

Macro Insights

Implication of three simultaneous shocks

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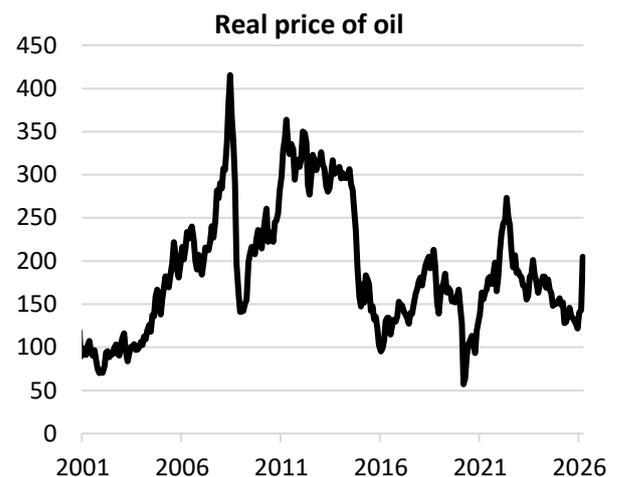
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- From a sharp rotation of investor sentiment within the US equity space to rumbles in the private credit universe to the ongoing oil price spike, global markets are dealing with a lot.
- Equity investors are paying progressively more for downside protection.
- Private credit sector stress has been rising.
- Iran crisis could push up headline inflation considerably.
- Each of these shocks have some potential mitigating dynamic at play.
- But their simultaneous occurrence is going to test the global economy and markets considerably.

Chart of the Week: Putting oil in perspective

There are legitimate concerns about the global economic and markets outlook given the sharp rise in energy prices over the past few weeks. But even at USD100+/barrel, adjusted for inflation, oil price is in fact 50% below its peak. Oil supply is ample worldwide and demand has been on the muted side lately. Hydrocarbon dependency has begun to wane on the back of green transition, slowing of China's growth, and tech-driven production efficiency gains. An oil shock is always unwelcome, but the global economy's ability to absorb it is decent.



Source: Bloomberg, DBS. Nominal Brent crude price deflated by US CPI. Jan 2000=100

Commentary: Implication of three simultaneous shocks

From a sharp rotation of investor sentiment within the US equity space to rumbles in the private credit universe to the ongoing oil price spike, global markets are dealing with a lot at this point. Taken in isolation, each shock looks manageable, but the simultaneous unfolding of them puts the global economic and markets outlook in jeopardy, we're afraid.

First, the **rotation in US equities**. In recent months, investors have become cautious about the high valuation of the top US AI names. The rotation away from tech to blue-chip companies, small-cap, and international markets has changed the momentum of the market. The last two weeks' Iran war has complicated the picture more, with inflation worries creeping in, hurting the blue-chips. Additional concerns include weak job numbers, and the outlook for a wide range of companies made cloudy by AI disruption.

Some adjustment in the equity markets is healthy, and the degree of risk aversion is modest. The tech-heavy Nasdaq is down barely 5% so far this year, and still up 17% from a year ago. VIX, a key volatility marker is high, but by no means at stress levels. One area to look at is vol skew, which has jumped in recent days, suggesting that investors are paying greater premium for downside protection.

Second, **private credit**. All it took was a few companies to struggle with their performance, and the private credit ecosystem that has flourished in the past decade came under a great deal of nervous scrutiny. Fears that some funds have lent at the top of the cycle, while expanding exposure to retail investors, and

could be incurring substantial losses have mounted lately. From the necessity of gating funds to prevent disorderly investor outflow to questions about how major private credit funds value their portfolio, there has been a sudden chilling in the sector. Banks that have been engaged in funding private credit companies are also being watched closely for potential losses. US banks, in particular, underscore the link between private and public markets.

Private credit is not large enough to cause systemic risk, in our view. While the sector has grown sharply in the past decade, it is not even 5% of the US equity market's capitalisation. Wobbles in this sector is concerning, but unlikely to be a source of financial instability.

Third, the ongoing **oil shock**. Even before the events in Iran, the year began with US core PCE inflation exceeding 3%. Headline inflation, meanwhile, had been on a more favourable trajectory, tracking sub-3% since October, and falling below 2.5% in February. Now, with pump prices spiking, up 25% in the last four weeks with more likely to come, inflation markers will point uniformly upward. Beyond energy products, the near-halting of shipments through the Straits of Hormuz threatens the supply of a wide range of chemicals and fertilizer. Of course, an expeditious resolution to the going crisis could cap this risk.

One can come up with a fairly convincing set of mitigating factors to each of these risks. But all three developments taking place simultaneously makes us rather concerned about the shock absorption capacity of the global economy and markets.

Taimur Baig

FX: Attrition risks vs. silver linings in Week 3

By the second week of the Iran War, the initial market perception of a localized geopolitical shock transformed into a global macro risk. This shift was punctuated by a synchronized surge in safe-haven and commodity assets, with the USD Index (DXY) breaking 100 and Brent crude climbing past USD 100 per barrel. Investors were no longer pricing in a temporary disruption; they were recalibrating for a prolonged inflationary cycle and a sustained period of global instability. With higher energy costs squeezing global liquidity and manufacturing margins, particularly for energy-importing nations, the narrative moved away from short-term volatility toward concerns of stagflation, permanent shifts in trade routes, and a forced re-evaluation of global supply chain dependencies.

Entering Week 3, the world economy and financial markets are bracing for a war of attrition. While US and Israeli forces have successfully degraded much of Iran's military capabilities, Iran's asymmetric response has centred on utilizing the Strait of Hormuz to trigger what the International Energy Agency (IEA) described as the "largest supply disruption in history." International events like the Bahrain and Saudi Arabian Grands Prix were cancelled, signalling that the Middle East security umbrella had fundamentally buckled.

The Trump administration has responded tactically by prioritizing lower pump prices as a vital pillar of national defence, launching a logistics-first shield against the ongoing energy shock. By activating a 30-day dual-pronged strategy – issuing General License 134 to unfreeze 125 million barrels of Russian oil stranded at sea and proposing a temporary

Jones Act waiver to fast-track domestic shipping, the White House is creating a critical release valve for the US economy. These manoeuvres are anchored by the massive 172-million-barrel drawdown from the US Strategic Petroleum Reserve (SPR), the cornerstone of the IEA's record 400-million-barrel global intervention.

Despite these measures, the US political landscape has fractured along sharp partisan lines, with Congress increasingly becoming a secondary battlefield for President Trump's Operation Epic Fury. While the administration maintains that its actions are necessary for national security, the legislative branch is currently locked in a struggle over constitutional authority, war funding, and the lack of a defined endgame.

FOMC meeting (March 18)

The FOMC enters its March 17-18 meeting trapped in a stagflation pincer. Fed Chair Jerome Powell may still be haunted by the behind-the-curve spectre of 2022, when a delayed response to surging prices forced a painful, aggressive hiking cycle. Hence, he is loath to pivot too early and risk a second wave of inflation, especially as the Iran War and the closure of the Strait of Hormuz have catapulted global crude oil prices.

However, today's **Fed confronts a fragile US economy** where 4Q25 GDP was revised down to 0.7% QoQ saar from 1.4% initially. February's non-farm payrolls saw a shock contraction of 92,000 jobs vs. the expected 59k gain. With the **unemployment rate hitting 4.4% and triggering the Sahm Rule**, recession is no longer a tail risk but a baseline concern.

The FOMC must determine whether these energy price spikes represent a primary inflationary threat requiring higher rates or a consumer tax necessitating cuts. While higher oil prices push headline inflation up, the accompanying supply disruptions and drained disposable income act as powerful drags on household spending and the corporations' investment and hiring plans.

RBA meeting (March 17)

AUD is caught between hawkish domestic fundamentals and a deteriorating global risk environment. Following Reserve Bank of Australia Deputy Governor Andrew Hauser's recent signaling that the economy was running beyond its sustainable capacity, markets have priced in a back-to-back 25-bps hike to 4.10% at the March 17 policy meeting. RBA Governor Michele Bullock has acknowledged the Iran War as a double-edged sword that necessitates a "high alert, data-dependent" stance. Markets have pushed out the third hike into 4Q26 in anticipation of Bullock pitching this week's hike as an insurance move. Hence, **AUD/USD will rely more on a net dovish-sounding Fed and continued CNY appreciation for support around 0.69-0.70.**

ECB meeting (March 19)

EUR/USD was pressured during the first half of March, retreating 4% to 1.1415. This correction is primarily due to the geopolitical premium driven by the ongoing conflict in Iran, which prompted a flight to safety into USD. EUR's trajectory this week hinges on the European Central Bank (ECB) meeting on March 19. Currently, the market is pricing in two 25-bps rate hikes for this year, specifically in June and September. Unless the ECB explicitly pushes

back against this hawkish pricing, we expect **EUR/USD to find support near the pivotal low of 1.1390** on August 1. ECB President Christine Lagarde asserted that the governing council will do everything necessary to prevent a repeat of the 2022-23 inflation spiral. In the immediate term, the **ECB appears intent on monitoring the geopolitical situation with composure, signalling they will not be swayed by short-term market volatility.** The ECB's tilt toward tightening again is contingent on elevated energy costs de-anchoring long-term inflation expectations.

JPY intervention risk, Takaichi's US trip, and BOJ meeting

USD/JPY faces elevated intervention risk as it approaches the psychological 160 threshold. Over the weekend, Japan and South Korea intensified their verbal defence, issuing a rare joint statement expressing "serious concern" over the rapid depreciation of the JPY and KRW. Reinforcing this stance, Finance Minister Satsuki **Katayama confirmed that Tokyo is in closer contact than usual with US authorities.** The government is wary that runaway JPY depreciation will exacerbate imported inflation from higher energy prices due to the Iran War. By signalling a readiness to take all possible measures, Katayama has put markets on high alert for a potential rate check by US authorities or physical JPY-buying intervention to protect the livelihoods of its citizens from further cost-of-living shocks.

Against a backdrop of mounting urgency, a **surprise rate hike at the March 19 Bank of Japan meeting cannot be fully ruled out.** In the wake of the Iran conflict, the BOJ has signalled a pivotal shift in its reaction function, explicitly informing Parliament that exchange rate

volatility now exerts a more profound influence on underlying inflation and expectations than in the past. This recalibration is supported by a resilient domestic recovery, with 4Q25 real GDP rebounding to an annualized 1.3% QoQ sa, fuelled by business spending and private consumption. While National CPI inflation moderated to 1.5% YoY in January, core-core inflation (excluding food and energy) remained at 2.6%, well above the 2% target.

The energy behind Prime Minister Sanae Takaichi's trip to Washington this Thursday (March 19) **will feel heavier than the Golden Age celebratory vibe seen during President Donald Trump's Tokyo visit** last October. This week will test Takaichi's status as the most powerful woman in the world, as designated by The Economist, and see whether she can withstand the pressure of Trump's America First demands. By offering a more robust Japanese intelligence structure, she aims to entice the US into a deeper security embrace, effectively pivoting the alliance's focus toward China and the Indo-Pacific. This strategic gambit appears designed to satisfy Trump's transactional view of burden-sharing while shielding Tokyo from the political and military risks of direct involvement in the Middle East. Together with the Minamitorishima rare-earth deal, she offers Trump a win on China and supply chains, ensuring Japan would not be sidelined or traded away in a potential US-China grand bargain during Trump's visit to China, scheduled for March 31-April 2.

Silver lining hopes

In the end, **markets still hope for a silver lining in the transactional nature of President Trump.** The administration's rapid deployment of logistical escape hatches – unfreezing Russian oil and waiving the Jones Act – combined with the refusal to cancel the Xi-Jinping Summit, suggests that Washington has no appetite for a prolonged war of attrition. The conflict is being constrained by the very economic and populist pressures that define the America First movement, specifically the sensitivity to recession risks and the consumer tax of high pump prices. This creates a possibility that the military campaign will be truncated in favour of a negotiated, optics-heavy "job done victory" before Trump's China trip.

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