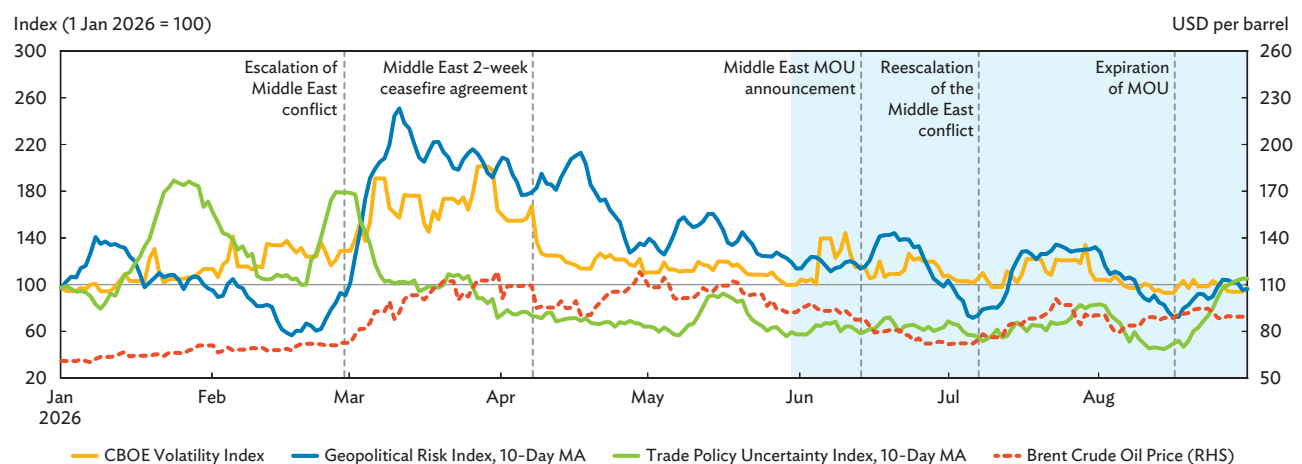


Developments in Regional Financial Conditions

Financial conditions in emerging East Asia remained tight between 1 June and 31 August, despite a modest improvement in investor sentiment.¹ Market volatility and geopolitical risks eased slightly, although global uncertainty remained elevated. Regional financial markets closely tracked external developments—especially the Middle East conflict, and expectations for the path of United States (US) monetary policy—while market-specific factors produced divergent outcomes. Oil prices declined as Middle East tensions eased following the framework agreement signed on 14 June. However, renewed uncertainty surrounding the conflict led to a temporary rebound in oil prices and geopolitical risks in July before sentiment improved again in August. Overall, while oil prices remained elevated, geopolitical risks, market volatility, and trade uncertainty all stayed close to their levels at the beginning of the year (**Figure A**).

Bond yields in emerging East Asia continued to rise in most regional markets on persistent uncertainty over oil prices and inflation, higher yields in advanced economies, cautious monetary policy stances—as regional central banks balanced inflationary pressures against growth concerns—and expectations of monetary tightening in advanced economies (**Table A**). As geopolitical risks receded and investor sentiment improved, risk premia—measured by credit default swap spreads—narrowed, and most regional equity markets recorded gains. Regional currencies were mostly stable against the US dollar, while market-specific factors drove exchange rate movements and portfolio flows. The outlook for regional financial conditions is subject to several risks. On the upside, continued artificial intelligence (AI)-related investment and easing inflation would support financial conditions. On the downside, uncertainty surrounding geopolitical

Figure A: Geopolitical Risk, Market Volatility, and Oil Prices



CBOE = Chicago Board Options Exchange, MA = moving average, MOU = memorandum of understanding, RHS = right-hand side, USD = United States dollar.

Note: Data as of 31 August 2026.

Sources: Bloomberg LP, Geopolitical Risk Index, and Trade Policy Uncertainty Index (accessed 25 August 2026); Caldara, D. et al. 2020. The Economic Effects of Trade Policy Uncertainty. *Journal of Monetary Economics*. 109. pp. 38–59; Caldara, D., and M. Iacoviello. 2022. Measuring Geopolitical Risk. *American Economic Review*. 112 (4). pp. 1194–1225.

¹ Emerging East Asia and “the region” are defined in the *Asia Bond Monitor* (ABM) to include the member states of the Association of Southeast Asian Nations plus the People’s Republic of China; Hong Kong, China; and the Republic of Korea. The review period for the September edition of the ABM was from 1 June to 31 August, following the June issue.

Table A: Changes in Financial Conditions in Major Advanced Economies and Emerging East Asia (1 June–31 August 2026)

	2-Year Government Bond Yield (bps)	10-Year Government Bond Yield (bps)	5-Year Credit Default Swap Spread (bps)	Equity Index (%)	FX Rate (%)
Major Advanced Economies					
Euro Area	31	32	–	6.4	(0.1)
Japan	33	27	(3)	5.2	(0.1)
United States	31	30	–	1.1	–
Select Emerging East Asian Markets					
People's Republic of China	3	(1)	(4)	(1.8)	0.7
Hong Kong, China	44	29	–	0.7	(0.01)
Indonesia	3	20	(4)	6.5	0.9
Republic of Korea	1	13	(0.6)	(22.4)	10.6
Malaysia	8	28	(1)	2.5	(1.5)
Philippines	(48)	(23)	(8)	2.7	(0.8)
Singapore	18	32	–	14.2	0.6
Thailand	(6)	(11)	(8)	1.7	(1.9)
Viet Nam	24	12	(4)	(0.7)	0.9

() = negative, – = not available, bps = basis points, FX = foreign exchange.

Note: FX rates are presented against the United States dollar. A positive (negative) value for the FX rate indicates the appreciation (depreciation) of the local currency against the United States dollar.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

developments and trade policy, a repricing of AI-related equity valuations, and energy- and weather-related disruptions could amplify financial market volatility and weaken investor sentiment.

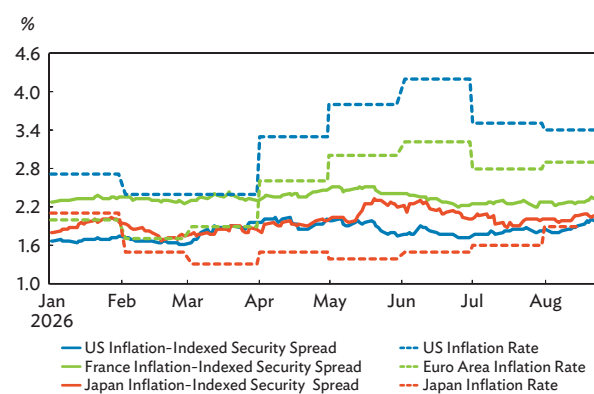
Bond Yields and Economic Performance in Major Advanced Economies

Bond yields in major advanced economies edged up as inflationary pressures persisted over uncertainty around the Middle East conflict, while fiscal positions became increasingly strained.² Despite the decline in oil prices, inflation expectations, measured by inflation-indexed bond yield spreads, remained elevated (**Figure B**).

United States

In the US, bond yields rose during the review period on expectations of persistent inflation, hawkish signals from the Federal Reserve (Fed), crowding-out pressures from AI-driven investment demand, and rising [fiscal challenges](#). Consumer price inflation continued to ease, declining to 3.4% year-on-year (y-o-y) in July

Figure B: Daily 10-Year Inflation-Indexed Security Spreads Versus Monthly Inflation Rate



US = United States.

Source: Bloomberg LP.

and 3.5% in June from 4.2% in May, partly reflecting lower oil prices. Nevertheless, inflation expectations remained elevated. At the June Federal Open Market Committee (FOMC) meeting, while the federal funds rate target range was left unchanged at 3.50%–3.75%, inflation forecasts were raised. In the updated economic projections in June, the median Personal Consumption

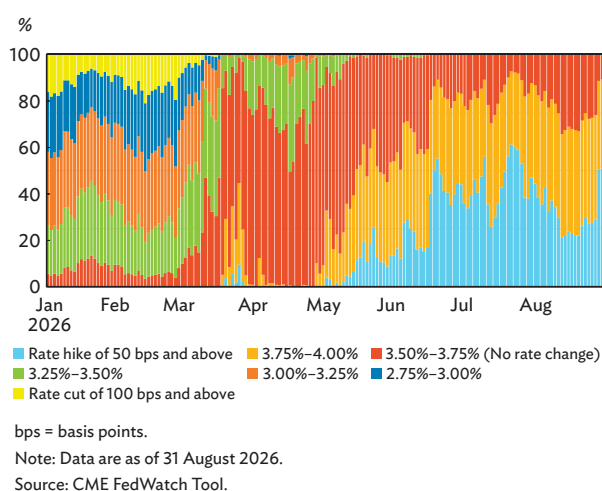
² A box article in the September 2026 edition of ADB's *Asian Development Outlook* report (forthcoming, Box 1.4.1) discusses how fiscal and inflation concerns in major advanced economies have heightened global bond market stress, which shaped financial conditions in developing Asia and the Pacific.

Expenditures inflation forecasts for 2026 and 2027 were revised to 3.6% and 2.3%, respectively, from 2.7% and 2.2% in March. Hawkish signals from the FOMC intensified at the July meeting. While the Fed again kept the policy rate unchanged, three members dissented in favor of a 25-basis points (bps) rate hike, in contrast to the unanimous decision in June. Several Fed officials subsequently emphasized elevated inflation risks, reinforcing expectations that US interest rates could remain higher for longer.³ The yield on 30-year US Treasuries rose following the release of July budget deficit, reaching 5.31% on 17 August, its highest since 2007. On 19 August, the US Treasury Department announced expanded long-dated bond buybacks to support market liquidity. Higher bond yields were also related to hawkish signals from the Fed. On 28 August, at the Jackson Hole economic policy symposium, Fed Chair Kevin Warsh noted that inflation remains above the Fed's target and the upward trend in inflation has not yet abated despite recent cooler inflation readings. Markets largely interpreted his speech as more hawkish.

The US economy has shown some signs of weakness, with labor market conditions remaining firm. Real gross domestic product (GDP) growth moderated to an annualized rate of 1.5% in the second quarter (Q2) of 2026 from 2.1% in the first quarter (Q1), while falling below the market forecast of 2.0%. In the June updated economic projections, the Fed revised its 2026 GDP growth forecast down to 2.2% from 2.4% in March, while keeping the 2027 forecast unchanged at 2.3% and revising upward the 2028 forecast to 2.2% from 2.1%. Industrial production remained subdued, gaining 0.2% month-on-month in July, 0.3% in June, and 0.0% in May from 0.8% in April. The S&P Global US Manufacturing Purchasing Managers' Index (PMI), while remaining in expansionary territory above 50, declined to 53.9 in August, July, and June from 55.1 in May. However, labor market conditions showed signs of firming, with nonfarm payroll employment rising by 162,000 in August, exceeding market expectations of 55,000. This followed increases of 21,000 in July, 31,000 in June, and 63,000 in May. Meanwhile, the unemployment rate remained at 4.1% in August, unchanged from July, but lower than the 4.2% and 4.3% recorded in June and May, respectively.

Expectations of persistent inflation and emerging signs of weaker economic growth increased uncertainty over the pace of US monetary policy tightening. At the June FOMC meeting, the median projected federal funds rate for the end of 2026 was raised to 3.8% from 3.4% in March, signaling expectations of tighter monetary policy. Market expectations, however, have shifted considerably. Based on CME FedWatch probabilities, the market expected monetary tightening by the end of 2026, with the pace of tightening varying substantially. As Middle East tensions intensified and oil prices rose in July, inflation concerns increased and expectations of more aggressive Fed tightening strengthened. The probability of two or more rate hikes this year surged to 61.3% on 23 July from 13.3% on 1 June, while the probability of one rate hike declined to 31.5% from 40.2% (**Figure C**). By 24 August, however, moderating inflation and weakening economic data, had reduced expectations of aggressive tightening: The probability of two or more rate hikes fell to 30.0%, while that of one rate hike rose to 44.8%. After the Fed Chair's Jackson Hole speech, the probability of two or more rate hikes this year rose to 51.0% and the chance of one rate hike fell to 38.5% as of 31 August. In addition, the probability of a rate hike at the Fed's September meeting rose

Figure C: Market-Implied Probabilities of Federal Funds Rate Hikes by the End of 2026



³ For example, Fed Bank of Philadelphia President [Anna Paulson](#) indicated on 4 August that the current policy rate was appropriate but stressed the need for further progress on inflation, while remaining open to future rate adjustments. On 5 August, Fed Bank of Minneapolis President [Neel Kashkari](#) said that now is the time for the Fed to start raising rates. On 6 August, Fed Governor [Lisa Cook](#) noted that the upside risks of inflation are higher than the downside risks to unemployment. On the same day, Fed Bank of Kansas President [Jeffrey Schmid](#) stated that tighter monetary policy may be needed. On 10 August, Fed Bank of Cleveland President [Beth Hammack](#) said that multiple rate hikes were needed to contain inflation.

from 41.4% on 24 August to 65.4% on 31 August. At its 15–16 September meeting, the Fed subsequently raised the policy rate by 25 bps, bringing the target range to 3.75%–4.00%.

Euro Area

Bond yields in the euro area rose over persistent inflation concerns and hawkish signals from the European Central Bank (ECB). At its June meeting, the ECB raised its three key policy rates by 25 bps, largely reflecting inflationary pressures stemming from the Middle East conflict. The ECB also revised its headline inflation projections for 2026 and 2027 up to 3.0% and 2.3%, respectively, from 2.6% and 2.0% in March, reflecting higher projected energy prices and their expected pass-through to broader prices. At its 23 July meeting, the ECB kept policy rates unchanged but maintained a hawkish tone, noting that uncertainty remained high and that the full inflationary impact of the energy shock had yet to pass through to the broad economy. Euro area inflation eased to 2.8% y-o-y in June from 3.2% in May, before edging up to 3.3% in August and 2.9% in July, partly reflecting renewed energy price pressures. Several ECB officials also signaled a hawkish monetary stance after the July meeting.⁴ The market expected further monetary tightening. By 31 August, swaps implied a 98.1% probability of a rate hike in September, while a rate hike by October was fully priced in. As widely expected, the ECB raised its key policy rates by 25 bps on 10 September. The ECB noted that inflation continues to remain elevated and that conflict in the Middle East is adding inflationary pressures. Meanwhile, the growth outlook has improved.

Economic activity in the euro area has remained resilient in 2026. GDP growth strengthened to 1.2% y-o-y in Q2 2026 from 0.6% in Q1. On a quarter-on-quarter basis, GDP grew by 0.6% in Q2 and 0.0% in Q1. Labor market conditions remained stable, with the unemployment rate at around 6.4% from March through July based on the latest revised estimates. The S&P Global Eurozone Manufacturing PMI remained in expansionary territory, rising to 52.7 in August and 51.9 in July from 51.4 in June and 51.6 in May. In its June projections, the ECB revised down its GDP growth forecasts for 2026 and 2027 to 0.8% and 1.2%, respectively, from 0.9% and

1.3%, reflecting the more pronounced impact of the Middle East conflict on commodity markets, real incomes, and confidence.

Japan

In Japan, government bond yields rose over the hawkish stance of the central bank and growing fiscal pressure. At its June meeting, the Bank of Japan (BOJ) raised the policy rate by 25 bps to around 1.0%, as the economy continued to recover moderately despite some weakness associated with the Middle East conflict. At its July meeting, the BOJ kept the policy rate unchanged at 1.0% but maintained a hawkish stance, hinting that it would continue to raise the policy rate and reduce monetary accommodation as warranted by developments in economic activity, prices, and financial conditions. As of 15 August, the market was pricing a 79.6% chance of a rate hike in September and the 100.0% likelihood of a hike by October. Headline inflation remained below the BOJ's 2% target at 1.9% y-o-y in July and 1.6% in June from 1.5% in May, partly due to government measures to reduce household energy costs. In its July Outlook Report, the BOJ lowered its fiscal year (FY) 2026 inflation forecast to 2.5% from 2.8% in April, largely reflecting government subsidies for electricity and gas charges, while raising its FY2027 inflation forecast to 2.4% from 2.3%. The FY2028 forecast was unchanged at 2.0%. At the same time, the BOJ noted that underlying inflation was approaching 2% and risks to the inflation outlook were skewed to the upside.

Recent economic data indicated that Japan's economy remained broadly resilient. GDP growth weakened to an annualized 1.4% in Q2 2026 from 1.8% in the previous quarter on weakened consumer spending and public investment. Manufacturing activity remained solid, with the S&P Global Japan Manufacturing PMI remaining in expansionary territory at 54.9 in August, 54.5 in July, and 54.8 in June, compared with 54.5 in May. Industrial production also strengthened, rising 4.1% y-o-y in July and 4.9% in June following a contraction in May of –2.1%. In its July Outlook Report, the BOJ raised its FY2026 and FY2027 GDP growth forecasts to 0.6% and 0.8%, respectively, from 0.5% and 0.7% in April. In addition to expectations of further monetary tightening, Japanese government bond yields face upward pressure from fiscal expansion plans. The government announced a reduction

⁴ For example, De Nederlandsche Bank President [Olaf Sleijpen](#) noted on 23 July that the ECB could still raise rates in September even if no second-round inflation effects appeared. On 27 July, National Bank of Slovakia President [Peter Kazimir](#) stated that one more rate hike is needed.

in the consumption tax on 28 July and subsequently passed legislation on 5 August lowering the consumption tax on food and nonalcoholic beverages from 8% to 1% starting in April 2027. These measures could reduce government revenue, further straining Japan's fiscal position.

Japanese authorities' efforts to support the weakening yen—including direct foreign exchange intervention and measures to encourage investment in domestic assets—and expectations of monetary policy tightening by the BOJ helped stabilize the currency, as reflected in the yen's 2.2% appreciation versus the dollar from 1 June to 4 September. With the yen reaching a 40-year low of JPY162.6 per dollar on 30 June, [Finance Minister Satsuki Katayama](#) introduced plans on 14 July to help increase domestic investment in bonds—such as encouraging pension fund investments and a tax-free retail program—to support the domestic currency. A coordinated [Japan–US](#) foreign exchange intervention took place at the end of July to further support the yen. These measures led the yen to appreciate 3.3% off its recent lows, reaching JPY157.2 per dollar on 3 August. Nevertheless, depreciation pressures on the yen remained given the sustained interest rate differential between Japan and the US, as well as the strained fiscal position in Japan. As a result, the yen moved back toward the JPY160 per dollar level in August. The yen strengthened somewhat in early September as market expectations of a rate hike increased. At its September 17–18 meeting, the Bank of Japan raised its policy rate by 25 basis points to 1.25%.

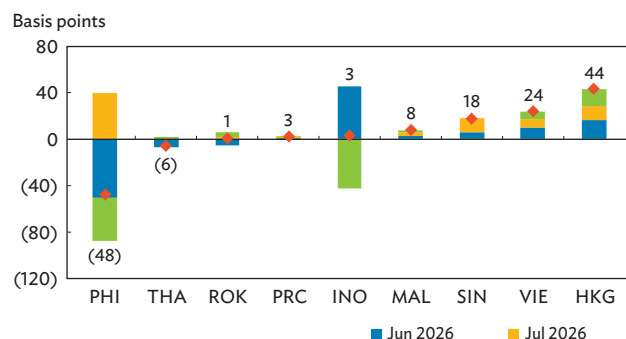
Financial Condition Developments in Emerging East Asian Economies

Emerging East Asian bond yields rose in most markets from 1 June to 31 August over inflationary pressures, rate hikes by several regional central banks, expectations of monetary tightening in advanced economies, and spillovers from higher yields in advanced economy bond markets. Yield movements varied across the region's economies, tracking domestic factors (**Figure D**). Hong Kong, China and Singapore recorded the largest increases in 2-year and 10-year bond yields, respectively. Hong Kong, China's yields broadly tracked rising US Treasury yields, while the increase in Singapore's longer-term yields reflected higher global yields as well as robust domestic growth and monetary policy tightening in July. Indonesia also saw a large yield increase in June, reflecting the cumulative 50 bps rate hike by Bank Indonesia (BI). Yields subsequently declined in August, driven by robust [foreign inflows](#) after the introduction of hedging incentives to attract capital flows and improved market sentiment following BI's decision to leave policy rates unchanged in July and August.

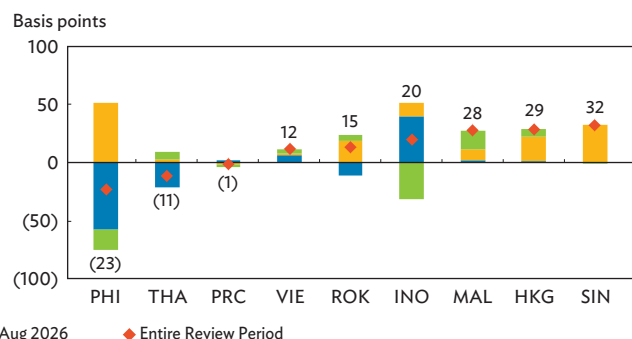
Both 2-year and 10-year government bond yields declined in the Philippines and Thailand. In the Philippines, yields declined despite rate hikes in June and August as lower geopolitical risks eased inflation concerns and weak domestic data tempered

Figure D: Local Currency Government Bond Yields in Emerging East Asia

A. 2-Year Government Bond Yields



B. 10-Year Government Bond Yields



() = negative; HKG = Hong Kong, China; INO = Indonesia; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; ROK = Republic of Korea; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Note: The numbers above (below) each bar refer to the change in spread between 1 June 2026 and 31 August 2026.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

expectations of further monetary tightening. In Thailand, yields declined on limited expectations of near-term monetary tightening. The Bank of Thailand (BOT) kept its policy rate unchanged in June and August, indicating that there was no immediate need to raise rates. Headline inflation eased to 1.9% in July from 2.4% in June and 2.8% in May, remaining within the BOT's 1%–3% target range.

Several regional central banks tightened monetary policy during the review period in response to inflationary and currency pressures (**Table B**):

- In June, BI raised its policy rate twice by a cumulative 50 bps to strengthen rupiah stability and contain inflation risks. Later, BI kept the policy rate unchanged at its July and August meetings, while expanding incentives to attract foreign portfolio inflows and support rupiah stability.
- The Bank of Korea (BOK) raised its Base Rate by 25 bps in both July and August, as economic growth strengthened and inflation was expected to remain above its 2% target in the near term. The BOK also raised its 2026 GDP forecast to 3.3% y-o-y from 2.6% in May. Its 2026 inflation forecast remained unchanged at 2.7% y-o-y.

- The Monetary Authority of Singapore slightly increased the rate of appreciation of the Singapore dollar nominal effective exchange rate band on 27 July, marking a second consecutive tightening following its April move, on continued inflation risks.
- The Bangko Sentral ng Pilipinas raised its policy rate by 25 bps each in June and August, noting in its August meeting that seasonal weather conditions were adding further inflationary pressures. The Philippines' headline inflation eased to 6.2% y-o-y in July from 6.4% in June, while Q2 GDP growth moderated to 2.3% y-o-y, its slowest pace since 2021.
- Other major central banks in the region maintained their respective rates. Hong Kong, China left policy rates unchanged, largely tracking the Fed. Meanwhile, the People's Bank of China, Bank Negara Malaysia, BOT, and State Bank of Vietnam kept their respective rates, balancing support for growth against inflation and macroeconomic stability considerations. Most regional economies witnessed disinflation in June and July as energy price pressures moderated following easing geopolitical risks (**Figure E**).

Expected monetary policy paths through the end of 2026 remained divergent, reflecting differences in domestic inflation, growth, and financial conditions (**Figure F**).

Table B: Changes in Policy Rates in Major Advanced Economies and Select Emerging East Asian Markets

Economy	Policy Rate 1-Aug-2025 (%)	Rate Change (%)												Policy Rate 31-Aug-2026 (%)	Change in Policy Rates (basis points)
		Aug- 2025	Sep- 2025	Oct- 2025	Nov- 2025	Dec- 2025	Jan- 2026	Feb- 2026	Mar- 2026	Apr- 2026	May- 2026	Jun- 2026	Jul- 2026	Aug- 2026	
Euro Area	2.00											↑0.25		2.25	↑ 25
Japan	0.50					0.25						↑0.25		1.00	↑ 50
United Kingdom	4.25	↓0.25				↓0.25								3.75	↓ 50
United States	4.50		↓0.25	↓0.25		↓0.25								3.75	↓ 75
People's Republic of China	1.40													1.40	◆ 0
Indonesia	5.25	↓0.25	↓0.25								↑0.50	↑0.50		5.75	↑ 50
Republic of Korea	2.50												↑0.25	3.00	↑ 50
Malaysia	2.75													2.75	◆ 0
Philippines	5.25	↓0.25		↓0.25		↓0.25		↓0.25		↑0.25		↑0.25	↑0.25	5.00	↓ 25
Singapore	–									↑			↑	–	–
Thailand	1.75	↓0.25				↓0.25		↓0.25						1.00	↓ 75
Viet Nam	4.50													4.50	◆ 0

– = no data.

Notes:

1. Data coverage is from 1 August 2025 to 31 August 2026.

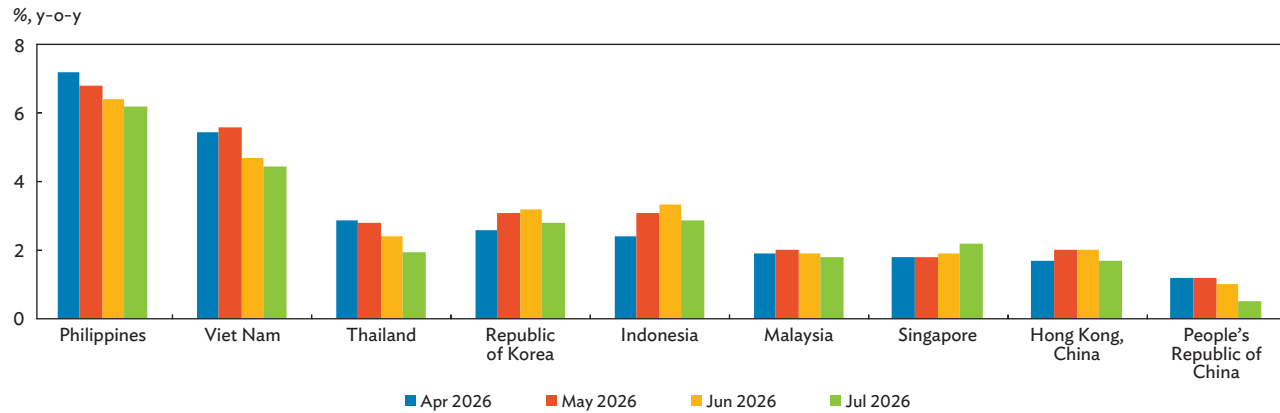
2. For the People's Republic of China, the data used in the chart are for the 7-day reverse repurchase rate.

3. For the United States, the upper bound of the policy rate target range is reported on the table.

4. An arrow up (down) indicates a policy rate hike (cut). A diamond indicates no change in the policy rate.

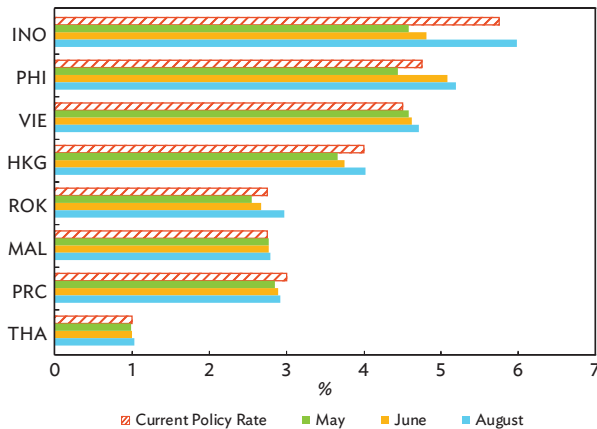
5. The up (down) arrow for Singapore signifies monetary policy tightening (loosening) by its central bank. The Monetary Authority of Singapore utilizes the Singapore dollar nominal effective exchange rate to guide its monetary policy.

Sources: Various central bank websites.

Figure E: Inflation in Emerging East Asian Markets


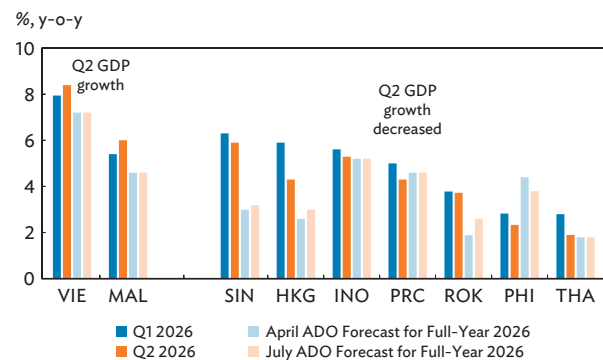
y-o-y = year-on-year.

Sources: Various local sources.

Figure F: Policy Rate Forecasts by End of 2026


HKG = Hong Kong, China; INO = Indonesia; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; ROK = Republic of Korea; THA = Thailand; VIE = Viet Nam.

Source: FocusEconomics.

Figure G: Gross Domestic Product Growth in Emerging East Asian Economies (y-o-y, %)


ADO = Asian Development Outlook; GDP = gross domestic product; HKG = Hong Kong, China; INO = Indonesia; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; Q1 = first quarter; Q2 = second quarter; ROK = Republic of Korea; SIN = Singapore; THA = Thailand; VIE = Viet Nam; y-o-y = year-on-year.

Note: Forecasts for 2026 are based on the April 2026 and July 2026 issues of the Asian Development Outlook.

Sources: Various local sources.

FocusEconomics forecasts pointed to scope for further tightening in several regional economies, such as in the Philippines and Indonesia, where the current policy rate is lower than the expected policy rate level at the end of 2026. Policy rates in other markets were expected to remain broadly unchanged. For example, forecasts expected the BOT policy rate to remain at 1.00% through the end of 2026 and for Bank Negara Malaysia to keep its policy rate unchanged.

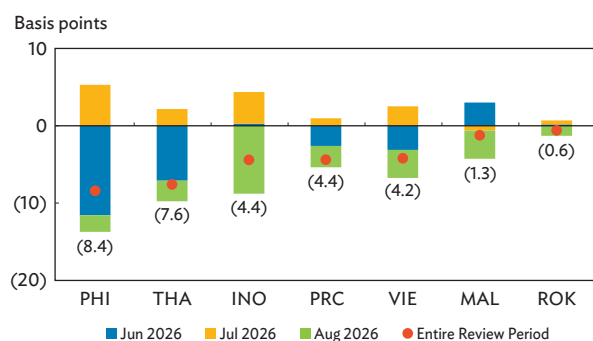
Economic growth moderated in several regional economies as persistent global uncertainties weighed on economic activity (Figure G). GDP growth in

Hong Kong, China moderated to 4.3% y-o-y in Q2 2026 from 5.9% in Q1, reflecting slower growth in private consumption and fixed investment. Thailand's GDP growth decelerated to 1.9% y-o-y in Q2 from 2.8% in Q1 due to a slower pace of expansion in private consumption, government spending, and fixed investment. In the People's Republic of China (PRC), economic growth eased to 4.3% y-o-y in Q2 from 5.0% in Q1 as weak domestic demand and the continued downturn in the property sector weighed on activity. Singapore's GDP growth moderated to 5.9% y-o-y in Q2 from 6.3% in Q1.

The slowdown reflected slower expansion in construction, wholesale trade, retail trade, and accommodations, while the food and beverage services sector contracted. Viet Nam remained the region's fastest-growing economy, with GDP growth accelerating to 8.4% y-o-y in Q2 from 7.9% in Q1, supported by broad-based gains across sectors. Industry and construction expanded by 10.5% y-o-y in Q2. Full-year growth projections for 2026 were mostly unchanged for most regional economies in the July 2026 *Asian Development Outlook* compared with the April forecasts. In contrast, forecasts were revised up for Hong Kong, China; the Republic of Korea; and Singapore—reflecting stronger-than-expected demand for AI-related electronics and semiconductors. The Philippines' growth forecast was revised down on delayed investment and weak private consumption. Similarly, on 24 August, [Moody's Analytics](#) downgraded its 2026 Philippine GDP growth forecast to 3.0% (from 4.0% in June).

Improved investor sentiment contributed to a narrowing of risk premia across all regional economies (**Figure H**). Credit default swap (CDS) spreads narrowed in all regional markets from 1 June to 31 August, by a GDP-weighted average of 4 bps, as Middle East tensions eased. The Philippines recorded the largest narrowing in risk premia as easing geopolitical tensions and declining inflation supported investor confidence.

Figure H: Changes in Credit Default Swap Spreads in Emerging East Asian Markets (senior 5-year)



() = negative, INO = Indonesia, MAL = Malaysia, PHI = Philippines, PRC = People's Republic of China, ROK = Republic of Korea, THA = Thailand, VIE = Viet Nam.

Notes:

1. Data coverage is from 1 June 2026 to 31 August 2026.
2. The numbers above (below) each bar refer to the change in spreads during the entire review period.

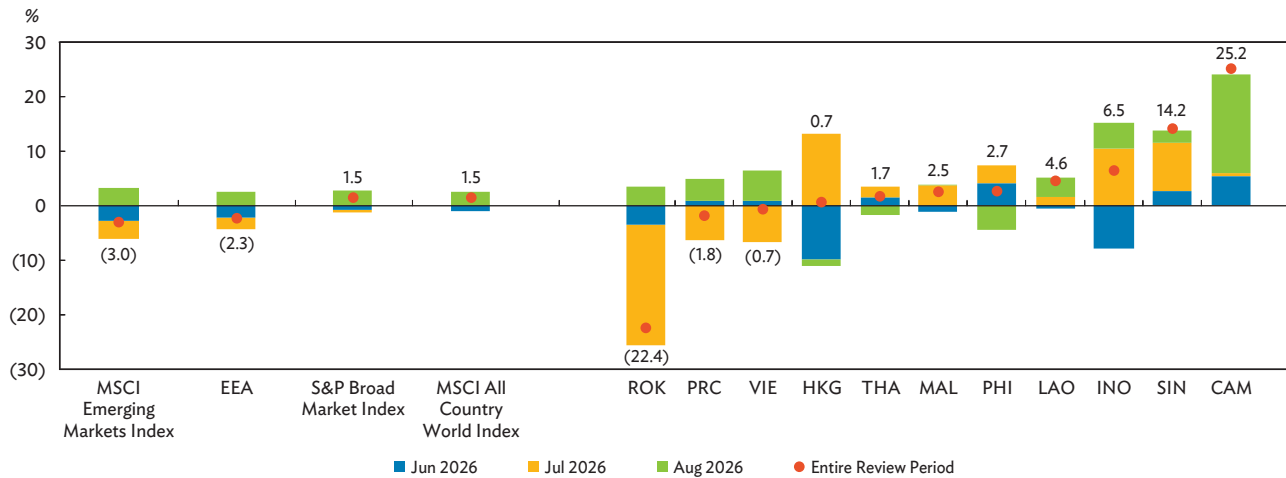
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Despite improved sentiment, regional equity markets underperformed major global benchmark indexes but still outperformed global emerging markets. Regional equity markets recorded a market-weighted average loss of 2.3% between 1 June and 31 August, compared with a gain of 1.5% in both the S&P Broad Market Index and the MSCI All Country World Index (**Figure I**). The region's equity performance was partly dragged down by markets in the Republic of Korea (–22.4%), on sell-offs in AI-related stocks, and in the PRC (–1.8%) over a weakened growth outlook. In the Republic of Korea, stock declines were magnified by the use of leveraged [exchange-traded funds](#), while in the PRC, concerns over slower economic growth and weak domestic demand added to downward pressure on equities.

Most ASEAN equity markets advanced, with a weighted average return of 6.2% from 1 June to 31 August, supported by market-specific factors. Cambodia and Singapore recorded relatively larger returns (**Figure I**). Cambodia's equity market surged on stronger [retail investor](#) participation after the Cambodia Securities Exchange made its trading platform more accessible. Singapore's strong performance was supported by robust [bank earnings](#) and stronger-than-expected GDP [growth](#) in Q2. Ongoing equity market development measures also contributed to the gain as the Singapore Exchange introduced a new [post-trade custody](#) structure, effective from mid-July, to facilitate international investor access and lower barriers to retail participation. Viet Nam was the only ASEAN market to record a loss, as a sharp market correction in July was exacerbated by [margin calls](#) and forced selling due to elevated margin lending.

Tracking the performance of regional equity markets, foreign investors withdrew a combined USD68.1 billion from regional equity markets from 1 June to 31 August. The outflows were heavily concentrated in the Republic of Korea and the PRC (**Figure J**). The Republic of Korea recorded the largest net outflows at USD45.4 billion. Foreign selling was particularly strong in June as investors reduced exposure to tech stocks over growing concerns about AI spending and related cash flows, with the selling continuing in July. The PRC recorded outflows of USD21.5 billion, largely driven by weak equity market performance. In contrast, foreign flows in ASEAN markets were mixed following market-specific conditions, with combined net outflows of about USD1.3 billion. Indonesia recorded net

Figure I: Equity Performance in Emerging East Asian Markets



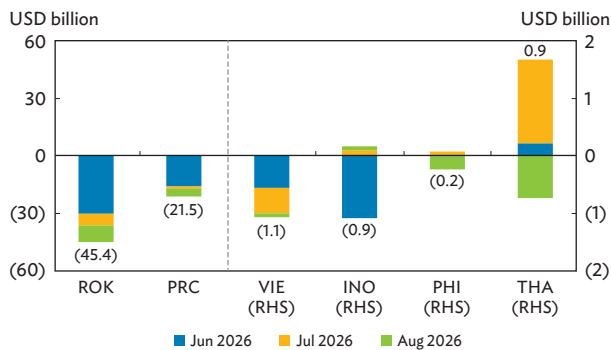
() = negative; CAM = Cambodia; EEA = emerging East Asia; HKG = Hong Kong, China; INO = Indonesia; LAO = Lao People's Democratic Republic; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; RHS = right-hand side; ROK = Republic of Korea; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Notes:

1. Data coverage is from 1 June 2026 to 31 August 2026.
2. Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.
3. The numbers above (below) each bar refer to the percentage change during the entire review period.
4. The MSCI All Country World Index covers large- and mid-cap equities across developed and emerging markets, representing about 85% of global investable equities. The MSCI Emerging Markets Index covers large- and mid-cap equities across emerging markets, covering roughly 85% of free-float-adjusted market capitalization in each market. The S&P Global Broad Market Index is a float-adjusted, market-capitalization-weighted index that tracks the performance of over 14,000 equities across developed and emerging markets.

Source: AsianBondsOnline computations based on Bloomberg LP data.

Figure J: Foreign Portfolio Flows in Emerging East Asian Equity Markets



() = negative, INO = Indonesia, PHI = Philippines, PRC = People's Republic of China, ROK = Republic of Korea, THA = Thailand, VIE = Viet Nam, USD = United States dollar.

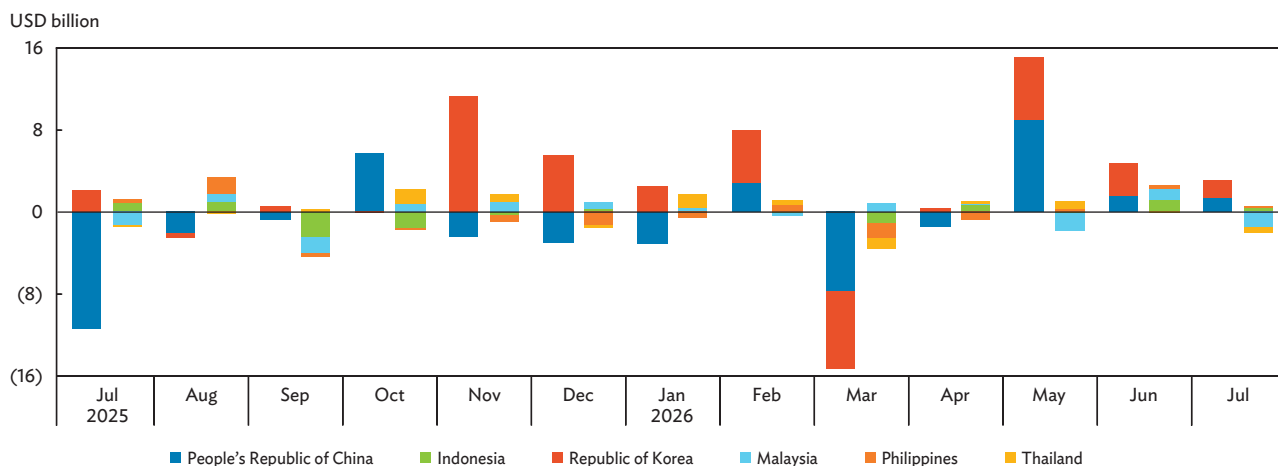
Notes:

1. Data coverage is from 1 June to 31 August 2026.
2. The numbers above (below) each bar refer to net inflows (net outflows) for each market.
3. Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

Source: Institute of International Finance.

outflows, largely reflecting concerns over fiscal policy, market transparency, and the possibility of an MSCI reclassification. Viet Nam also recorded net outflows, following a market correction in July exacerbated by margin calls and the continuation of [foreign ownership limits](#). By contrast, Thailand attracted net foreign inflows, as foreign investor confidence improved on expectations of greater [political stability](#), policy continuity, and a rebound in exports.

Regional bond markets recorded net foreign inflows of USD23.0 billion from May to July as investor sentiment improved following the easing of global risks ([Figure K](#)). The PRC recorded the largest inflows (USD12.1 billion) as regulatory developments, including the [opening](#) of Treasury bond futures trading to foreign investors in April, helped attract capital flows. This was followed by the Republic of Korea (USD10.9 billion), reflecting its phased [inclusion](#) in the FTSE Russell World Government Bond Index beginning in April. ASEAN markets recorded marginal inflows of USD0.05 billion. Bond inflows in ASEAN were capped by outflows from Malaysia, partly due to concerns that higher fuel subsidy costs could push the [fiscal deficit](#) to exceed the government's target.

Figure K: Foreign Portfolio Flows in Emerging East Asian Local Currency Bond Markets

() = negative, USD = United States dollar.

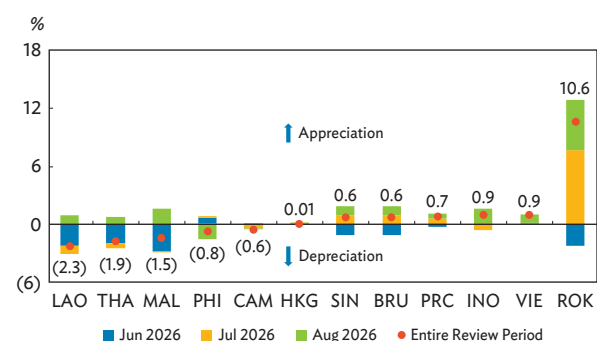
Notes:

1. The Republic of Korea and Thailand provided data on bond flows. For the People's Republic of China, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
2. Figures were computed based on 31 July 2026 exchange rates and do not include currency effects.

Sources: People's Republic of China (Bloomberg LP); Indonesia (Directorate General of Budget Financing and Risk Management, Ministry of Finance); Republic of Korea (Financial Supervisory Service); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); and Thailand (Thai Bond Market Association).

Regional currencies were mostly stable (**Figure L**). The Korean won gained the most, appreciating by 10.6% against the US dollar from 1 June to 31 August, supported by the BOK's July and August rate hikes and signaling of further tightening, strong semiconductor exports, and US dollar inflows associated with the repatriation of proceeds from **SK Hynix's** American Depositary Receipt offering on Nasdaq. Continued AI-related investment in the Republic of Korea also supported the won. Meanwhile, the Lao kip and Thai baht weakened against the US dollar as both economies experienced relatively accommodative monetary conditions and a moderating growth outlook.

The regional outlook for financial conditions is subject to several risks. On the downside, while geopolitical risks have eased, uncertainty surrounding the Middle East conflict remains a key downside risk to regional financial conditions. Elevated oil prices may add to inflationary pressures and disrupt the disinflation trend. This could delay monetary easing and result in higher-for-longer interest rates in both advanced and regional economies. In addition, rising bond yields in advanced economies could spill over to regional bond markets, tightening financial conditions and increasing financial market volatility, particularly in economies with weak fundamentals and shallow financial markets.

Figure L: Exchange Rate Performance Against the United States Dollar in Emerging East Asia

() = negative; BRU = Brunei Darussalam; CAM = Cambodia; HKG = Hong Kong, China; INO = Indonesia; LAO = Lao People's Democratic Republic; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; ROK = Republic of Korea; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

- Notes:
1. A positive (negative) value for the foreign exchange rate indicates the appreciation (depreciation) of the local currency against the United States dollar.
 2. Data coverage is from 1 June 2026 to 31 August 2026.
 3. The numbers above (below) each bar refer to the changes during the entire review period.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

Adverse weather conditions might also add to inflationary pressures. A stronger-than-expected El Niño could disrupt agricultural production and raise food prices, further exacerbating inflationary pressures and limiting the scope for monetary easing, weighing on financial conditions.

Uncertainty over trade policy and trade tensions also presents a downside risk to regional financial conditions. Trade-related concerns intensified following the announcement of new US tariffs of 10.0% and 12.5% on goods from 60 trade partners, following the expiration of the 10.0% global tariff on 24 July. Trade policy uncertainty could disrupt supply chains, dampen trade and market confidence, and delay investment.

Developments in digital technology and AI present both upside and downside risks to regional financial conditions. A continued AI and semiconductor upcycle would support investment, boost productivity and economic growth, and strengthen corporate earnings. Nevertheless, price corrections and valuation reassessments in AI-related technology stocks could trigger market volatility and reduce investor appetite for regional assets. In addition, the rapid adoption of stablecoins as a payment mechanism poses both risks and opportunities for the region's financial system. The special section discusses these issues in detail.