FINANCE

Persistent Oil Inflation Reshapes Global Equities, Bonds, and Currencies

24/06/2025

Reposition portfolios as oil-driven inflation keeps US yields high, Brent near USD 70–80/bbl, Emerging Markets up +6.6pps YTD, Vietnam exports up 41%, gold up 28.2% YTD, and CAD, NOK, TIPS, and EM FX provide resilient inflation hedges.

Key Points

Equities	US and European equities fell slightly with the S&P 500 down -1.1% and Stoxx Europe 600 down -0.9% on 13 June while Emerging Markets outperformed by +6.6pps YTD led by Vietnam's +41% export surge to the US and ASEAN covering 39% of China's shortfall but Thailand dropped over 20%, oil spikes risk pushing US inflation higher and limiting Fed cuts while a higher US tariff rate of 8% and policy easing in over 30 large EMs covering 35% of global GDP support ASEAN and Latin America equities and keep Brent in a USD 70–80/bbl range, and investors are advised to add on dips to diversified global equities with a tilt to Asia ex-Japan, buy US major banks and software instead of semiconductors, favour high-dividend Chinese non-financial SOEs, policy-backed Korea and EU industrials, and hold gold which is up 28.2% YTD as a hedge.
Fixed Income	Oil-driven inflation raises duration risk as the US 10Y yield is 4.391% (+63 bps in two years) with Eurozone yields likely to rise 30–50 bps, EM local-currency sovereign bonds returned 10.6% YTD and hard-currency 4.4%, US IG corporates yield 5.18% and HY 7.37%, Fed policy and PCE at 3.0% keep yields higher, Gulf and Israel CDS rose after airstrikes, Canadian delinquencies and a UK 10Y yield of 4.495% show spread and duration risks, so investors should prefer UK Gilts and EM local-currency bonds after a USD squeeze, hold US TIPS for inflation protection, rotate to short-intermediate US and EU sovereigns, and favour Canadian short-to-intermediate bonds and IG corporates over HY.
Currencies	USD/SGD is 1.2850, down -5.9% YTD with DXY down -8.9% YTD, CAD (+5.0% YTD) and NOK remain oil-linked hedges, ASEAN FX gained an average 4.1%, the Israeli shekel dropped -3.5% initially and the Iranian rial -10%, while oil spikes and a US 10Y yield at 4.4% lift USD/SGD and support CAD/SGD and NOK/SGD, EM easing and strong ASEAN trade boost regional FX, MENA credit risks raise FX volatility but SGD liquidity stays robust, so investors should tactically go long USD/SGD during a short squeeze, hold CAD/SGD and NOK/SGD as oil hedges, use MYR, IDR, THB for carry, hedge EUR/SGD after EUR/USD's 10.9% gain, and diversify with gold up 28.2% YTD for stability.

Commodities	Gold at $3,365.28/oz is up 28.2% YTD and 44.5% YoY, supported by oil-driven inflation (WTI $74.97, +23.3% MTD), PCE at 3.0%, rising CDS and MENA tensions, with silver up 27% YTD and energy tightness reinforcing gold's role as a top-performing SGD hedge, so investors should prioritise physical gold or SGD-hedged ETFs, buy on dips, complement with CAD, NOK, TIPS, and selective energy commodities while keeping gold as the core stabiliser.

Persistent Oil Inflation Reshapes Global Equities, Bonds, and Currencies

	Foundational Assumptions	Key Challenges	Strategic Action
Equities	**Equity Trend Insights** US and European equities saw mild declines with the S&P 500 down -1.1% and Stoxx Europe 600 down -0.9% on 13 June, while Emerging Markets outperformed by +6.6pps YTD, led by Vietnam's +41% export surge to the US and ASEAN covering 39% of China's shortfall; Thailand underperformed with a -20% drop.	**Equity Pressure Analysis** Oil spikes risk pushing US inflation up, limiting Fed cuts and straining Asia's oil importers, while a higher US tariff rate of 8% and resilient EM easing (covering 35% of global GDP) support ASEAN and Latin America equities and maintain Brent in a USD 70–80/bbl range.	**Equity Investment Guidance** Investors should add on dips to diversified global equities with a tilt to Asia ex-Japan, buy US major banks and software over semis, favour high-dividend Chinese SOEs, policy-backed Korea and EU industrials, and hold gold (+28.2% YTD) as a hedge.
Fixed Income	**Bond Market Trends** Oil-driven inflation raises duration risk as US 10Y yield climbs to 4.391% (+63 bps in two years) and Eurozone yields could rise 30–50 bps; EM local-currency sovereign bonds returned 10.6% YTD and hard-currency 4.4%, while US IG corporates yield 5.18% and HY 7.37%.	**Bond Pressure Drivers** Fed policy signals and sticky inflation (PCE forecast up to 3.0%) keep US yields biased higher, Gulf and Israel CDS rose post-airstrikes, Canadian delinquencies and a 4.495% UK 10Y yield highlight spread and duration risks across regions.	**Bond Investment Strategy** Prefer UK Gilts and EM local-currency bonds post-USD squeeze, hold US TIPS for inflation protection, rotate to short-intermediate US and EU sovereigns, and favour Canadian short-to-intermediate bonds and IG corporates (5.18% yield) over HY (7.37%).
Currencies	**Currency Movement Trends** USD/SGD is 1.2850, down -5.9% YTD, supported by a -8.9% DXY drop; CAD (+5.0% YTD) and NOK remain oil-linked hedges, while ASEAN FX gained an average 4.1% and regional stability contrasts with Israeli shekel (-3.5% initially) and Iranian rial (-10%) swings.	**Currency Risk Analysis** Oil spikes and high US rates (10Y at 4.4%) lift USD/SGD and support CAD/SGD and NOK/SGD, while policy divergence (EM easing vs. US stability) and strong ASEAN trade boost regional FX; MENA credit risks increase FX volatility but SGD liquidity stays robust.	**SGD Currency Picks** Tactically long USD/SGD during a short squeeze, hold CAD/SGD and NOK/SGD as oil hedges, use MYR, IDR, THB for carry, hedge EUR/SGD after a 10.9% EUR/USD gain, and diversify with gold (+28.2% YTD) for stability.
Commodities	**Gold & Commodity Trends** Gold is $3,365.28/oz (+28.2% YTD, +44.5% YoY) with strong inflation hedge demand amplified by oil volatility (WTI $74.97, +23.3% MTD), geopolitical risks, and EM resilience; silver (+27% YTD) and energy tightness further support gold as an SGD hedge.	**Commodity Pressure Factors** Oil spikes limit Fed cuts and lift inflation (PCE up to 3.0%), raising gold's appeal as safe haven; CDS rises and MENA tensions sustain defensive flows, with gold among top global performers and a preferred stabiliser for SGD portfolios.	**Gold Investment Picks** Prioritise physical gold or SGD-hedged ETFs, use dips to add exposure, complement with CAD, NOK and TIPS, and add selective energy commodities for inflation protection while keeping gold the core hedge.

References:

RBC Wealth Management. (2025). Global Insight Weekly. 20 June 2025.

Allianz Research. (2025). What to watch: Middle East conflict rattles markets, the fog of (trade) war and diverging rate paths across emerging markets. 20 June 2025.

Standard Chartered Bank. (2025). Market Watch. 23 June 2025.

Geopolitical tensions and resilient emerging market growth drive mixed equity performance, with Asia and tech outperforming while oil price shocks strain margins

Equity markets remain resilient despite geopolitical shocks and sector-specific pressures

US stock index futures fell around 0.5% while the USD index rose less than 0.5%, indicating contained equity market volatility despite the Iran strike.

Oil prices rose over 5% initially but gave up half of these gains, and Brent crude jumped about 20% above early June levels, adding cost pressure to transport and manufacturing equities.

The S&P 500 declined by -1.1% and Stoxx Europe 600 by -0.9% on 13 June, with Dubai and Abu Dhabi dropping 5% and 3.5% respectively, showing uneven regional impacts.

Emerging Market equities outperformed Developed Market peers by +6.6pps year-to-date, supported by EM sovereign debt returns of +10.6% (local currency) and +4.4% (hard currency).

The Nasdaq Composite was the best relative performer, falling only 0.11%, while the S&P 500 rose 1.7% year-to-date and the Dow Industrials declined 0.9%.

Vietnam's exports to the US surged +41% year-on-year in May, with ASEAN and India exports covering about 39% of China's shortfall, boosting regional equities.

Thailand's Stock Exchange of Thailand Index declined over 20% year-to-date, marking it as a significant underperformer amid political issues.

Oil-driven inflation and trade friction reshape global equity risks and opportunities

A jump in oil prices poses a risk to US inflation expectations and limits room for Fed interest rate cuts, with supply shocks constraining central bank flexibility.

Oil importers in Asia face greater challenges if oil stays high, increasing margin pressures.

The US effective tariff rate rose to 8% in May 2025 from 2.5% in March, driving input cost spikes and rerouting trade to benefit ASEAN and Latin America exporters.

Over 30 large Emerging Markets, accounting for more than 35% of global GDP, are easing policy in 2025, supporting domestic demand and equities.

Brent's risk premium and speculative positioning imply sustained oil prices of USD 70–80/bbl under baseline conditions, higher if conflict escalates.

Thailand’s Stock Exchange Index declined over 20% year-to-date due to political instability, while the S&P/TSX Composite gained 7.4% year-to-date with resilient consumer spending indicators.

The Bank of England’s more dovish vote split could support UK equities through lower funding costs.

Strategic equity positioning should favour Asia ex-Japan, energy hedges, and quality tech

Investors are advised to use notable drawdowns to add to diversified global equity holdings and tilt towards non-US equities, especially Asia ex-Japan equities.

Within US equities, tranching into policy-supported major banks and rotating from semiconductors to software is recommended due to more resilient earnings.

Adding to quality Chinese high-dividend non-financial state-owned enterprise shares, policy-aligned Korea equities, and EU industrials is suggested.

Equities in Canada and Norway offer a hedge against oil price surge risk, supported by higher oil revenues.

Emerging Market equities trade at a roughly 35% discount to Developed Markets peers and nearly 45% relative to UK stocks, suggesting a strategic overweight.

Equities in Vietnam, Malaysia, India, and Indonesia benefit from supply chain diversification, as Vietnam’s exports to the US rose +41% year-on-year in May.

US mega-cap technology remains a core overweight, with the Nasdaq Composite falling only 0.11%, and gold is up 28.2% year-to-date, supporting its role as a portfolio hedge.

Rising oil prices and tariffs limit Fed flexibility, keep inflation elevated, and support Asia ex-Japan, oil-linked exporters, and strategic equity rotation into banks, software, and gold

Oil-linked inflation pressures drive bond market repricing across durations and regions

Higher oil prices pose a risk to US inflation expectations and limit room for Fed interest rate cuts, increasing duration risk for long-dated Treasuries.

The WTI oil price and US 10-year breakeven inflation rate move closely together, confirming commodity price impacts on bond yields.

Government bond yields in the US and Eurozone could increase by 30 to 50 basis points if oil-driven inflation worries persist.

The US 10-Year Treasury yield is 4.391%, up 63 basis points over two years, while the Canada 10-Year yield is 3.336%, up 13.6 basis points month-to-date.

Credit default swaps have risen since airstrikes began on 13 June, indicating higher debt costs for the Gulf and Israel.

Emerging Market local-currency sovereign bonds returned 10.6% and hard-currency sovereign bonds returned 4.4% year-to-date, supported by policy easing in over 30 large EMs.

The US Investment-Grade Corporate yield is 5.18% and High-Yield Corporate yield is 7.37%, showing current credit risk premiums, while the US Aggregate fixed income return year-to-date is 2.8%.

Persistent inflation, geopolitical risk, and policy divergence sustain bond market volatility

Near-term bond market sentiment depends on the Fed’s updated stance, with Powell’s testimony expected to guide Treasury yields.

While safe-haven demand normally lowers US government bond yields, worries about higher oil prices and US inflation expectations may offset this effect.

The US effective tariff rate rose to 8% in May 2025 from 2.5% in March, pushing the PMI input price index up to 66 from 56 in 2024, which may constrain Fed rate cuts.

The PCE forecast is rising to 3.0% by year-end, up from 2.7% in March, adding upward bias to yields.

Credit default swaps have risen in the Gulf and Israel, pointing to higher debt costs and spread widening risks for MENA sovereigns and corporates.

Loan delinquencies are rising in Canada alongside a softening labour market, pressuring future spending and increasing spread risk for Canadian bonds.

The UK 10-Year yield is 4.495%, down 15.2 basis points month-to-date but up 44.7 basis points over the past year, indicating ongoing duration risk.

Bond investors should favour inflation-linked, short-duration, and EM opportunities

UK Gilts and Emerging Market local-currency bonds are recommended after any USD short squeeze for tactical yield opportunities.

US inflation-protected bonds (TIPS) are advised to mitigate the risk of a sharp rebound in inflation expectations.

Emerging Market local-currency sovereign debt delivered 10.6% year-to-date returns, supported by ongoing monetary easing and FX appreciation.

Hard-currency sovereign bonds in EMs returned 4.4% year-to-date and remain attractive for high carry with resilient fundamentals.

Investors should reduce duration risk in US and Eurozone sovereigns by rotating into short to intermediate maturities or using floating-rate notes, as yields could rise by 30–50 basis points.

US Investment-Grade Corporate yields stand at 5.18%, offering a balanced carry with moderate risk compared to High-Yield Corporate yields at 7.37%.

Select Canadian short-to-intermediate sovereigns and provincial or municipal bonds are preferred for stable real yield pick-up and robust fiscal backstops.

Oil-driven inflation and persistent supply shocks raise duration and spread risk across bonds, reinforcing a preference for short-duration sovereigns, TIPS, investment-grade credit, and resilient EM local debt

Currency movements reflect energy exposure, policy paths, and regional risk dynamics

The USD/SGD is 1.2850, down -5.9% year-to-date and -4.9% over one year, showing significant SGD strength against the US dollar.

The US Dollar Index is down -8.9% year-to-date, supporting this trend.

CAD/USD is up 5.0% year-to-date, and NOK shows high correlation to oil prices, implying CAD/SGD and NOK/SGD benefit from oil price surges.

More than 30 large Emerging Markets have seen an average 4.1% FX appreciation since the start of the year, indicating stronger regional currencies relative to the SGD.

The New Israeli Shekel lost 3.5% initially after airstrikes but regained much of the decline, while the Iranian rial fell around 10%, highlighting Middle Eastern FX instability compared to the SGD’s stability.

USD/JPY is at 145.10, down -7.7% year-to-date, showing yen appreciation that affects SGD/JPY.

EUR/USD is up 10.9% year-to-date, implying increased EUR/SGD volatility given diverging policy paths and European resilience.

Policy divergence and energy volatility drive short-term FX trends against the SGD

A jump in oil prices poses a risk to US inflation expectations and limits room for Fed interest rate cuts, supporting a stronger USD and lifting USD/SGD.

CAD and NOK are positively correlated to oil prices, making CAD/SGD and NOK/SGD likely to strengthen with higher oil.

Oil importers in Asia, including Singapore, face greater challenges from sustained high oil prices, creating downside for SGD against commodity-linked currencies.

The US 10-year borrowing rate has risen by nearly 75 basis points to around 4.4%, and US tariffs rose sharply, boosting ASEAN and India exports, which supports regional currencies relative to the SGD.

More than 30 large EMs are easing monetary policy while the US is expected to ease by 100 basis points by end-2026, highlighting policy divergence that can affect SGD performance.

Credit risk premiums have increased in Gulf states and Israel, contrasting with Singapore's robust liquidity, which supports SGD stability.

The PCE forecast rising to 3.0% by year-end and UK 10-Year yield at 4.495% show stronger yields abroad that may influence SGD movements against the GBP and USD.

Tactical FX allocations should include USD, oil-linked currencies, and EM carry trades

A short-term USD squeeze is expected, making a tactical long USD/SGD position attractive until the USD index tests its 50-day moving average at 99.48.

CAD and NOK offer a more direct hedge against an oil price surge, supporting CAD/SGD and NOK/SGD as energy prices remain elevated.

Emerging Market local-currency sovereign debt delivered 10.6% year-to-date returns, indicating selective EM FX such as MYR, IDR, and THB provide good carry versus SGD.

The euro's 10.9% year-to-date gain suggests EUR/SGD strength may present hedging or profit-taking opportunities if ECB policy shifts.

USD/JPY at 145.10, down -7.7% year-to-date, supports holding JPY selectively for rate and geopolitical shock hedging.

USD/CAD at 1.3693, down -4.8% year-to-date, reflects Canada's strong commodity fundamentals, making CAD assets appealing for diversification.

Gold is up 28.2% year-to-date, highlighting that pairing FX exposure with precious metals can provide stability for SGD holders.

A stronger SGD, oil-sensitive CAD and NOK, and selective EM and gold allocations offer currency and commodity hedges amid volatile rates and regional policy divergence

Gold outperforms amid inflation volatility, geopolitical tension, and energy tightness

Gold (spot) is at $3,365.28 per ounce, up 28.2% year-to-date, 44.5% year-on-year, and 71.9% over two years, showing strong sustained momentum as a hedge for SGD holders.

Oil prices rose over 5% initially but gave up half of these gains, while WTI spot is at $74.97, up 23.3% month-to-date, highlighting high commodity price volatility that influences gold's inflation hedge demand.

The WTI oil prices vs. US 10-year inflation expectation graph shows that oil spikes proportionally raise inflation expectations, indirectly supporting gold prices in SGD terms.

Brent crude jumped about 20% above early June levels and could exceed USD 100/bbl if the Strait of Hormuz is blocked, lifting stagflation fears that increase gold's appeal.

Figure 9 shows Natural Gas up 17.4% year-to-date and gold among top global performers, confirming its role as a key diversification hedge.

Dubai and Abu Dhabi equity market drops of 5% and 3.5% after airstrikes suggest regional capital shifts into physical gold, affecting global flows that influence SGD gold exposure.

Silver is up 11.3% month-to-date and 27.0% year-to-date, showing complementary trends with higher speculative volatility than gold.

Global inflation and conflict reinforce gold's strategic role in SGD-based portfolios

Any jump in oil prices poses a risk to US inflation expectations and limits room for Fed interest rate cuts, driving up gold demand as an inflation hedge and supporting its performance in SGD terms.

Historical patterns confirm that oil surges spike inflation, which boosts gold's role as a hedge for SGD investors balancing local cost pressures.

An aggressive Iranian response could push oil above USD 100 per barrel, triggering safe haven flows into gold despite broader risk asset sell-offs.

The PCE inflation forecast has been revised up to 3.0% by year-end, and 45% of firms in the ISM Services survey reported higher prices, reinforcing pipeline inflation and gold's store-of-value appeal.

More than 30 large Emerging Markets will ease monetary policy in the second half of 2025, supporting global liquidity and lowering the opportunity cost of holding gold for SGD portfolios.

Credit default swaps rose since the airstrikes on 13 June, heightening sovereign risk and safe haven demand for gold.

Figure 9 shows gold as one of the top performing global assets year-to-date alongside energy commodities, confirming its resilience in volatile conditions for SGD-based holdings.

Gold remains the core hedge while complementary assets support inflation protection

Gold is up 28.2% year-to-date and 44.5% year-on-year, supporting its role as a core commodity hedge for SGD investors.

Figure 9 confirms gold as one of the few commodities delivering double-digit returns, alongside select Emerging Market local debt.

Gold, oil-linked currencies like CAD and NOK, and US TIPS bonds are recommended as hedges against geopolitical oil spikes.

Brent spot is up 19.6% month-to-date, indicating sustained inflation pressure that reinforces gold's appeal.

SGD holders are advised to use liquid gold ETFs hedged in SGD or hold physical gold locally for proven performance and liquidity.

Silver is up 27.0% year-to-date and 24.2% year-on-year, offering tactical upside but with higher volatility than gold.

Ongoing MENA tensions and persistent supply-side risks support maintaining gold as the primary hedge, complemented by selective energy commodities.