LION GLOBAL INVESTORS
An OCBC Company

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Market Outlook

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MACRO OUTLOOK

Geopolitical escalation in the Middle East and associated disruptions to energy and key industrial supply chains have increased the probability of a stagflationary impulse to the global economy. The magnitude of the shock will depend on the duration and intensity of the conflict, and the extent to which the Strait of Hormuz remains constrained. In the near term, elevated oil prices may lift headline inflation while weighing on household purchasing power and corporate margins, keeping major central banks cautious even as growth momentum slows.

United States

The United States is comparatively better positioned to absorb higher energy prices given its status as a net energy exporter, although a persistent supply shock would still act as a tax on global demand and could dampen business and consumer sentiment. Recent data point to resilient activity alongside a gradual cooling in labour market momentum, as firms focus on productivity initiatives and are more measured with hiring.

Consumer spending is likely to remain supported in the near term by household balance sheets and seasonal tax-refund dynamics, but the risk of demand softening increases if energy-driven price pressures persist. Monetary policy is likely to remain data-dependent and cautious. In the near term, heightened uncertainty may keep the Fed on hold, with policy communication balancing inflation risks against the possibility that tighter financial conditions and weaker global growth eventually feed through to employment.

Eurozone

Europe remains among the most vulnerable regions to an energy price shock given its net-importer status and the higher pass-through to households and industry. Elevated energy costs would place upward pressure on headline inflation while eroding purchasing power and corporate margins, complicating an already subdued growth backdrop. For the European Central Bank, the baseline remains one of cautious policy normalisation rather than an abrupt shift in rates. Unless inflation spillovers significantly extend beyond the energy sector, policymakers may initially choose to overlook the shock. However, an extended period of high prices could increase the likelihood of a more restrictive policy stance.

China

China’s economic growth was robust prior to disruptions in the energy markets. China’s external energy dependency is lower than that of many other Asian economies, but a significant portion of its imported oil and gas comes from the Middle East. The official growth target for 2026 has been set at 4.5% to 5.0%, marking a strategic adjustment from last year’s 5.0% target and underscoring a focus on quality-driven expansion. Policy continues to emphasise supply-side investments in science and technology through initiatives fostering “new quality productive forces”. Although the government increasingly prioritises stimulating domestic demand, there are few tangible measures to significantly boost consumption. Restrained household stimulus and potential gaps in fiscal implementation suggest limited domestic demand growth in the near term, which may necessitate sustained reliance on exports to achieve growth objectives. China maintains flexibility to provide incremental support through funding, adjustments to reserve requirement ratios, and targeted credit facilities to achieve its growth objectives.

Asia

Across the rest of Asia, net energy importers face potential terms-of-trade challenges if elevated oil prices persist. Policy responses across Asia are expected to be pragmatic. Central banks in Asia may accept a temporary increase in headline inflation should growth risks intensify. Nevertheless, a sustained energy shock would likely limit accommodative measures for economies most reliant on energy imports.

INVESTMENT IMPLICATIONS AND OPPORTUNITIES

Equities

We prefer a selective, quality-biased stance in equities. Although markets have held up, high valuations mean there is little room for error if energy-driven inflation persists or growth falls short. Regional preferences are driven by differences in energy exposure and earnings trends. The United States appears comparatively well positioned to withstand elevated oil prices, whereas Asia Pacific excluding Japan is supported by ongoing positive earnings revisions and improved market positioning following recent declines. By contrast, Europe's heightened energy vulnerability and subdued cyclical momentum call for a more cautious approach.

Within Asia, the earnings upgrade cycle is expected to persist if energy disruptions do not become prolonged or widespread. A significant and sustained increase in oil prices would present considerable challenges for economies with higher import dependency and for sectors with limited pricing power. Nevertheless, the region continues to benefit from structural demand in semiconductors, select industrial sectors, and investments related to digitalisation and artificial intelligence infrastructure.

We maintain a positive view on South Korean equities, supported by attractive valuations and positive earnings revisions. We are constructive on Taiwan equities despite elevated valuations. We see selective opportunities in China equities, particularly those with exposure to strategic technology and materials highlighted under the country's 15th Five-Year Plan.

We remain positive on Singapore equities. The medium-term Singapore equity story continues to be underpinned by structural drivers such as safe-haven fund flows, a positive industrial cycle, rising dividends per share, and liquidity tailwinds from ongoing market reforms. The capacity of Singapore-listed corporates to raise dividends above pre-pandemic levels positions the local market defensively amid global uncertainty. Market performance may be further supported by improving system-wide liquidity, deeper integration of technology into industrial applications, and sustained relative outperformance as a regional safe haven. Valuation re-rating is likely to be maintained as earnings growth continues and management teams focus on shareholder value creation.

Fixed Income

The Fed kept rates unchanged for a second consecutive meeting in March, maintaining the target range at 3.50% to 3.75%, in line with expectations. Despite higher projections for gross domestic product growth and inflation, the median dot plot was unchanged, indicating further rate cuts in 2026 and 2027. Chair Jerome Powell reiterated that the Fed is well positioned for the time being, notwithstanding the impact of the Iran conflict, which the Fed does not appear overly concerned about at this stage. Powell also emphasised that progress on inflation remains critical to the Fed's projections for rate cuts this year.

Over the past three weeks, bond yields have risen sharply as the Middle East conflict reignited inflationary fears through higher energy and food prices, reducing the traditional role of sovereign bonds as safe havens. Across major economies, traders were quick to either price out rate cuts or price in rate hikes for economies nearing the end of their easing cycles. Investors also expressed concern about the need for fiscal stimulus to help households cope with higher energy costs, which could strain public finances in countries with limited fiscal headroom. The United States 10-year government bond yield ended the period at 4.28%, up approximately 34 basis points. Meanwhile, the two-year yield also rose by 34 basis points to 3.72%. Credit spreads continued to widen across both investment-grade and high-yield segments and across regions, despite the rise in yields, as risk sentiment weakened amid Middle East conflict concerns and fears surrounding private credit.

We believe the bond market is no longer expensive, with the United States market currently pricing in a rate hike in 2026, compared with two rate cuts priced at the beginning of the year. Investments in high-quality credit can provide additional carry, which may help cushion further increases in yields. We are also positive on the Singapore bond market due to its relatively defensive characteristics. Over the longer term, the structural de-dollarisation theme lends support to the Singapore dollar market, as observed during the tariff episode under former United States President Donald Trump in 2025.

KEY RISKS

Key risks to the outlook include:

1. A sustained or broader regional conflict that materially restricts Middle East oil supply.
2. A de-anchoring of inflation expectations that increases interest rate volatility and steepens yield curves.
3. A meaningful equity market drawdown triggered by valuation re-rating in artificial intelligence and technology sectors as earnings growth slows or investment payback periods lengthen.

All data are sourced from Lion Global Investors and Bloomberg as at 30 March 2026 unless otherwise stated.

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