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Staying the course in Asian equities

Periods of market turbulence and heightened geopolitical tension often test investors' convictions, and the recent conflict in the Middle East has been no exception. The rising oil price, renewed concerns about inflation, and shifting expectations around US interest rates have all contributed to more cautious sentiment. While short term market movements are dominated by headline news about the Middle East conflict, there remains long term secular trends that present interesting opportunities for investors to focus on amid the volatility.

Today's Asia is structurally very different from a decade ago. The region enters this phase of uncertainty with resilient domestic demand drivers and powerful secular growth engines, as well as a variety of resources and policy tools to dampen the immediate impact of rising oil prices.

Oil price shocks mitigated

While Asia is a net importer of oil and natural gas, its vulnerability to oil shocks is mitigated as it has a diversified source of energy mix for power generation – it uses a mix of coal, renewables, natural gas, and nuclear to generate power. Indeed, oil is not a key source of energy for power generation – it is mostly used in transportation and industry. For natural gas, there are other sources of supply for Asia – in fact, a few Asian countries are net exporters of natural gas.



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Meanwhile, alongside possible releases of strategic reserves, policy measures such as subsidies or price-stabilisation mechanisms can also help cushion short-term spikes in energy costs. As a result, the immediate economic impact of the oil price on Asian economies is now materially lower than it once was

US resilience supporting demand

While perhaps less important than in the past, the health of the US economy remains a critical variable for Asia. For instance, thanks in part to shale oil and gas production, the US itself is also far more energy self-sufficient than it once was, alleviating the impact that higher oil prices have in terms of a slowdown in US demand.

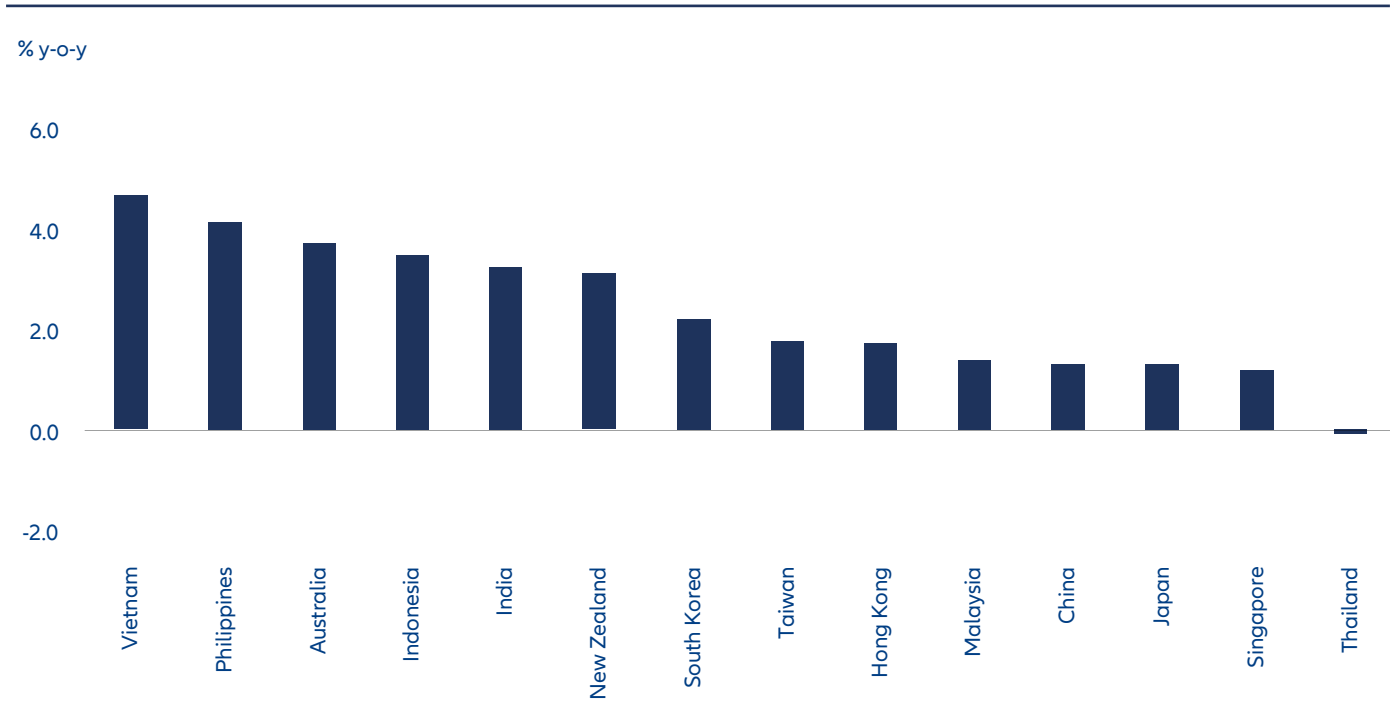
The resilience of the US economy will continue to underpin demand for Asian exports, particularly in

tech-related sectors which are driven by the boom in AI capex. While growth may be uneven, the likelihood of a severe demand shock currently appears low and exports should provide a cushion to many Asian economies if domestic consumption suffers from higher energy prices.

Benign inflation in Asia

The Iran conflict has also complicated the global inflation narrative, leading markets to reassess the timing and pace of US Federal Reserve rate cuts. However, as inflation is relatively benign in Asia, this allows room for local economies to absorb the inflationary impact of higher energy prices should the conflict linger on – and this is especially true for China, which has been suffering from deflationary pressures in recent years.

Headline consumer price index (CPI)



Source: Bloomberg, CEIC, HSCB. March 2026.

Structural growth drivers in place

While short-term volatility and shifting news flows can influence market performance, our investment approach remains anchored in long-term secular themes that we believe will shape the region's growth trajectory. Innovation is a key investment theme for Asia as the region combines world-class technological expertise, deep manufacturing capabilities and a large, increasingly tech-savvy consumer base. This positions the region well to capture demand stemming from the global surge in AI capex, as well as technological developments across various industries, spanning areas such as semiconductors, large language models, optical networking, power components, robotics, biotechnology, and autonomous driving and electric vehicles.

Alongside innovation, resilience has become an increasingly important investment consideration. National security priorities, supply-chain reconfiguration and the need for greater energy diversification underscore the strategic value of a number of critical traditional industries that reinforces a country's resilience. Sectors such as power grids, oil and gas, energy storage, renewables, defence, machinery, infrastructure and commodities play a critical role in supporting economic resilience and long-term development across Asia, and will likely benefit from topline growth as well as a re-rating in valuations.

Structural reform represents another powerful tailwind. Across several Asian markets, proactive government initiatives are encouraging improved capital discipline and corporate governance. Measures such as share buybacks, higher dividend payouts, restructuring activity, and policies aimed at curbing excessive competition are helping unlock shareholder value. While most evident in markets such as Japan, Korea and China, increased

competition for global capital may prompt broader reform efforts across the region.

Finally, evolving consumption patterns are creating new opportunities. Demographic change, technological progress and the growing influence of Asia's cultural and commercial soft power are reshaping demand. Sectors such as insurance and wealth management, travel and tourism, and the rise of distinctive Asian brands and intellectual property stand to benefit from these long-term shifts.

Maintaining discipline

While many Asian economies have measures in place to cushion the short-term impact of higher energy prices, attention is needed to potential risks. The scope of the current conflict is a key variable: a broader escalation involving additional parties could further disrupt oil and gas supplies to Asia, pushing energy prices higher for longer and may disrupt daily economic activities.

The duration of elevated energy prices is equally important. Prolonged cost increases will generally act as a headwind for Asian growth, although the impact will vary. Economies driven more by domestic demand or with strong positions in high value-added technology exports are likely to prove more resilient than smaller, more externally dependant markets.

Ultimately, focusing on fundamentals, diversifying exposures across key secular investment themes, avoiding short term momentum trades, and adopting a contrarian view remain the most reliable ways to navigate uncertainty. While geopolitical events may generate volatilities, the underlying fundamentals of Asian equities continue to offer compelling long-term opportunities for patient investors.



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