LION GLOBAL INVESTORS
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2026 Asia Market Update: Iran Conflict Implications

by Investment Team

2026 ASIA MARKET UPDATE: IRAN CONFLICT IMPLICATIONS

KEY POINTS FOR INVESTORS

- The US–Israel strikes on Iran mark a major geopolitical setback, but our base case remains a limited conflict rather than a protracted war, given constraints on both sides.
- Near-term market sentiment is risk-off, with oil supply risks, particularly around the Strait of Hormuz, driving volatility across assets.
- For portfolios, we expect selective resilience in Asia equities, muted spillover into SGD fixed income, continued demand for gold, USD and high-quality bonds, and contained volatility in the Singapore Dollar (SGD) and Offshore Renminbi (CNH) relative to other Asian currencies.

GEOPOLITICAL BACKDROP AND MARKET CONTEXT

On 28 February 2026, the United States and Israel launched coordinated airstrikes on Iranian military targets following the breakdown of nuclear negotiations. Iran retaliated across parts of the Gulf, while attacks on vessels in the Strait of Hormuz and the suspension of marine insurance coverage have raised concerns over energy supply disruption at a chokepoint handling roughly 20% of global oil flows.

While the situation marks a clear escalation, we do not expect a prolonged, open-ended war. Iran's capacity to sustain extended conflict is limited, while US economic and political constraints reduce tolerance for a long engagement. Markets have responded in a classic risk-off manner, with equities weaker, oil and gold higher, and the US dollar firmer.

PORTFOLIO IMPLICATIONS

Multi-Asset

From a multi-asset standpoint, the most likely scenario remains a contained military operation aimed at degrading Iranian capabilities, stopping short of domestic chaos or "boots on the ground." Given the high costs of sustained deployment, the conflict is unlikely to last long, increasing the probability that parties eventually seek a compromise.

In the interim, markets are likely to remain risk-off, with limited appetite for dip-buying until clearer visibility emerges on the scope and duration of the conflict. Gold should be the main beneficiary of heightened geopolitical uncertainty, while USD is expected to enjoy temporary safe-haven status.

The US dollar remains a relatively effective hedge in an energy-shock regime, as the US economy is structurally less vulnerable to higher energy prices than Europe, Japan and much of Asia.

US & European Equities

The initial market reaction for both the US and European equities could be a fall in equities prices due to deteriorated risk sentiment and shifting investor attention toward energy security. Over a three to six month horizon, the trajectory of US and European equities will depend heavily on whether the conflict disrupts the Strait of Hormuz and oil price. A complete shutdown of the Strait of Hormuz could lead to much elevated oil prices and higher inflation which would reduce the ability of the Federal Reserve and the European Central Bank to lower rates to inflate a slowdown in the economy which would be a headwind to equity prices.

Asia Equities

Asia equity markets are more exposed to energy shocks given the region's dependence on imported oil, particularly in Japan, Korea, India and Taiwan. A sustained disruption in the Strait of Hormuz would raise stagflation risks and weigh on earnings and valuations.

That said, historical precedent suggests that equity markets often recover after the initial drawdown from geopolitical shocks, provided the conflict does not result in a prolonged collapse in energy supply. While the current episode is more serious than recent flare-ups, it is unlikely to resemble the 1990 Gulf War, which involved severe and sustained oil disruption.

In the near term, we expect heightened volatility and sectoral divergence, with energy importers under pressure and defensives relatively resilient. We do not see current conditions as a structural derailment of Asia equities.

Asia Bonds

Singapore dollar (SGD) rates have moved lower, albeit with a more muted reaction relative to other risk assets.

SGD corporate bonds have seen limited immediate reaction, although pricing marks may soften at the margin as dealers remain reluctant to take on risk in current market conditions. There has been some selling of SGD bonds issued by Middle East-based issuers, alongside selective buying interest in Temasek-linked companies (TLCs) and government-linked companies (GLCs). From a portfolio perspective, we remain selectively opportunistic, looking to add to positions should attractive offers emerge.

Primary market activity underscores that the market remains functional. CapitaLand Integrated Commercial Trust (CICT) is tapping the market this week with a SGD300 million 5-year issue, while the Housing & Development Board (HDB) is expected to issue a 7-year bond around the same period.

Currencies

Currency markets have stayed calm. The US dollar and gold have risen slightly, while Asian currencies such as the Singapore dollar and Chinese renminbi have remained stable, supported by close Asian central bank oversight. However, emerging market currencies that are sensitive to oil prices could face pressure if energy prices stay high.

CONCLUSION

Geopolitical risks have risen sharply and markets will remain cautious in the near term. However, our base case remains that the conflict is contained rather than protracted, with energy supply dynamics, not military headlines, driving asset prices. Diversified portfolios with exposure to high-quality fixed income, gold, preferred defensive currencies, and selectively resilient Asia equities remain well positioned to navigate current volatility while retaining flexibility to capture opportunities.

All data are sourced from Lion Global Investors and Bloomberg as at 2 March 2026 unless otherwise stated.

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