries in areas including technology innovation and domestic consumption. State-owned enterprises (SOEs) with resilient cash flows are also preferred.

US – Facing the fog of war

- Tensions in the Middle East show no signs of abating, prompting investors to reduce exposure to risk assets amid heightened uncertainty. Stagflationary pressures are beginning to emerge, with March sentiment surveys pointing to weaker business output expectations and softer consumer confidence, alongside rising near-term inflation expectations. A key market concern is that the Federal Reserve may remain squarely focused on the inflation fight and pivot in a more hawkish direction as elevated oil prices persist, potentially weighing further on risk assets.
- While these concerns are valid, we believe the longer-term equity bull market remains intact. First, although a recession triggered by an oil shock cannot be ruled out, the bar for such an outcome is significantly higher

today, as the oil intensity of US GDP has declined meaningfully. Second, the equity market correction thus far has been driven largely by multiple compression, with price-to-earnings (P/E) ratios adjusting to more reasonable levels - historically a more constructive setup for forward returns. Third, historical experience since the 1970s suggests that the S&P 500 Index has typically recovered from severe oil shocks over a 12-month horizon. Fourth, the U.S. electoral cycle is gaining momentum well ahead of the mid-term elections, with cost-of-living and affordability issues moving centre stage - factors that should incentivise the administration to seek de-escalatory off-ramps as soon as possible.

Europe – Under the energy shockwave

- European equities have corrected amid developments in the Middle East and the associated spike in energy prices. Europe is particularly sensitive to higher energy costs - natural gas in particular and segments of the European equity market that tend to be most negatively correlated with gas price increases, including the German DAX, Consumer Discretionary, cyclicals, and small- and mid-cap stocks. In contrast, sectors at the other end of the spectrum include Energy, Renewables, the FTSE 100, and defensive sectors.
- With respect to the implications of Iran-related disruptions on European corporate earnings, the impact varies materially depending on whether one looks at headline earnings or earnings excluding the energy sector. For example, in 2022, MSCI Europe earnings per share (EPS) rose over the course of the year, with growth of 30% driven largely by the energy sector and supported by a stronger US dollar. Excluding energy, however, MSCI Europe forward EPS declined by 8% from peak to trough during the 2022 energy price spike. For 2026, market consensus currently expects 16% EPS growth, compared with our more conservative expectation of 10%.
- Beyond the Middle East situation, fiscal expansion and infrastructure spending in Europe are set to continue, which should be supportive of sectors exposed to defence, domestic demand, construction, and capital goods.

Japan – The LDP's landslide victory

- Japanese equities have declined by 8.7% since the outbreak of the Middle East conflict, underperforming global equities (MSCI ACWI Index). Sector performance has reflected a broader risk-off bias, with Energy, Communication Services, and Utilities emerging as relative outperformers.
- Japan is particularly exposed to the risk of a prolonged oil shock, given that crude oil imports transiting the Strait of Hormuz account for approximately 28% of the country's energy mix. Looking to the most recent precedent in 2022, when oil prices nearly doubled, the MSCI Japan Index experienced a peak-to-trough drawdown of around 18%, highlighting the market's sensitivity to energy price spikes.
- In the near term, sectors such as energy, defence, mining, and marine transport are likely to remain preferred against the backdrop of elevated geopolitical risk. At the same time, the structural investment themes we have previously identified remain firmly intact, including:
  (i) artificial intelligence (AI), technology hardware, defence, energy, and critical resources; and
  (ii) construction and real estate.
- That said, persistently higher energy prices could lift headline

inflation, potentially eroding real household incomes and weighing on private consumption, which remains a key downside risk to the domestic outlook.

Asia ex-Japan – Recalibrating our preferences

- While we have moved Asia ex-Japan equities to a Neutral weighting, we continue to see selective opportunities within the region, with a preference for China, Hong Kong, and Singapore equities. In contrast, we have downgraded Indonesia and the Philippines from Neutral to Underweight, while Malaysia has been lowered by one notch to Neutral.
- The key downside risk for Asian equities remains a potential closure of the Strait of Hormuz, which could lead to higher energy and shipping costs, as well as disruptions to global supply chains. Beyond oil and liquefied natural gas (LNG), markets are also increasingly focused on the implications for fertilisers, propane, chemicals, and industrial gases.
- China appears better positioned than many Asian peers to withstand a prolonged disruption, supported by one of the world's largest strategic and commercial crude reserves, a relatively smaller reliance on oil and gas in its electricity generation mix, and ongoing progress in the transition towards electric vehicles and renewable energy.
- While Singapore runs an oil and gas trade deficit, this remains modest as a share of GDP compared with many regional peers, and the country benefits from a relatively flexible fiscal position. In addition, financials, equity indices, and their higher dividend yields contribute to the perception of the market as being more defensive in nature. The continued rollout of the Equity Market Development Programme (EQDP) should further enhance market liquidity and help unlock value across Singapore-listed equities.

Global Sectors - Geopolitics at the steering wheel

- Developments in the Middle East drove heightened sector rotation in March. Energy was the only sector to record positive price performance, while Utilities and Information Technology proved more resilient and corrected less than the broader market. In contrast, Consumer Discretionary continued to lag, reflecting sensitivity to both weaker demand conditions and rising input costs.

Candidates for portfolio hedging

- Equity market performance following energy shocks has historically been uneven, though outcomes can be improved through sector allocation and quality tilts. Across past episodes examined, Energy stocks - particularly upstream producers - have unsurprisingly outperformed. Materials have also delivered relatively strong performance, especially within Emerging Market (EM) equities.
- By contrast, sectors with higher exposure to consumer demand or input-cost pressures, such as Financials and Consumer Discretionary, have tended to lag in the U.S., while Industrials and Consumer Discretionary have underperformed in EM. These segments include industries such as retail, transport, and automobiles, which are more vulnerable to cost inflation and slowing growth. In a risk-off environment, investors also tend to rotate towards more defensive sectors.
- When energy shocks prove persistent and prices remain elevated, the importance of

continued to lag, reflecting sensitivity to both weaker demand conditions and rising input costs.

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- When energy shocks prove persistent and prices remain elevated, the importance of quality becomes increasingly pronounced. Higher energy costs feed through into broader inflationary pressures and slower economic growth, creating a more challenging operating environment. In this context, companies with strong balance sheets, resilient cash flows, pricing power, and disciplined capital allocation tend to be better positioned to withstand margin pressure and earnings volatility, making them particularly attractive as portfolio stabilisers during periods of heightened uncertainty.
- Companies with strong balance sheets, pricing power, and the ability to self-fund their operations are better positioned to absorb these pressures. Key attributes - including sustainable competitive advantages, the ability to pass on inflationary costs, robust financial health (allowing firms to self-finance when external funding becomes more expensive or even to pursue acquisitions), resilient earnings, and strong free cash flow generation, help mitigate volatility and support performance during periods of market stress.
- Importantly, such quality characteristics are not confined to traditional defensive sectors. Instead, they can be identified across the equity universe through a disciplined focus on underlying fundamentals.

Heightened risks to technology supply chains from energy, sulphur and helium disruptions

- Rising geopolitical tensions in the Middle East have increased the risk of supply-chain disruptions affecting the global technology sector, particularly semiconductor production. Taiwan and South Korea - key global hubs for advanced AI logic chips and memory semiconductors, respectively -appear especially exposed.
- In the event of disruption, Taiwan would likely need to rapidly replace potential LNG supply

HONG KONG / CHINA MARKET OUTLOOK

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Weathering Market Volatility

"In the near term, we continue to favour low-beta stocks and quality yield plays as market volatility remains elevated."

- While onshore A-share equities have pulled back by around 5% (in US Dollar terms) since the outbreak of the Middle East conflict, they have nonetheless outperformed Hong Kong–listed Chinese equities, offshore China equities, and the broader Asia ex-Japan universe. Banks, Energy, and Utilities have emerged as relative outperformers across both onshore and offshore markets. China should also be better insulated from a prolonged oil shock, supported by its lower reliance on oil imports via the Strait of Hormuz, sizeable domestic coal reserves, and a growing share of renewables in its energy mix.
- We tactically shifted our relative preference to the onshore A-share market in early March, reflecting several structural advantages: (i) it exhibits the lowest correlation with U.S. equities among major Asian markets; (ii) it provides broader exposure to policy-supported sectors and industries; and (iii) it has displayed a more favourable earnings revision trend to date relative to offshore Chinese equities.
- Valuations have also normalised close to historical averages, with forward price-to-earnings ratios of 10.8x for MSCI China and 12.7x for the CSI 300 Index, respectively.
- In the near term, we continue to favour low-beta stocks and quality yield plays as market volatility remains elevated. Sectors such as energy, petrochemicals, materials, and renewables are also well positioned to benefit from a prolonged period of energy market disruption.
- Looking to the medium- to long-term, structural themes remain intact, including: (i) artificial intelligence (AI) proxies; and (ii) policy beneficiaries linked to technology innovation, domestic consumption, and anti-involution initiatives, all of which continue to offer upside optionality. In addition, state-owned enterprises (SOEs) with resilient cash flows remain preferred, particularly as policymakers emphasise higher payout ratios and increased share buybacks, as highlighted at the National People's Congress.

BONDS

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Focus On Resilience

"In fixed income, we continue to remain neutral on duration. Within Developed Markets, we hold neutral and underweight positions in Investment Grade and High Yield bonds, respectively. Within Emerging Markets, we are neutral on corporates and underweight on sovereigns."

- Fixed income offers conditional protection, with outcomes largely shaped by whether an oil shock manifests primarily as an inflationary or a growth shock.
- During periods of oil-driven stress, risk aversion typically rises, prompting capital to rotate toward higher-quality assets. Market dispersion widens, with High Yield (HY) bonds experiencing materially greater spread widening than Investment Grade (IG) credit. Issuers with weaker fundamentals and a higher reliance on external financing are particularly vulnerable, as geopolitical risk premia increase. In this environment, maintaining exposure to high-quality, defensive credit remains an effective way to mitigate downside risk.
- Government bonds, however, provide uneven protection. Historically, they have been more effective hedges against growth shocks than inflation shocks, limiting their reliability during energy-driven disruptions.
- When inflation concerns outweigh growth risks, long-duration assets typically underperform. As a result, positioning portfolios toward the shorter end of the yield curve generally provides better protection in the initial phase of an oil shock.
- At the same time, prolonged energy disruptions raise the risks of stagflation, higher unemployment, and subdued economic growth, which could eventually prompt the Federal Reserve to pivot toward policy easing at a later stage. Reflecting these offsetting forces, we maintain a Neutral stance on duration at the portfolio level.
- At the sector level, defensive sectors such as telecommunications and consumer staples, alongside energy-leveraged sectors - including upstream oil and gas, commodity producers, and energy exporters - tend to be more resilient. By contrast, energy importers, downstream refiners, petrochemicals, and cyclical sectors - such as ports, real estate, shipping, airlines, autos, and consumer discretionary - are more likely to face negative impacts.
- Overall, within fixed income, our focus remains on resilience, as we expect market volatility and downside risks to stay elevated, particularly if inflationary pressures persist and monetary easing is delayed. Against this backdrop, active duration management and diversification are critical. We continue to favour high-quality, defensive credit exposures while maintaining a Neutral stance on duration at the overall portfolio level.
- In Developed Markets (DM), we

hold a Neutral allocation to IG bonds and remain Underweight High HY bonds. In Emerging Markets (EM), we are Neutral on corporates while maintaining an Underweight position in sovereign debt.

US Treasuries

- Our research indicates that government bonds provide uneven protection during an oil supply shock. Historically, they have been more effective in hedging growth shocks than inflation shocks, which limits their reliability as a defensive buffer during energy-driven disruptions.
- The US Treasury (UST) yield curve has bear-flattened month-to-date, reflecting shifting market expectations. While the Federal Reserve's median dot plot continues to signal rate cuts in 2026, Fed funds futures are no longer pricing in any easing as of 30 March 2026. OCBC Group Research maintains its base case expectation of one 25bp Fed funds rate cut in 2026. Looking ahead, UST yields are likely to remain volatile, driven by evolving signals on inflation, labour market conditions, and fiscal policy.
- Persistently high energy prices increase the risk of stagflation, prompting central banks to delay monetary easing for now. When inflation concerns outweigh growth risks, long-duration assets typically underperform, making short-duration positioning relatively more defensive during the initial phase of an oil shock. However, a prolonged period of energy disruption could eventually tilt the balance toward weaker growth and rising unemployment, potentially leading the Fed to pivot toward policy easing at a later stage.
- Reflecting these countervailing forces, we continue to maintain a Neutral stance on duration at the portfolio level.

Developed Markets

- As of 27 March 2026, DM IG bonds (-1.1% total return) have outperformed DM HY bonds (-1.6%) on a year-to-date basis. This has occurred alongside only modest spread decompression (6bps for IG versus 15bps for HY), despite IG carrying a longer duration profile (8.9 years versus 4.2 years). Against this backdrop, we maintain a Neutral allocation to DM IG bonds and remain Underweight DM HY.
- Amid ongoing macro uncertainty and late-cycle credit dynamics, we continue to favour high-quality, defensive credit exposures. That said, rate volatility, together with increased bond issuance to finance AI-related capex and M&A activity, could lead to greater performance dispersion and pose headwinds to US IG. In a scenario of prolonged energy disruption, European credit spreads are also likely to underperform their US counterparts, given Europe's heavier reliance on energy imports.
- Within US Dollar-denominated DM IG, Australia (-0.7%) has generally outperformed peers in the U.S. (-1.1%), Western Europe (-0.8%), and Japan (-0.9%) on a year-to-date basis. This relative outperformance has been supported by a shorter duration profile and positive spread performance. While not immune to rising energy prices, Australia is comparatively better positioned to weather energy shocks, underpinned by a stable regulatory framework, a AAA credit rating, strong fiscal fundamentals, and limited exposure to AI-driven volatility and Middle East geopolitical risks.

Emerging Markets Corporates

Emerging Market

- EM corporate bonds have outperformed their DM peers on a year-to-date basis. That said, the potential growth and inflation spill-over effects from ongoing Middle East conflicts - along with shifts in fund flows driven by changes in global risk sentiment - remain key factors to monitor for the broader EM credit landscape.

Asia

- Asia outperformed its EM peers in March, reflecting the region's relatively defensive characteristics. We maintain a Neutral view on Asia and expect higher-quality China IG bonds to prove more resilient than higher-beta exposures such as India, Indonesia, and Thailand.
- As a net energy importer, Asia is exposed to the adverse effects of higher oil prices through multiple transmission channels, including: (i) higher inflation;(ii) widening oil and gas trade deficits for economies heavily reliant on imported energy (e.g. Japan, South Korea, Thailand, India, Taiwan, and the Philippines); (iii) an increased fiscal burden from fuel subsidies in countries such as Indonesia, Malaysia, and Thailand; (iv) currency depreciation; and (v) weaker private consumption. That said, the impact is likely to be uneven across the region, reflecting differing policy buffers and external balances.
- We expect selected Asian governments to deploy fiscal buffers and off-budget measures where feasible to cushion the growth impact of an oil shock. Given heightened uncertainty, Asian central banks are likely to adopt a cautious initial stance, though we do not rule out rate hikes should energy disruptions prove prolonged and inflationary pressures intensify.

Emerging Market Sovereigns

- Hard-currency EM sovereign bonds faced a more challenging environment in March, as investors rotated toward capital preservation, liquidity, and policy credibility, leading to more defensive positioning across the asset class.
- Performance dispersion increased across both rating categories and regions. Higher-quality sovereigns proved more resilient, while lower-rated and frontier credits came under renewed pressure. IG sovereigns marginally outperformed HY, reflecting a flight-to-quality amid rising geopolitical uncertainty. For the month, IG returned -0.7%, compared with -0.8% for HY.
- Overall, EM sovereign spreads widened modestly over the month, reversing part of the tightening seen earlier in the year. While the HY-IG spread differential remains elevated relative to historical averages - continuing to offer attractive carry - this compensation comes alongside heightened volatility, warranting a more selective and risk-aware approach.
- Looking ahead, EM sovereign debt continues to offer attractive carry, particularly among BBB-rated and select HY credits with improving fiscal trajectories and manageable refinancing profiles. That said, elevated geopolitical risks and shifting global interest-rate expectations warrant a cautious and selective approach. We favour sovereigns supported by credible policy frameworks, strong reserve buffers, and improving debt dynamics.

FX & COMMODITIES

CHRISTOPHER WONG
Executive Director, OCBC Group Research

Gold's Setback Does Not Signal Trend Reversal

"Structural drivers for gold remain intact. Central bank demand, though uneven on a month-to-month basis, continues to reflect broader diversification efforts, and gold's role as a hedge against geopolitical risk and policy uncertainty remains relevant within diversified portfolios."

Oil

- The US–Iran conflict that began on 28 February shows no credible path to de-escalation. Iran continues to disrupt oil flows through the Strait of Hormuz despite its weaker military position, while Houthi involvement now threatens over 4 million barrels/day at Bab el-Mandeb.
- With Hormuz effectively shut, Saudi Arabia is relying on pipelines rerouting crude to the Red Sea for Asian buyers. Any further disruption in the Red Sea could slow Gulf-to-Asia flows to near-zero.
- Markets are adjusting to a disruption lasting months, not weeks. Prolonged outages would keep prices elevated, aligned with our base case: Brent near US$100/barrel through mid-year before easing toward US$70/barrel by early 2027.
- Logistical stress is mounting. Shipping delays and near-full storage are pushing Gulf producers to shut in wells, with restarts that are slow and not guaranteed. This raises the risk that temporary maritime blockages spiral into sustained upstream losses.
- Strait of Hormuz remains the world's most critical oil chokepoint after Strait of Malacca, handling roughly 20 million barrels/day - or 20% of 2024 global consumption. Its disruption poses far greater risk than Suez or Bab el-Mandeb given limited alternatives.
- Saudi and UAE bypass pipelines, International Energy Agency (IEA) reserves, ongoing Iranian exports, and partial Russian sanctions relief offer some cushion - but none can offset a major Hormuz outage.

Precious metals

Gold

- Gold's sharp pullback in March appears to have been driven less by a deterioration in fundamentals and more by a hawkish repricing of the Fed's interest rate outlook, position liquidation, and a flush-out of crowded long exposures. At its trough, prices corrected by more than 20% from recent highs, despite elevated geopolitical risks. The primary catalyst was not a collapse in safe-haven demand, but rather a shift in rate expectations. Firmer oil prices and persistent inflation concerns prompted markets to scale back expectations for Fed easing, with pricing moving towards little to no rate cuts in 2026. This lifted real yields and the US dollar - an environment that typically weighs on gold.
- Flow-driven pressures also played a role. Reports of gold sales by Turkey in mid-March, aimed at managing domestic liquidity needs, added to downside momentum. In addition, periods

of heightened volatility often trigger a dash for cash, prompting investors to liquidate even traditional safe-haven assets such as gold to raise US Dollar liquidity or meet margin calls. These dynamics exacerbated the selloff and accelerated the unwinding of stale long positions.

- Importantly, this episode should be distinguished from 2022. At that time, gold faced a sustained headwind from aggressive Fed tightening and a disorderly rise in real yields. Today, while expectations for rate cuts have been pushed out, the Fed is not on a renewed tightening path, and real rates are not rising in the same destabilising fashion. The current environment is better characterised as a delay in the easing cycle rather than a return to outright tightening, leaving scope for a future dovish repricing.
- Should geopolitical tensions de-escalate or growth concerns re-emerge - particularly if elevated energy prices begin to weigh on economic activity - expectations for Fed easing could be restored. In such a scenario, real yields would likely decline, providing renewed support for gold. Meanwhile, structural drivers remain intact. Central bank demand, though uneven on a month-to-month basis, continues to reflect broader diversification efforts, and gold's role as a hedge against geopolitical risk and policy uncertainty remains relevant within diversified portfolios.

Silver

- Silver experienced a particularly sharp pullback in March, with peak-to-trough losses at one point reaching around 35%, as macro headwinds and liquidity pressures overwhelmed near-term support. As with gold, part of the correction reflected a repricing of the US rates outlook. Firmer oil prices reignited inflation concerns and prompted markets to scale back expectations for Fed easing, lifting real yields and the US dollar. In parallel, silver ETF outflows were observed, adding to selling pressure. This combination weighed on precious metals broadly and was among the key drivers of the selloff in silver.
- However, silver's decline was more pronounced due to its dual role as both a precious and an industrial metal. While elevated geopolitical risks would typically underpin safe-haven demand, concerns that higher energy costs could weigh on global growth introduced an offsetting drag through the industrial demand channel. As a result, silver became more sensitive than gold to shifts in growth expectations during this period of macro stress.
- That said, the broader medium-term narrative for silver remains intact. Structural tailwinds, including ongoing supply tightness and its importance in energy transition-related demand, continue to provide support. Moreover, any stabilisation in growth expectations or a moderation in US dollar strength could help re-anchor prices. · In the near term, silver is likely to remain volatile and range-bound, caught between competing forces. The interplay between USD strength, elevated real yields, and growth concerns on one hand, and structural demand support and the potential for renewed policy repricing on the other, points to a lack of clear directional conviction.
- The trajectory of the Iran conflict will be a key variable. Further escalation would likely sustain

volatility through oil markets and broader macro channels, while any signs of de-escalation could prompt a partial reversal in USD strength and rate expectations, providing support for silver.

Currency

US Dollar (USD)

- We have revised our currency forecasts to reflect a stronger near-term US Dollar (USD). The recent energy shock has upended the earlier "Goldilocks" narrative of firming non-US growth and easing global inflation. Markets are now trading energy terms-of-trade winners and losers, alongside renewed stagflation concerns. The USD remains the preferred risk-off hedge - especially when the shock, like current energy shock, is global rather than US-specific. Its status as a net energy-exporter currency adds to its appeal.
- A softer USD later this year remains plausible if oil prices fall as expected in the second half, boosting non-US growth while ongoing US policy uncertainty continues to encourage diversification away from the USD. Even so, resilient US economic performance limits the scope for any sharp USD decline. A more sustained USD rebound would require a clear acceleration in US growth - something still missing for now - although early signs of labour market stabilisation could support a gradual recovery heading into 2027.

Australian Dollar (AUD)

- Risk-off sentiment stemming from the energy shock has weighed on the risk-sensitive Australian Dollar (AUD), despite Australia's role as a major natural-gas exporter. While uncertainty remains elevated, we stay constructive on the currency and now expect the AUDUSD to reach 0.75 by end-2026. Australia's above-target inflation and resilient domestic activity have prompted a more hawkish RBA response. Although markets have largely priced in further rate hikes, their actual delivery should still support the AUD through strengthened central bank credibility. Importantly, Australia's hawkish rate pricing appears more durable than Europe's, given the economy's relative insulation from energy supply risks. Structural flows add further support. Australian super-fund hedge ratios continue to drift higher, with media reports signalling additional increases ahead. These flows should provide a steady tailwind for the AUD.

Asia Ex-Japan (AXJ) FX

- Asia ex-Japan (AXJ) currencies (FX) continued to trade on a softer footing, with the Bloomberg Asia Dollar index weakening since the onset of Iran conflict. Risk sentiment remains fragile as markets takes into consideration some slight repricing in growth risks. The situation in the Middle East continues to evolve, and importantly, the risk is no longer confined to the Strait of Hormuz but increasingly there is risk of disruption at Bab el-Mandeb as the Iran conflict widens to involve Houthi militants and US ground troops potentially.
- Macro strains may already start to show up across the Asian region as policy responses are becoming more visible. Rising costs of food, fertiliser and shipping - risks fuelling inflationary pressure. Tourism is also at risk as higher travel costs and weaker sentiment

can hit a key income buffer for ASEAN. And the region's fiscal buffers can also be affected if the supply disruption is prolonged.

- In AXJ FX, there is a repricing of global growth risks. What is notable this time is that commodity-linked currencies such as the Malaysian Ringgit (MYR) has come under pressure as markets focus less on terms-of-trade support and more on the demand shock. There is a shift in market narrative from terms of trade support to concerns if global demand can hold up under tighter financial conditions and rising energy costs. · Against this backdrop, the near-term outlook for AXJ FX remains skewed to the downside. While episodic rebounds are not ruled out, especially on headlines hinting at de-escalation, the absence of a clear resolution means most AXJ FX is likely to trade under pressure with policy responses only partially cushioning the downside rather than reversing it. We have revised downwards our AXJ FX forecasts to reflect slight growth concerns, a stronger USD and weaker risk sentiment as the Middle East conflict persists for longer than expected. That said we have kept the forecast trajectory for USDAXJ modestly skewed to the downside into 2H 2026, premised on the prospects for fading of supply chain disruption, the Fed following through with a rate cut this year (we expect one rate cut in 2026) and an easing of USD strength.
- In relative terms, the Singapore Dollar (SGD) and Renminbi (RMB) may be less affected but not immune. This likely reflects the more managed nature of their exchange rate regimes, where policy guidance can dampen volatility. That said, on RMB we have observed that the fixing pattern has started to shift. The 30-day rolling average of daily fixing change for the USDCNY has been reduced to -7pips (31 March) vs -33pips (in early March). The timing of the moderation in the pace of fixing has resulted in the USDRMB bottoming around the 6.88 levels recently. The fixing pattern requires further monitoring– to assess if there is any intent to inject modest two-way volatility to temporarily slow the pace of RMB appreciation or if it indeed represents a shift in policymakers' preference for the RMB's appreciation path.

US Dollar (USD) and Singapore Dollar (SGD)

- USDSGD (Singapore Dollar) continued to trade higher in March. A stronger USD, a paring back of Fed rate-cut expectations, a repricing of global growth and a moderation in the pace of RMB appreciation were some of factors that contributed to SGD weakness. That said, the SGD's depreciation pales in comparison to its peers like the Korean Won, Thai Baht, Philippines Peso, the Indian Rupee. On the upcoming MAS policy decision in April, we expect the MAS to tighten policy by steepening the S$NEER (Singapore dollar nominal effective exchange rate) policy band slope. That said, we believe all policy options are on the table especially if imported inflationary pressure is assessed to broaden or influence inflation expectations significantly.

Malaysian Ringgit (MYR)

- The Malaysian Ringgit's (MYR) losses played catch-up with other Asian currencies in the second half of March after holding up (on relative terms) in the first two weeks of March. The decline in the MYR shows that no currency is immune from geopolitical shocks even as Malaysia's position as a net commodity exporter can support the MYR. The MYR can still soften in broader risk-off environments given its exposure to global growth, risk sentiment and portfolio flows.

US Dollar (USD) and Indonesian Rupiah (IDR)

- USDIDR (Indonesian Rupiah) continued to edge modestly higher in March, reflecting a still-challenging external backdrop marked by a firmer USD, risk-off sentiment and oil-related terms-of-trade pressures. BI's rollout of FX repo via FX-denominated instruments such as SVBI and SUVBI should help mitigate volatility at the margin. While these tools do not alter the underlying FX rate anchor, the measures may improve how USD liquidity is intermediated onshore. By allowing exporters and banks to hold and recycle USD domestically, the need to source USD aggressively via the spot market is reduced, thereby partially help to ease pressures and limit the risk of disorderly overshoots in the USDIDR. Earlier, BI had also announced FX market transaction measures, targeted to support the IDR. These include lowering the FX cash purchase limit to US$50,000 (from US$100,000) per buyer per month (any higher than the US$50,000 would require supporting documentation), increasing the transaction limits for Domestic Non-Deliverable Forward (DNDF)/ Forward sales and Swap buy-and-sell from US$5 million to US$10 million per transaction, and adjusted the threshold for supporting documents for outgoing FX fund transfers to US$50,000 (from US$100,000). These will take effect in April and appears targeted at reducing non-essential USD demand while facilitating hedging activity. Potentially these can help to reduce pressure on the spot market and improve onshore USD liquidity conditions. That said, external factors remain the dominant driver, and weaker risk sentiment alongside elevated oil prices amid the risk of a more protracted Iran conflict are still likely to weigh on IDR.

Forecast table for Precious Metals Prices

USD/ounce	Jun 2026	Sep 2026	Dec 2026	Mar 2027	Jun 2027
Gold	5040	5210	5350	5500	5600
Silver	77.5	82.7	89.2	91.7	94.9

Source: OCBC Global Markets Research; the figures are end-period prices

Forecast table for Oil Prices

USD/barrel	Jun 2026	Sep 2026	Dec 2026	Mar 2027	Jun 2027
Brent	100	85	70	70	70
WTI	94	81	66	66	66

Source: OCBC Group Research; the figures are end-period prices

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