



THE MIDDLE EAST TURMOIL & ITS IMPLICATIONS

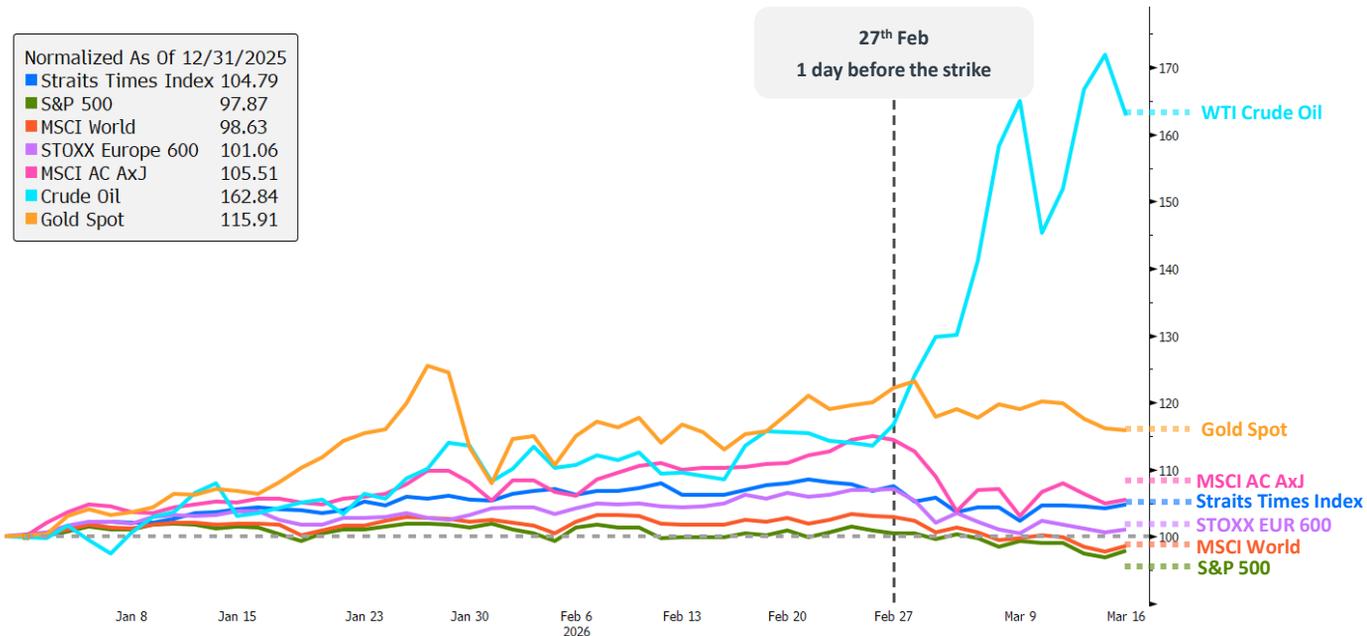
What Happened?

On 28 Feb 2026, targeted strikes hit military sites in Iran, with reports of US support for Israeli operations. Iran responded with missiles and drones across the region. Shipping around the Strait of Hormuz has faced severe disruption, and some sources described the lane as effectively closed at times, prompting a near-term risk premium in oil prices. Markets are focused on whether these disruptions persist. In the near term, markets are likely to remain headline-driven, with elevated volatility, particularly in energy-importing regions.

Media and market commentary widely reported the death of Iran’s Supreme Leader, Ayatollah Ali Khamenei, in the initial strikes. Iran’s responses have included attacks on US, allied and Israeli positions with several Gulf states reported intercepting or being targeted by drone and missile activity. Authorities and carriers adjusted air and sea routes in response to risk assessments.

IMPACT ON THE MARKETS

After the escalation, gold and crude led markets. Equities sold off on the headlines. Asia ex-Japan saw the deepest drawdown, reflecting the region’s oil-import dependence and Strait of Hormuz risks that cloud growth and inflation if energy and shipping disruptions persist.



Source: Bloomberg, YTD performance of indices as of 16th March 2026 in local currency

Market movements have been orderly so far. That suggests markets are pricing a contained conflict. **Equities broadly remain in line with their opening levels** for the year, underscoring resilient earnings and positioning.

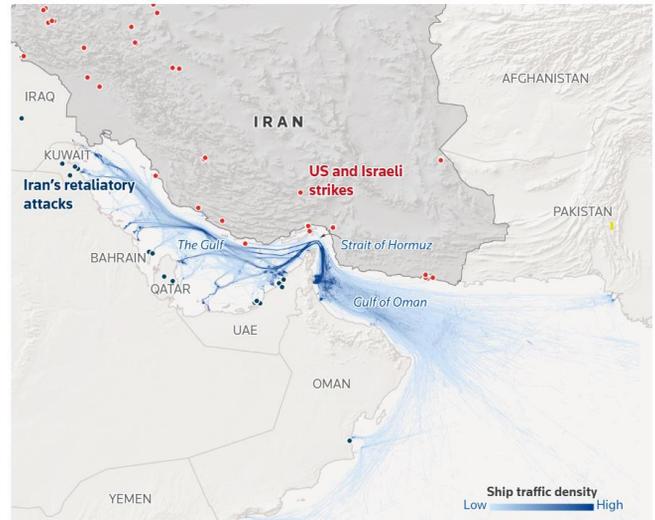


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WHAT THE MARKETS ARE WATCHING & ITS IMPLICATIONS

1. Conflict duration matters.

The single most important economic variable is how long the Strait of Hormuz, through which around a fifth of global oil supply normally flows, stays closed. President Trump has said the attacks could last as long as four to five weeks. A short, contained episode can keep economic spillovers limited. However, a conflict longer than a few weeks raises the odds of sustained economic pressure through higher oil prices and hotter inflation.



Note: Ship traffic density as of September 2024.

Sources: Global Maritime Traffic, Institute for the Study of War & AEI Critical Threats Project

2. Impact on Oil prices

The immediate transmission channel is energy. **Markets are now focused on how much geopolitical risk premium remains in crude.**

Base case guidance across fund managers keeps Brent around US\$80–95, with US\$100+ in an escalation scenario and >US\$120 only if the Strait of Hormuz is meaningfully disrupted. OPEC+ spare capacity is a potential stabilizer, but confidence hinges on shipping continuity.

It would take a substantial and prolonged shock to oil supply and prices to trigger a global recession. Russia’s invasion of Ukraine pushed crude oil prices above US\$100 per barrel for about three months, but the global economy proved resilient—and for the moment this remains the base case guidance across most fund managers.

Base Case	Escalation	Elevated
<p>Contained Escalation Brent trading below \$90</p> <p>Volatility elevated but manageable.</p>	<p>Widespread Conflict Brent trading around \$100</p> <p>Market may favor defensives and gold.</p>	<p>Wide and Prolonged Conflict Brent trading above \$120</p> <p>Flight to safety</p>



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3. Macro Impact to Market Implications

The escalating Iran conflict has introduced a fresh wave of geopolitical uncertainty, driving oil prices higher as markets price in risks of supply disruption. Elevated energy costs are feeding into higher inflation expectations globally, complicating the macro outlook at a time when growth momentum is already fragile. As a result, investors are bracing for slower global growth and heightened market volatility, with central banks potentially delaying rate-cut cycles until inflation pressures stabilize.



EQUITIES

Asia importers (TH/IN/KR/PH) most exposed to oil shock.

Sector Divergence Within the S&P 500

- Consumer discretionary, airlines, and logistics face margin squeeze from higher fuel costs and slower demand.
- Energy & defense likely to outperform if disruption persists.

FIXED INCOME

Sell-off in US Treasuries, drove yields higher due to fears that heightened oil prices will fuel inflation and compel the Fed to hold interest rates higher for longer.

Credit spreads wider (notably Emerging Markets & Middle East).

COMMODITIES

Supply-risk premium elevates oil prices

Increased demand for gold

FX

Demand for safe-haven currencies (E.G. USD & CHF)

Softer Emerging Market currencies

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UPDATES ON OUR ILP SUB-FUNDS

Across the other ILP Sub-Funds available on our platform, most underlying strategies are globally diversified and have limited direct exposure to the Middle East. The main exception is the AIA Shariah Global Diversified Fund, whose Shariah-compliant mandate can include Middle East allocations. At the portfolio level, there is about 30% exposure to direct Middle Eastern securities through one of its underlying fund – Franklin Sukuk Fund.

Portfolio Positioning of AIA Shariah Global Diversified Fund

Franklin Sukuk team notes that the size of any market move will guide position sizing, but after a long period of caution they are inclined to add selective credit risk where valuations have improved. They remain risk-aware given uncertainty around the conflict's duration yet judge that initial military objectives appear largely met and Iran's response so far has been measured, with scope for ceasefire talks. **Overall, they view the fund as well positioned, supported by high-quality allocations, ample liquidity, and modest overall risk levels.** The average credit quality of the Franklin Global Sukuk Fund is A-, as of 31 January 2026.



Portfolio Positioning of AIA Stewardship Funds

AIA Investments view this on-going tension as a **short-term volatility and risk-premium event** rather than a precursor to a sustained global downturn.

AIA Investments **remain constructive on equities**, supported by a positive macro backdrop and clear policy alignment between fiscal expansion and monetary easing in the US.

The base case is that President Trump is unlikely to engage in a prolonged conflict in the Middle East, given his broader objectives of bringing US inflation down and delivering solid outcomes in the upcoming mid-term elections. Against this environment, we continue to focus on our strategy of investing across enduring mega-trends, including AI winners, the multi-polar world, global defense and reflation.

Looking ahead, the manager seeks to advantage of indiscriminate selling, allowing the AIA Stewardship Funds to build positions where the manager holds a favorable fundamental view.



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AIA Global Adventurous Income Fund

Equities

Allocation to an **Equity Income strategy of lower beta** which has held up better than the broad market.



Multi-Asset

Building exposure to **Franklin Income Fund** which is a more defensive manager given its higher allocation to fixed income.

AIA Global Dynamic Income Fund

Equities

Allocation to an **Equity Income strategy of lower beta** which has held up better than the broad market.



Fixed Income

Higher allocation to **US Fixed Income manager** which has held up better than the Global Fixed Income manager given the strength of the USD as a safe haven.

AIA Elite Funds

Equities

Allocation to **value managers and managers with defensive and/or quality tilt**, which held up better than managers with growth tilt.



Fixed Income

Higher allocation to **US Fixed Income manager** which has held up better than the Global Fixed Income manager given the strength of the USD as a safe haven.

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MOVING FORWARD, STAY INVESTED

While wars carry an immense and tragic human toll for those affected, market history has shown that **regional conflicts are unlikely to lead to a global economic recession or bear market** – even when the US or other major powers are involved.

Absolute S&P 500 Performance From Start of Conflict				
Conflict (Start Date)	Full Conflict	+1M	+6M	+12M
Suez Crisis (1956)	1.6%	-3.9%	0.5%	-8.1%
Six-Day War (1967)	3.6%	3.6%	9.4%	16.6%
Yom Kippur War (1973)	0.8%	-3.7%	-13.8%	-38.4%
Iran-Iraq War (1980)	180.0%	1.6%	5.7%	-6.9%
Iraq-Kuwait Invasion (1990)	6.8%	-7.8%	-0.6%	14.1%
Desert Storm (Gulf War) (1991)	12.5%	13.0%	19.1%	31.9%
Iraq Invasion (2003)	65.4%	2.2%	19.4%	29.0%
Israel-Hezbollah War (2006)	0.9%	0.8%	14.2%	25.7%
NATO-Libya Conflict (2011)	-0.8%	2.2%	-4.0%	12.6%
Crimea Annexation (2014)	0.9%	1.6%	9.2%	17.1%
Russia-Ukraine War (2022)	?	6.1%	-4.6%	-5.9%
Israel-Hamas War (2023)	?	1.4%	21.7%	34.1%
US Captures Maduro (2026)	-	1.8%	?	?
% Positive	90.0%	76.9%	66.7%	66.7%
Median	-	1.6%	7.5%	15.3%
Average	-	1.4%	6.3%	10.1%

Source: Fisher Investments

It is important, to note that this is not a market in distress, nor is it one in a full risk-seeking rally. Instead, the market is redistributing opportunity, reducing concentration risk and broadening dispersion. This environment argues for **maintaining discipline, diversification, and selectivity**, with a focus on identifying underlying securities with strong fundamentals.

AIA Investments continues to **prioritize long-term investing while actively managing near-term risks**, maintaining diversified and resilient portfolios across market cycles. By avoiding market-timing and instead focusing on **disciplined strategy, active management, and vigilant risk oversight**, AIA aims to keep its Stewardship and ILP Funds well-positioned amid uncertainty, helping policyholders stay focused on long-term growth despite short-term volatility.



**HEALTHIER, LONGER,
BETTER LIVES**

AIA Investments

March 2026

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