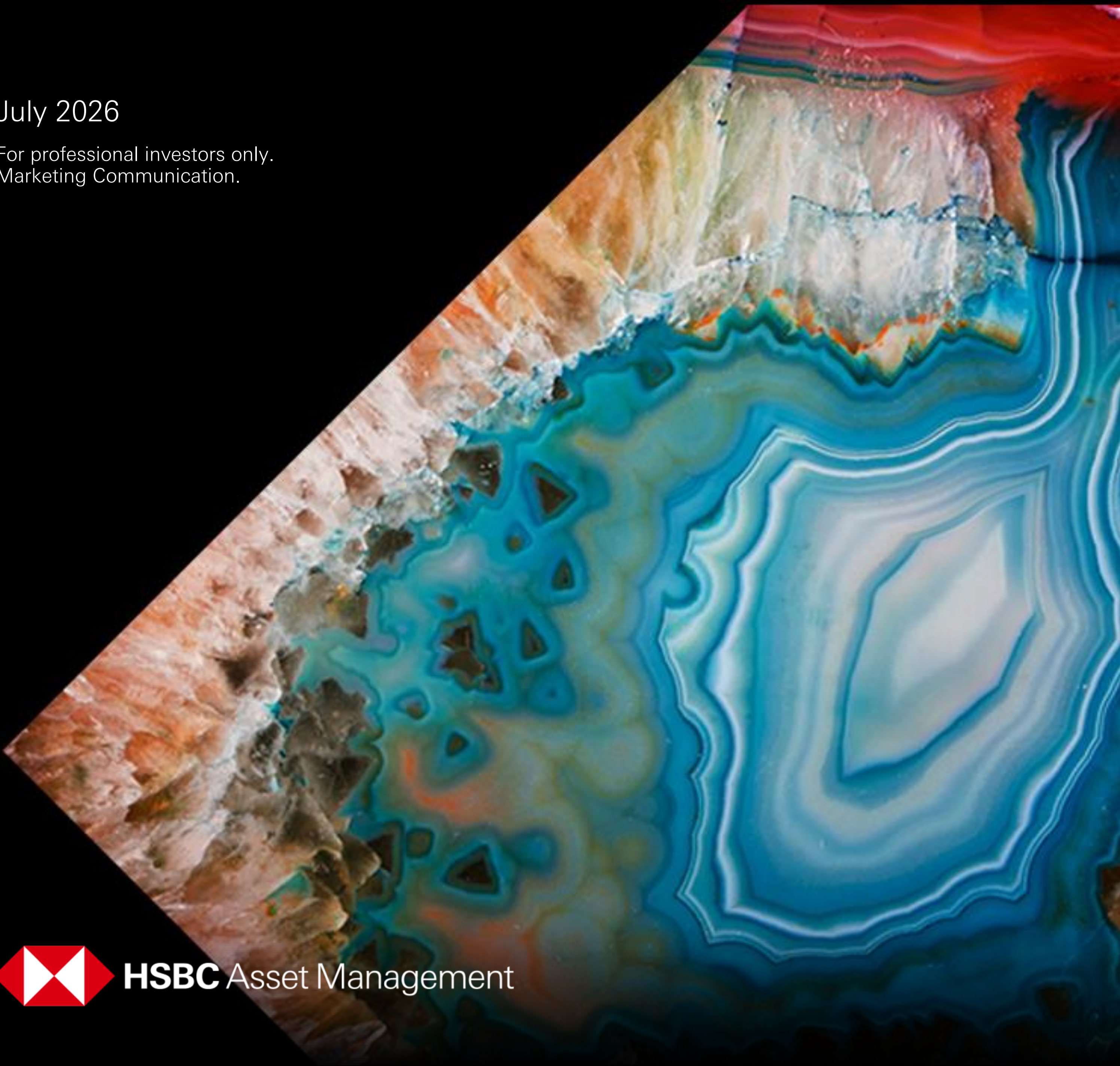
Fixed Income Insights

Shocks and second-round effects

Emerging Markets: Resilience tested, not reversed

Global Credit: From energy price shocks to supply risk



July 2026

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Marketing Communication.

HSBC Asset Management

Table of content

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Foreword

Recent energy shocks have tested emerging markets' external resilience and is turning into a global credit event, as disruption travels from oil and food into wider supply chains.

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HSBC Asset Management

Shocks to energy supply and prices are a defining feature of the current environment, but their impact is broader than a simple "higher oil" story. This edition of Fixed Income Insights explores how recent disruptions have tested emerging markets and global credit in ways that extend beyond crude, and why outcomes differ across countries, sectors and regions.

On the macro side, we look at emerging markets entering this episode from a stronger starting point than in many previous shocks. External debt service burdens are near multi-decade lows, local currency funding markets have deepened, and inflation credibility has improved in several regions. At the same time, the Middle East conflict has underlined how diverse EM really is: some economies are exposed through oil and food imports, while others are cushioned by commodity exports, AI-linked trade, investment in energy security or stronger domestic investor bases. The analysis focuses on how higher energy and food prices interact with current accounts, reserves and policy space, and where buffers appear more robust or more constrained.

On the fundamental side, the publication traces how disruption around the Strait of Hormuz has affected global credit by removing sizeable volumes of crude, refined products and LNG from the system. It shows that alternative pipelines, strategic reserve releases and inventory drawdowns help, but cannot fully offset the scale of the shortfall. From there, it follows the second-round channels: tighter naphtha and fertilisers feeding into petrochemicals and food prices; helium constraints affecting semiconductors, healthcare and specialist manufacturing; and high fuel and input costs influencing utilities, autos, metals and other industrials. A key theme is the shift from straightforward cost pressure towards questions of operational continuity, liquidity and supply chain resilience if disruption proves prolonged.

Taken together, the pages that follow highlight two linked stories: emerging markets where external fundamentals have improved, but where energy and food shocks still require careful differentiation; and a global credit universe in which energy and supply disruptions are increasingly about availability and non-linear effects rather than just headline price moves.

I hope you'll find this publication insightful and useful as you frame these shocks and their second-round effects.

In a nutshell

Emerging Markets: Resilience Tested, Not Reversed

- Supply-side shocks and higher energy prices have challenged emerging markets, but have not fundamentally reversed the improvement in external resilience and policy frameworks.
- The impact of the oil shock is uneven. Net importers face pressure via inflation, current accounts and currencies, while net exporters and commodity-rich economies benefit from stronger terms of trade. However, this distinction is less clear cut in the GCC, where the closure of the Strait of Hormuz and damage to critical hydrocarbon infrastructure have constrained export capacity. Kuwait, Bahrain, Qatar and Iraq are among the most exposed, while Saudi Arabia and the UAE have somewhat greater resilience through alternative export routes and infrastructure.
- Transmission channels go beyond crude oil to refined products, fertilisers and helium, influencing food prices, agriculture and technology-linked sectors.
- Many emerging market sovereigns now have lower external debt service burdens, deeper local markets and improved inflation credibility, which raise the threshold for broad stress compared with past episodes.
- Overall, the environment points towards greater differentiation across emerging markets, with attention to external positions, policy credibility and the presence of commodity or AI-linked export buffers rather than a uniform view on the asset class.

Global Credit: From Energy Price Shocks to Supply Risk

- The Middle East conflict is increasingly a credit event, with disruption around the Strait of Hormuz affecting oil, refined products and LNG volumes more severely than previous shocks.
- First-round effects are higher energy costs; second-round effects arise when shortages extend to fertilisers, petrochemicals and helium, impacting food, utilities, autos, metals and semiconductors.
- Credit risk can move from linear margin compression to non-linear stress if inventories are depleted and governments resort to rationing, making operational continuity and liquidity more critical than headline earnings.
- The current backdrop does not point to a broad defensive stance in global credit, but it does highlight the importance of balance sheet strength, supply chain resilience and pricing power when assessing issuers and sectors exposed to energy and supply disruptions.

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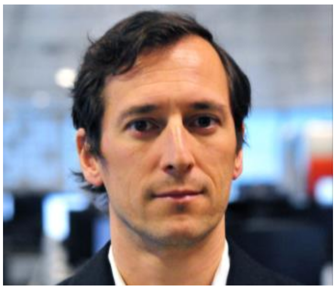
Emerging Markets: Resilience tested, not reversed

Supply side shocks and oil price volatility have revived concerns about a fundamental change in the case for emerging markets. Yet, the recent episode created a range of outcomes for countries across EM.



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Emerging market economies don't necessarily react to global shocks in an homogenous manner; some have outperformed while others experienced strain.

Higher oil prices can be uncomfortable for emerging markets. They lift import bills, weaken current accounts, exert downward pressure on currencies, raise inflation and complicate central bank policy. For lower income economies, the challenge can be more acute because food and fuel account for a larger share of household spending, while governments often face pressure to cushion consumers through subsidies, tax cuts or price controls.

In previous cycles, that combination might have been enough to trigger a broad risk off environment for the asset class. This time, emerging markets entered from a stronger starting point than in many previous shocks. Inflation credibility has improved in several regions, external debt service burdens are more manageable, local currency funding markets are deeper, and the asset class has become less dependent on foreign currency borrowing.

At the same time, emerging market economies are not as homogeneous as often assumed. Some economies are exposed through oil and food imports. Others are cushioned by commodity exports, improving policy frameworks, AI linked trade or stronger domestic investor bases. The Middle East conflict did not undermine the case for emerging markets, but it reminds us that we need to be selective.

Thus, it becomes important to distinguish between economies that have the buffers to absorb this type of shock, and where external vulnerabilities could become more difficult if the disruption lingers.

Oil was only one transmission channel in a supply shock which was more complex than it looked on the surface.

Within emerging markets, Asia was particularly exposed because the region contains several large energy importers, including Korea, Vietnam and the Philippines. Higher energy prices can affect Asian economies through inflation, weaker consumption, lower margins, and pressure on currencies. In contrast, Latin American markets net exporters such as Brazil and Colombia have natural offsets from higher oil prices.

Figure 1: Oil Price Shock GDP impacts: 4 Quarters ahead impact from baseline

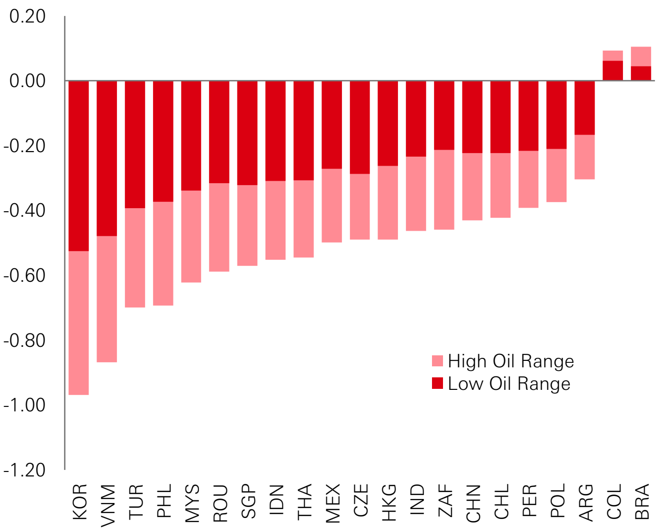
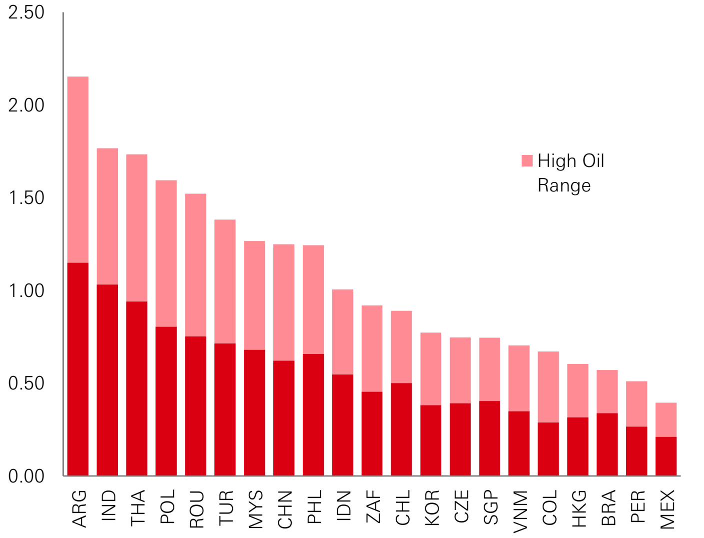


Figure 2: Oil Price Shock Headline CPI impacts: 4 Quarters ahead impact from baseline



Source: Macrobond, HSBC AM, June 2026.

But crude oil was only one transmission channel. The Strait of Hormuz also matters for refined products, fertilisers, ammonia, helium and other inputs that feed into food, agriculture, semiconductors, healthcare and industrial production. For example, the Strait accounts for roughly 30% of relevant global fertilisers exports, while it is around 25–30% for helium and around 20% for refined oil.

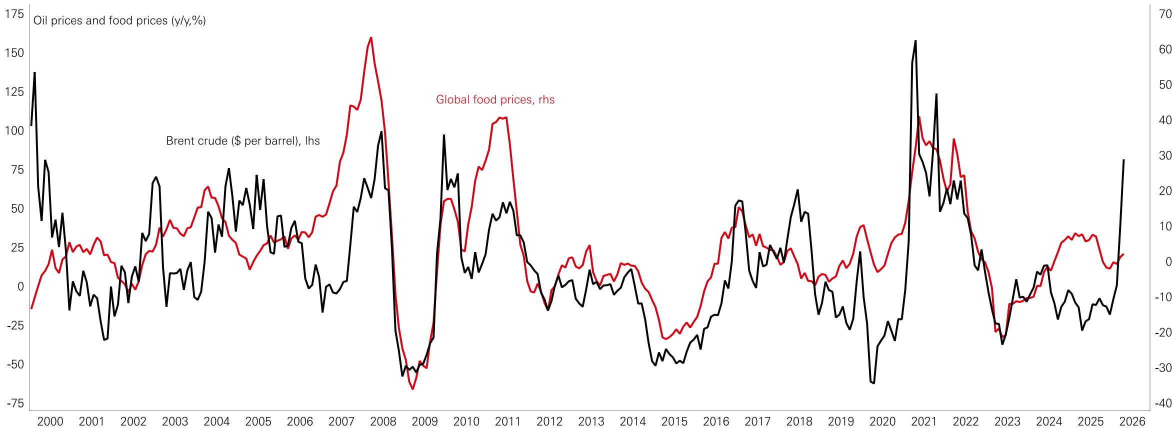
Figure 3: Commodity exports via Strait of Hormuz

Commodity export	% of global export of commodity via Hormuz	Regional exposure	Sectoral exposure
Urea fertiliser	50%	Brazil, India, Bangladesh, Philippines, Indonesia	• Agriculture • Food processing • Livestock/Dairy
Ammonia	30%	India, Brazil	• Fertiliser production • Industrial manufacturing • Mining & infrastructure
LPG / Naphtha	30%	Africa, Sri Lanka, Pakistan	• Nitrogen fertiliser
Helium	29%	India, Pakistan, Bangladesh, Vietnam, Thailand	• Semiconductors • Healthcare MRIs • Pharmaceuticals
LNG	19%	China, India, South Korea	• Gas to power generation • Petrochemical • Transport
Refined oil	19%	Vietnam	• Gas to power generation • Transport & logistics • Agriculture

Source: HSBC Asset Management, July 2026.

The food channel is especially important. Energy costs feed into fertiliser, transportation and refrigeration. If higher oil prices persist, rising food inflation can follow with a lag. This upside risk to food inflation from oil is compounded by a strong El Niño effect, which will add additional pressures in the second half of 2026 in the Andean region and in Southeast Asia. This is where the shock becomes more political. A rise in petrol prices is painful, but a rise in food prices can quickly affect real incomes, social stability and fiscal policy. For poorer EM economies, this can be the difference between a market shock and a broader macro stress event.

Figure 4: Oil prices and food prices (y/y, %)



Source: Macrobond, HSBC AM, June 2026.

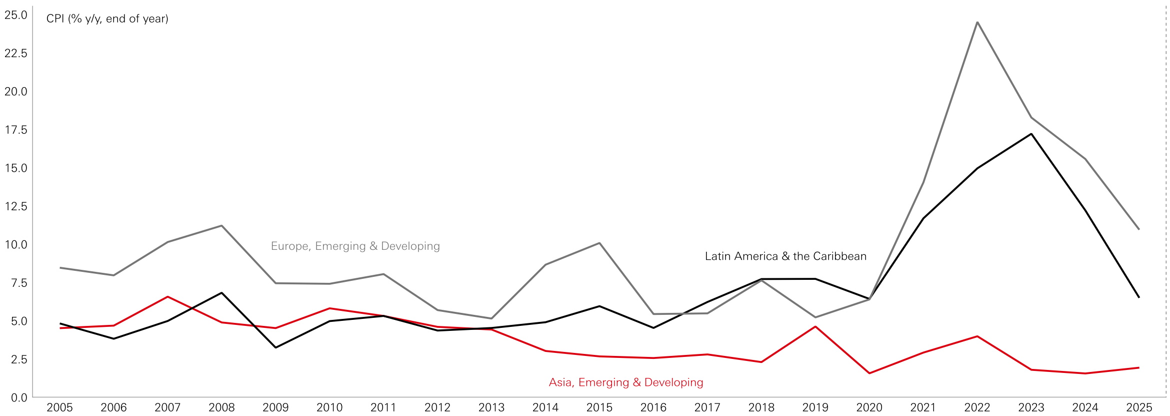
Helium is another example of how an oil shock can move beyond energy. It is used in semiconductors, healthcare and specialist manufacturing. A sustained disruption could therefore affect economies tied to technology supply chains, even where the direct oil exposure is manageable.

There is a timing dimension too. A short disruption can be absorbed through inventories, reserve releases, temporary subsidies and currency flexibility. A longer disruption is more difficult. Inventories fall, fiscal costs rise, inflation expectations become harder to manage, and central banks have less room to support growth. The longer the shock persists, the more it moves from a terms of trade problem to a policy credibility problem.

EM was at a better starting point than in previous episodes.

Inflation dynamics have improved across much of the emerging markets complex. In Asia, inflation has been relatively stable, helped by stronger central bank credibility built over time. In Latin America, central banks such as Brazil, Chile and Mexico moved early and aggressively in the last inflation cycle. That helped anchor expectations and contributed to the disinflation seen through 2024 and 2025. Growth has also been more uneven than weak. Asia has benefited from intra-regional trade, the AI technology cycle and stronger export momentum, particularly in economies linked to semiconductors and electronics. Latin America has been more mixed, as high real rates have weighed on domestic demand, but the region also has more commodity exposure. Central and Eastern Europe, by contrast, remains more exposed to weak eurozone demand, particularly through Germany, while still carrying the legacy of the Russia-Ukraine energy shock.

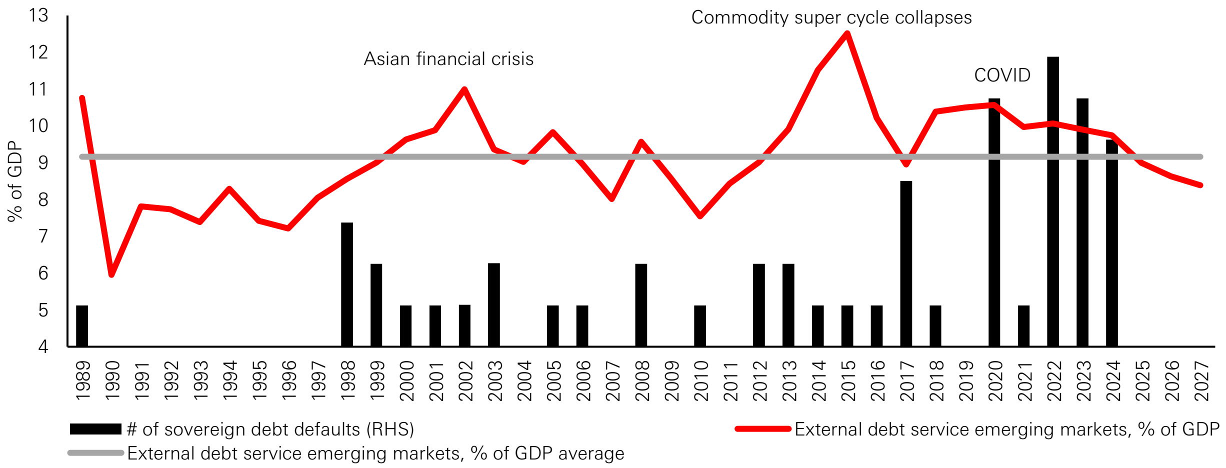
Figure 5: CPI (% y/y, end of year)



Source: Macrobond, HSBC AM, June 2026.

Importantly, there has been a structural improvement is external resilience. EM external debt service is near multi decade lows as a share of GDP. This reflects three changes. First, many EM sovereigns have reduced their reliance on hard currency debt and built deeper local currency funding markets. That reduces the currency mismatch that used to make external shocks more dangerous.

Figure 6: External debt imbalances and resilience



Source: IMF WEO, HSBC AM, June 2026.

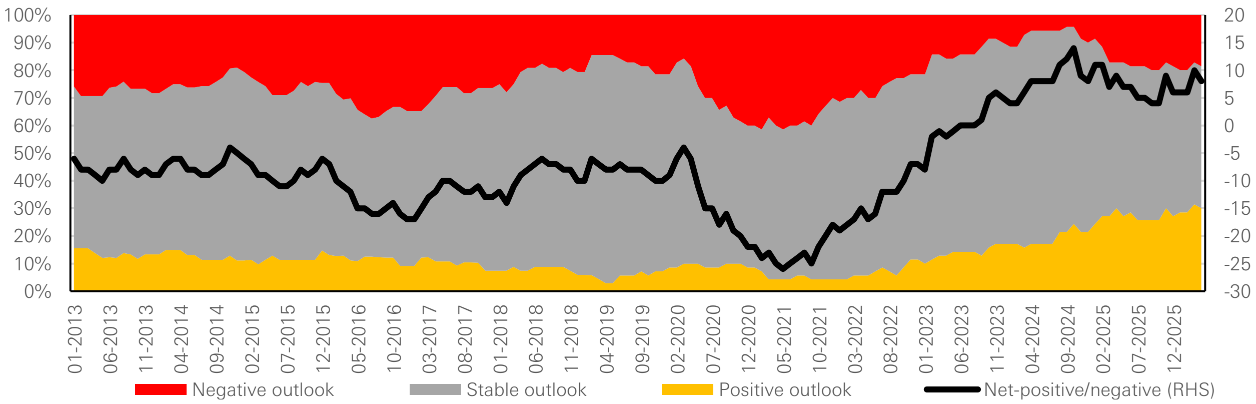
Second, the restructuring cycle after Covid and the Russia-Ukraine shock has left several frontier economies with more manageable debt service profiles. Countries that have gone through IMF programmes or restructurings may still be vulnerable, but they are not necessarily in the same position they were before the previous crisis.

Third, the global backdrop has been supportive enough, helped by higher nominal GDP growth, resilient commodity prices and a weaker US dollar.

None of this means EM is immune. A prolonged or reignited oil shock would still erode current accounts, pressure reserves and tighten financing conditions. But the threshold for broad stress appears higher than in previous cycles. Historically, external debt service burdens closer to 10% of GDP have been associated with more difficult episodes for the asset class. Today, aggregate measures remain well below that level.

The sovereign ratings backdrop reflects this position. Positive outlooks have increased since the Covid and Russia-Ukraine period, and the overall balance between positive and negative outlooks remains supportive. There have been pressure points among net oil importers, and some Gulf linked credits, but has not yet prompted a systemic deterioration across EM sovereigns. Hence, the conflict has created pressure, but it has not reversed the improvement in EM external fundamentals.

Figure 7: EMBI ratings outlook



Source: Moody's, S&P, Fitch, HSBC AM, June 2026.

Asia is where the policy trade off is sharpest, and tension shows up most clearly.

The region is more exposed to imported energy than Latin America, and several economies have a high sensitivity to oil, the US dollar and global volatility. Korea, Vietnam and the Philippines appear particularly exposed in model based estimates of growth sensitivity to higher oil prices. Inflation effects are also concentrated in parts of Asia, especially where energy and food have a high weight in consumer baskets.

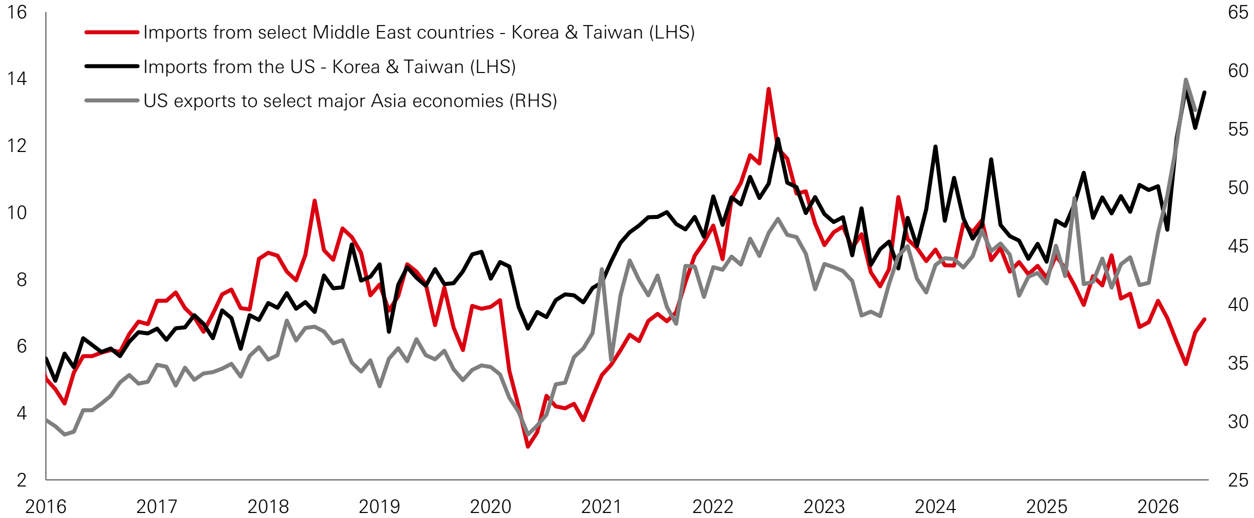
Governments responded with a mix of measures. On the demand side, these include energy conservation, tighter import rules and efforts to limit the pass through of global oil prices into domestic fuel prices. On the supply side, countries have used inventories, strategic reserves, higher domestic refined production, alternative energy sources, temporary increases in coal fired power generation and import diversification.

These policies helped smooth the immediate shock for households and businesses. Economic activity held up better than earlier feared in most parts of Asia in H1 2026 despite the energy shock. Most of Asia did not experience meaningful physical disruptions or demand destruction. Yet, these measures are not costless. If domestic fuel prices rise less than global prices, someone absorbs the difference. That may be the government, state owned enterprises, energy companies or future consumers. Over time, the fiscal burden rises.

India's fuel price adjustment was such a case. After holding prices steady during the early phase of the conflict, the government allowed petrol and diesel prices to rise by around 3%. The move was modest, but it signalled the limits of keeping domestic prices insulated indefinitely.

The Philippines sits at the other end of the spectrum. Its energy market is more deregulated, allowing global price increases to pass through more quickly into domestic inflation. Thailand and Vietnam have also seen signs of broader inflation pressure. Elsewhere, the process has been more gradual, but the direction is clear. If the shock recurs, governments will eventually have to choose between maintaining price support, reallocating spending from other priorities, or passing more costs through to households and businesses.

Figure 8: Diversifying energy import sources (US$ bn)



Source: CEIC, Bloomberg, HSBC AM, June 2026.

Supply substitution also has limits. Higher US oil and gas exports can help offset reduced Middle Eastern supply in the short term, but many Asian refineries are designed to process heavier sour Middle Eastern crude. Switching to lighter US crude can reduce efficiency and does not fully solve the problem.

Inventory differences matter too. North Asian economies such as China, Korea and Japan generally have larger reserves. South and Southeast Asian economies have thinner buffers. The Philippines, for example, could face shortages in oil products or jet fuel if disruption persisted and alternative sources were not available quickly enough.

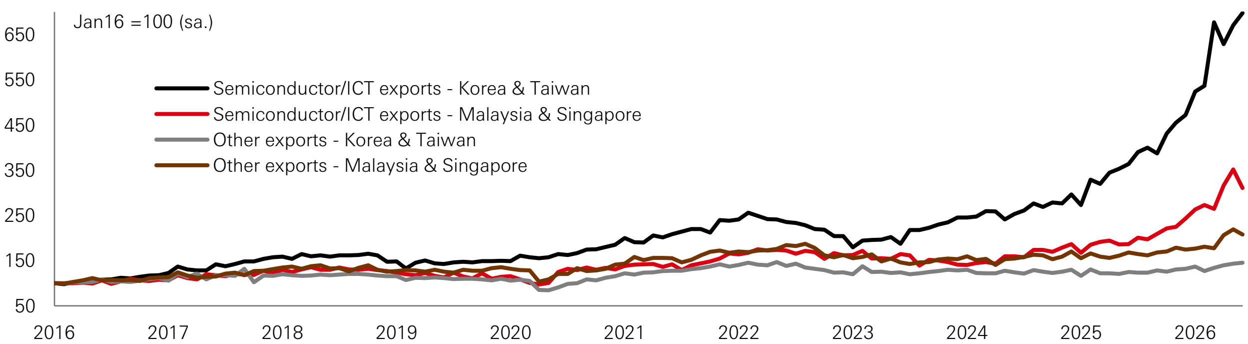
Stagflation risks and balance of payments pressures complicate monetary policy trade-offs between price/ macro-financial stability and growth support. The likely outcome is a cautious policy stance by Asian central banks, which stay vigilant about second-round effects on core inflation and inflation expectations and FX volatility. Relative AI exposure and energy vulnerability is shaping economic divergence and driving a varied pace and scale of policy support across the region. We expect idiosyncratic stories to dominate in H2 with varied fiscal policy headroom and continued divergence in policy reaction functions across Asia.

The oil shock is not the only force at work. Two structural investment cycles provide important offsets.

The AI cycle is providing an important offset, especially in Asia. Strong AI demand has boosted exports in technology heavy economies such as Korea, Taiwan and China. Parts of ASEAN, including Singapore, Malaysia and to some extent Thailand, have also benefited from the electronics and technology cycle. These economies could again face energy price pressures, but AI linked export strength provides a growth buffer that was not present in the same way in previous shocks.

There are vulnerabilities too. Semiconductor production depends on stable power supply and specialised inputs, including rare gases such as helium. A prolonged disruption could create bottlenecks. However, large technology companies have improved inventory management, diversified sourcing and increased recycling. Governments are also likely to prioritise strategic industries such as semiconductors and data centres when allocating power or managing supply constraints.

Figure 9: Export value (USD)



Source: CEIC, Bloomberg, HSBC AM, June 2026.

Energy security is the second offset. In the short term, some Asian countries may rely more heavily on coal fired power to reduce pressure from expensive oil and gas. That may create a temporary setback from a sustainability perspective. Over time, however, the direction is likely to be more investment in renewables, nuclear, grids, storage and electrification. Many regional economies have also pursued transnational power grid interconnections for example the ASEAN Power Grid (APG) initiative.

The shock therefore sits within a wider capex story. Stable and affordable electricity is now a competitive advantage, not just a utility sector issue. It matters for data centres, semiconductor fabrication, industrial automation and advanced manufacturing. China and India are already moving quickly in this area. China remains well positioned because of its scale, cost advantage and leadership across renewables, EVs and power equipment. India has also scaled clean energy rapidly, with around half of installed electric power capacity now coming from non fossil fuel sources. Across Asia, energy security, resilience and affordability are likely to drive public spending and private investment higher over the coming years.

Given the varied impact of the shock, the investment implications are about identifying the right kind of EM exposure.

The most obvious beneficiaries are net commodity exporters. Oil exporters in Latin America, parts of Central Asia and selected frontier markets can benefit from higher prices, especially where policy frameworks are credible and external balances are strong. Brazil and Colombia have natural offsets from higher oil prices, while economies such as Kazakhstan and Azerbaijan may become more important as Europe looks to diversify energy supply. Some frontier exporters in sub Saharan Africa could also benefit, although local debt and governance dynamics remain important. These are some countries which import energy but have meaningful offsets from metals, AI linked exports or policy flexibility. Chile and Peru benefit from copper and other metals. South Africa and Zambia have exposure to industrial metals. Korea and Taiwan face energy import pressure, but they also sit at the centre of the semiconductor industry. Malaysia and Singapore have technology exposure and stronger policy buffers. Mexico exports crude oil, but it is also a net importer of refined gasoline products. Higher oil prices can support petroleum related revenues, but they can also hurt consumers and reduce fuel tax receipts. Add in investment climate uncertainty and US demand sensitivity, and Mexico becomes more ambiguous than a simple oil exporter label suggests.

Resilient metals prices provide an additional cushion for some net oil importers. Strong export receipts from copper in Chile and Peru, and from precious and industrial metals in South Africa, can partly offset the higher energy import bill. This has helped contain pressure on their currencies and moderated the need for central banks to respond with more aggressive rate increases.

The more vulnerable group includes economies with large manufacturing bases tied to weaker developed market demand, net oil import dependence and limited room for policy support. Central Europe and Turkey are exposed to weaker European growth and energy costs. Central America and the Caribbean face oil import pressures and are more dependent on US demand. South Asia, including India, Pakistan and Sri Lanka, and parts of ASEAN with less fiscal and monetary policy space, are more exposed if the shock lasts. Even within this group, the picture is not uniformly negative. Pakistan and Sri Lanka, for example, are under IMF programmes, which means they have access to financing and are allowing more currency flexibility. Sri Lanka’s restructuring has reduced near term debt service burdens. Pakistan’s current account has improved and financing needs are lower than during the Ukraine shock. These countries may still face pressure, but they are better equipped than before.

EM assets are still sensitive to developed market rates and the US dollar.

Before the conflict, investors expected rate cuts from the Fed and other developed market central banks. Higher oil prices have complicated that view. If inflation remains elevated and markets begin to price a more hawkish path, US rates could become a headwind for EM capital flows. This matters because EM assets are still sensitive to the dollar and global liquidity. Higher US real yields and a stronger dollar would tighten financial conditions, especially for economies with weaker external balances. The effect may be less severe than in previous cycles because external debt service burdens are lower and local currency markets are deeper, but it would still matter.

In the medium term, if Asia and the GCC need to spend more domestically on AI infrastructure, energy security and supply chain resilience, their current account surpluses may decline. These regions have historically recycled excess savings into dollar assets. Less recycling could support a weaker dollar regime over time, which might be helpful for EM.

Global credit: From energy price shocks to supply risk

> The Middle East conflict is increasingly a credit event, not because of direct regional exposure alone, but because of the way disruption travels through global supply chains to issuer fundamentals.

Stéphane Lacaze
Head of Credit Research UK

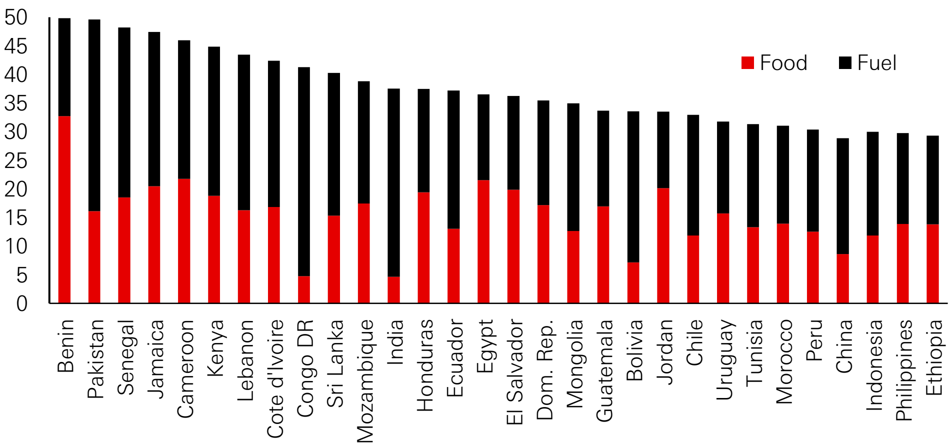
Linda Sobanski
Credit Analyst (Europe)

Looking beyond energy prices: Second round effects and other shortages can materially impact prices and supply across industries.

Higher oil, gas and refined product prices feed into input costs, logistics, working capital and consumer demand, but if disruption to supply recurs or worsens, the risk shifts from cost to availability. Naphtha shortages can reduce production of petrochemicals. LNG tightness can pressure gas heavy power systems. Helium disruption can affect semiconductors, aerospace, healthcare, optical fibre and data centre supply chains. Higher fertiliser prices can reinforce food inflation, particularly in emerging markets where households spend a larger share of income on essentials. The Food and Agriculture Organization estimates that a 10% increase in energy prices can translate into a 3–6% increase in food prices, depending on the region, underlining how an energy shock can quickly morph into a social and political pressure point in lower income economies.

A short lived supply disruption can be managed by drawing down inventories (from existing oil on water, strategic and commercial stocks), alternative sourcing, or increasing flows from existing pipelines. Some companies are benefitting from hedging even if facing temporary margin compression but a prolonged disruption shifts the risk from earnings volatility to operational continuity, potentially forcing governments into explicit energy or feedstock rationing and making the shock non-linear rather than incremental. The key credit question then becomes not only whether an issuer can absorb higher costs, but whether it can continue to produce, deliver and fund itself without material balance sheet deterioration, covenant stress or liquidity events.

Figure 1: Oil and food imports across EM (% of total imports)



Source: Bloomberg, HSBC AM, June 2026.

Energy producers benefit from price spikes, but Hormuz disruption cuts supply. Middle distillates (especially jet fuel and diesel) and petrochemicals face shortages into 2027.

The most immediate beneficiaries are in **energy and energy linked sectors**, but the credit implications are not uniformly positive. In May, the disruption effectively removed around 10 million barrels per day (mb/d) of crude and oil products from the market, around five times the scale of the Russian supply loss, and roughly 20% of global LNG supply via Qatar has also been compromised. Alternative routes help, but they are constrained. Saudi Arabia's East-West pipeline normally carries around 2–3mb/d and can theoretically rise to around 7mb/d. The UAE's Fujairah pipeline can add roughly 0.5mb/d. These routes reduce the pressure, but they cannot fully offset the scale of disruption, particularly when regional infrastructure itself is impacted by attack.

Figure 2: Structural oil export dependence on the Strait across gulf producers

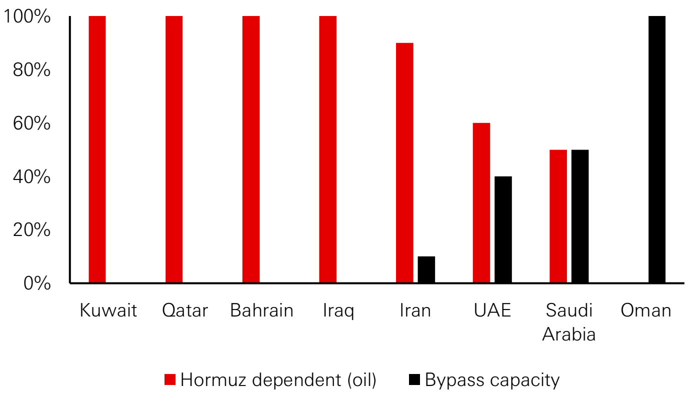
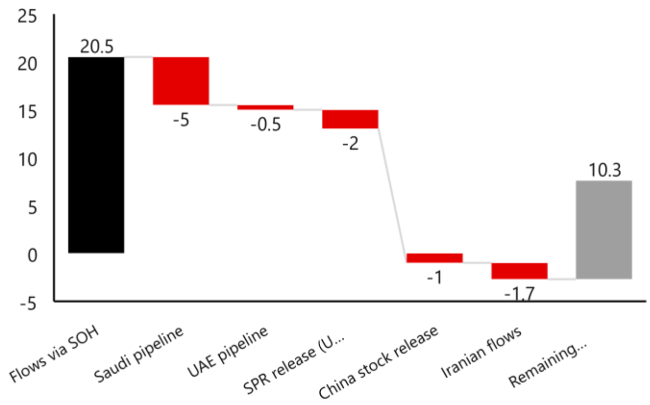


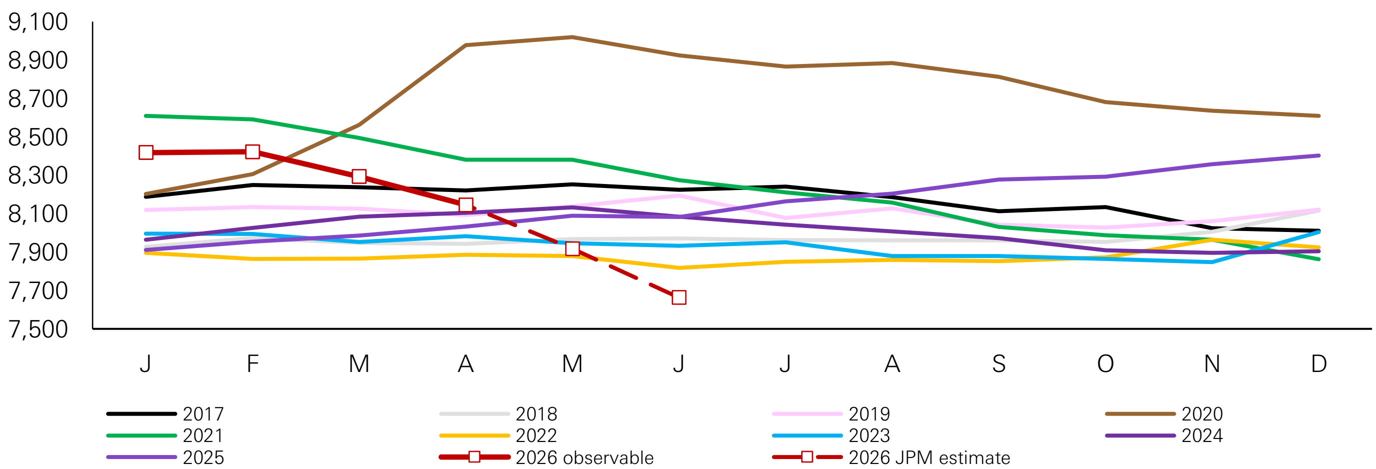
Figure 3: Offsetting oil and products via Hormuz (Mb/d)



Source: EIA, Kpler, HSBC AM, June 2026.

Strategic reserve releases also helped to buffer the shock, including the largest coordinated release in IEA history and national releases from countries such as China. But floating storage moved close to exhaustion and global oil inventories are at more than decade low levels. Even with some reopening of the Strait of Hormuz, the oil system may take two to three months to normalise, assuming limited infrastructure damage and a gradual reopening of shipping insurance, port capacity and trade flows.

Figure 4: Global oil inventories



Source: J.P. Morgan Commodities Research, JODI, IEA, EIA, Kpler, HSBC AM, June 2026.

Against this backdrop, **upstream oil and gas producers** are clear beneficiaries where higher realised prices more than offset any production disruption, particularly for low- cost resource holders and companies with minimal physical exposure to the Gulf. **LNG producers and pipeline operators** also benefit from higher volumes, though for LNG the earnings uplift is likely to be spread over several years given the expected three-year period of market tightness before new US and Australian capacity fully offset the lost volumes by 2029.

Figure 5: New vs old Qatari LNG exports (mtpa)

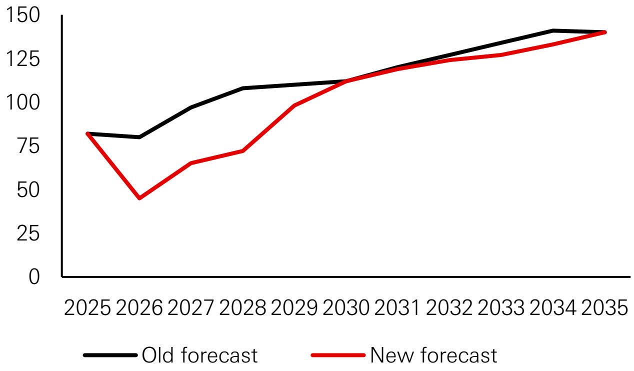
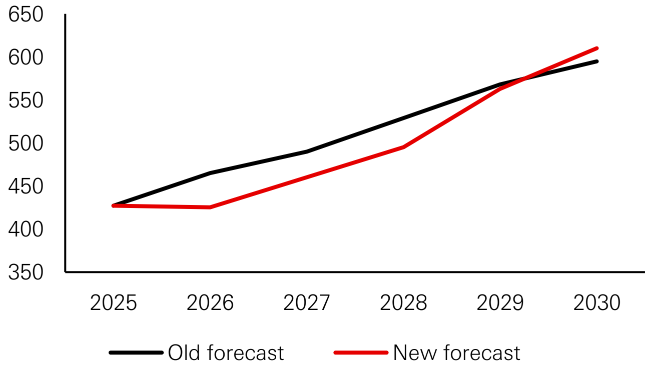


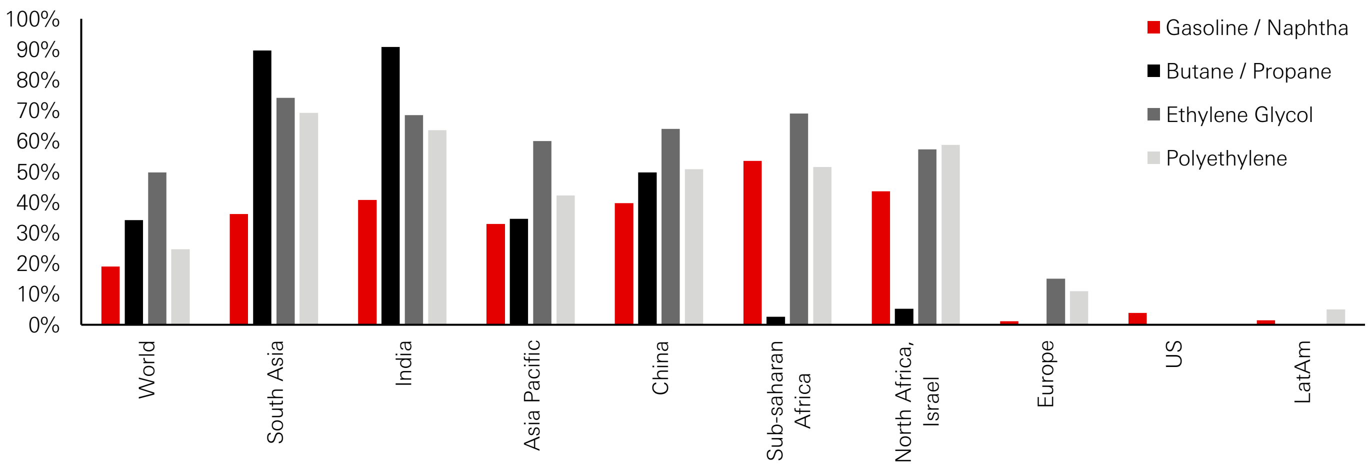
Figure 6: New vs old global LNG supply (mtpa)



Source: Bloomberg, Jefferies, Energy Aspects, WoodMackenzie, HSBC AM, June 2026.

Refiners are benefitting from record high refining margin especially in middle distillates (diesel and jet fuel). Europe is particularly facing supply risk if the conflict extends by year end as stock deficit may reach critical threshold. Europe is indeed particularly exposed, with around 70% of jet fuel imports at risk as on top of loss of oil products from the Middle East, China and India are now also exporting less oil products, the ban on Russian oil products is still on and exports from the US have now come to a maximum level.

Figure 7: Share of imports from Middle East (%)



Source: S&P Global, HSBC AM, June 2026.

For the **Petrochemicals** sector, the closure of the Strait of Hormuz disrupted Gulf exports of key products (e.g., PE/PP, sulphuric acid; fertilisers 30%+). Tighter naphtha is forcing Asian producers (mainly ex-China) into force majeures and lower run rates of production. US ethane/ethylene-advantaged assets are best placed to benefit by exporting low-cost volumes into Asia, while Europe's naphtha-based crackers may get some uplift from fewer Asian imports, though weak macro demand caps the upside. Even with a rapid reopening, damage, insurance, fuel prioritisation and port constraints could leave supply-chain impacts lingering into 2027.

Utility profitability and credit quality depend on the power mix, LNG exposure and pass-through mechanisms. The US is relatively insulated, Europe mainly faces higher and more volatile costs, and Asia is most exposed. These pressures strengthen the case for electrification and regulated grid investment.

For **utilities**, the impact of supply disruption on profitability and credit quality depends on a number of factors including the power mix, LNG exposure, the strength of pass-through mechanisms and regional variations. Damage to Qatari LNG facilities means the global market could remain tight for around three years, even if the Strait of Hormuz is fully reopened and remains so. That is a very different adjustment profile from oil, where logistics may normalise within a few months if routes reopen and infrastructure damage is limited.

The US is relatively insulated as a net LNG exporter, so that US utilities see limited volume and price risks. Europe is better positioned than during the Russia gas crisis because it has diversified supply, increased LNG imports from the US and hedged a significant portion of utility and industrial gas needs for roughly one to one and a half years. The risk for Europe is therefore less about immediate volume shortage and more about a higher and more volatile cost base feeding into industrial competitiveness and consumer bills over time. Asia, by contrast, is more exposed. Around 90% of Qatar's LNG exports go to Asia, and several economies maintain a high share of gas fired power. Korea is particularly vulnerable because of its gas heavy power mix, reliance on Qatari LNG and weaker cost pass through record, which can leave integrated power and gas utilities with rising leverage and receivables if tariffs do not adjust sufficiently.

China's power generators are less exposed because gas represents only around 3% of the power mix, though gas utilities may face lower margins and volumes as higher LNG prices are only partially passed through to industrial customers. Over the longer term, these pressures reinforce the strategic case for electrification, renewables, nuclear, storage and grid investment. China's energy transition illustrates the scale of change already underway as the country added close to 450GW of solar and wind capacity last year, roughly twice as much as the rest of the world combined, Meanwhile Europe is pushing hard on the electrification of transport and heating while Japan and others reconsider nuclear.

Figure 8: Total energy supply

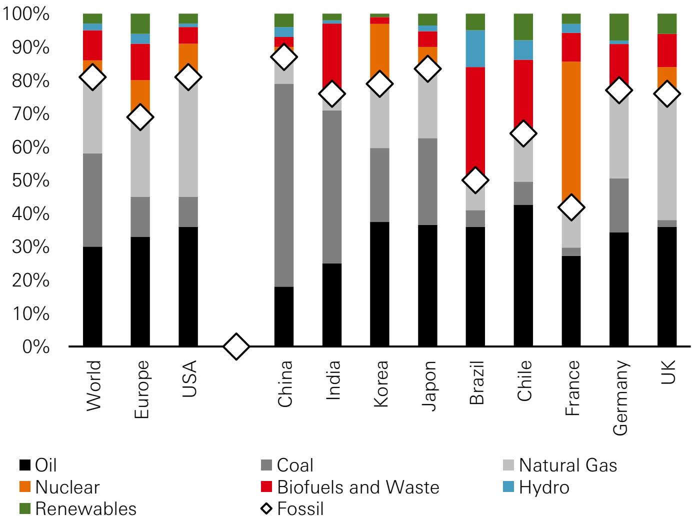
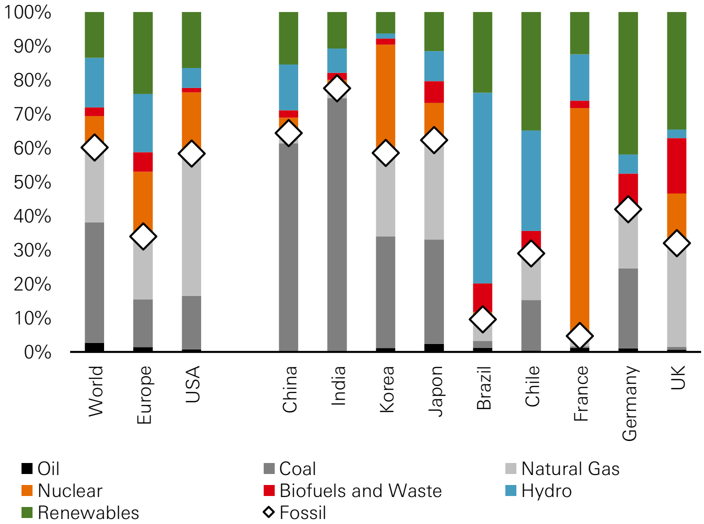


Figure 9: Electricity generation



Total energy supply includes all the energy produced in or imported to a country, minus that which is exported or stored. It represents all the energy required to supply end users in the country. Source: IEA, HSBC AM, June 2026.

For credit investors, this all reinforces the structural importance of regulated networks, grid infrastructure and issuers aligned with energy security and transition themes, which may see more stable regulatory frameworks and capex opportunities despite near term fuel cost volatility.

High fuel prices may depress auto demand and output, worsening pressure from EV transition. Steel/aluminium face energy, freight and chemical cost shocks, while Semiconductors risk helium/power disruptions.

Autos have limited direct Middle East exposure, yet prolonged high fuel prices could weaken consumer confidence, delay purchases and push demand toward smaller, lower margin vehicles, just as global production forecasts are being revised down. 2026 light vehicle production outlook has already been cut by around 2.4% versus flat at the start of the year, roughly half the downward revision seen in 2024 but still meaningful for a sector with high fixed costs. It is manageable for some mass market producers with efficient platforms , who may be able to shift from premium OEMs towards smaller models, but adds cyclical pressure to a sector already facing Chinese EV competition and structural transition.

For **steel and aluminium,** higher thermal coal and gas demand can lift input costs, while shipping disruption raises freight rates and reduces delivery reliability, particularly for aluminium which is highly dependent on bulk shipping. Steel producers also face potential bottlenecks in industrial chemicals used in processing, which can become constraints when petrochemical supply is tight. Trade protection and local production can partly offset these pressures in the US and Europe, where tariffs and carbon regulation support pricing power for integrated producers, but emerging markets without such protection are more exposed to cost shocks.

Semiconductor production in Korea and Taiwan depends on stable electricity and specialised inputs, particularly helium, ultra pure gases and chemicals. Qatar produces roughly one third of global helium, which is critical for semiconductors, aerospace, healthcare, optical fibre and data centre supply chains. The mitigating factor is that leading chipmakers are better prepared than during previous supply chain disruptions. They typically hold several months of helium inventory, have diversified sourcing from the US and Algeria as the helium market moved into oversupply last year, and are improving recycling processes. In addition, governments increasingly treat semiconductor fabrication as strategic infrastructure, so in a power shortage they are likely to be prioritised, limiting outright shutdown risk. Even so, the credit issue is not simply whether margins compress. It is whether production can continue without yield loss, downtime or expensive restarts.

Emerging market debt is most exposed to Middle East tensions via GCC and Asian importers, while prolonged disruptions may trigger liquidity and sovereign stress. A broad defensive move is not yet warranted, but a prolonged disruption could shift risks from price effects to supply shortages.

Emerging market debt has the highest direct exposure to renewed tension in the middle east through GCC issuers and the dependence of several Asian countries on imported energy and food. EMD also embeds sovereign level vulnerabilities where higher energy and food prices can trigger rating pressure, with knock-on effects for quasi-sovereigns and bank capital structures. Asia feels the supply chain shock earlier and more broadly because its manufacturing base is tightly interconnected and its reliance on Gulf energy and feedstocks is greater. Although many US dollar corporate issuers remain fundamentally resilient and are often quasi-sovereigns or national champions with implicit state support.

Latin America, by contrast, is relatively better insulated through geography and commodity abundance, with several countries net exporters of oil, gas or agricultural products. The US also appears well positioned, benefiting from domestic energy, stronger supply chain resilience and trade protection in some industrial segments. US autos, metals and chemicals are less exposed and in some cases benefit from export opportunities into constrained markets.

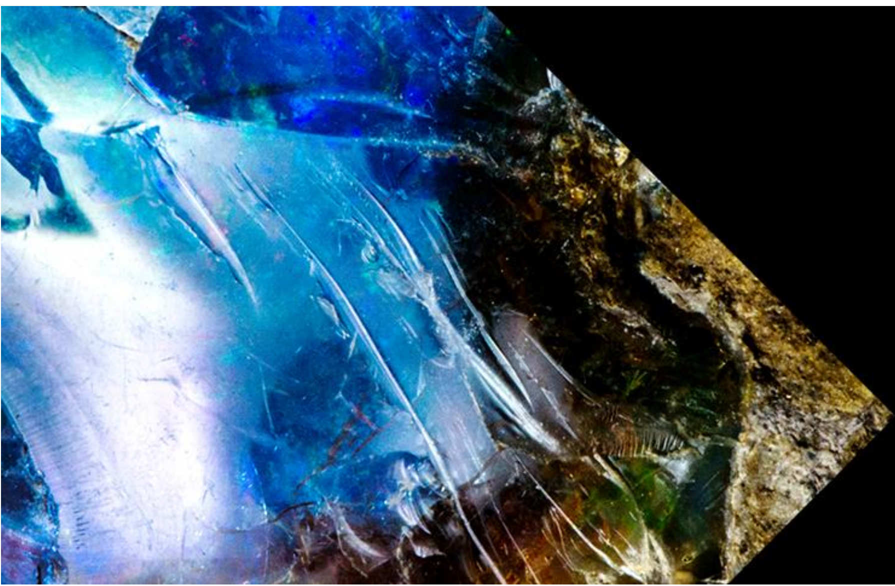
Europe sits between these poles being less exposed than Asia to direct Gulf supply, but more vulnerable than the US via higher energy costs, weaker growth and pressure in selected industrials, especially chemicals and autos where Chinese competition and the energy transition already pose structural challenges.

Figure 10: Sector wise regional exposure and risks

Sector	Asia	Europe	US	Emerging Markets (broad)	Key anchors
Oil & Gas (upstream)	Medium exposure / Often resilient	Medium / Resilient	Low / Resilient	Medium / Mixed	Higher prices can offset production loss; disruption scale ~10 mb/d
Refining & integrated downstream	High exposure / Mixed resilience	High exposure / Mixed	Medium / Mixed	Medium / Mixed	Refining margins rose more than Brent; diesel/jet fuel tightness
Jet fuel & diesel-dependent sectors (e.g., airlines, logistics)	High / Lower resilience	High / Lower	Medium / Mixed	High / Lower	Europe: ~70% jet fuel imports at risk
Petrochemicals (naphtha-based)	High / Lower	Medium / Mixed	Low / Higher	Low / Mixed	Asia relies on Middle East for ~60% naphtha; force majeure, utilisation cuts
Petrochemicals (ethane-based)	Medium / Mixed	Medium / Mixed	Low / Higher	Medium / Mixed	US ethane route advantaged; export margins improved
Fertilisers	Medium / Mixed	Medium / Mixed	Medium / Mixed	High / Lower	Energy-to-food pass-through: 10% energy → 3–6% food
LNG & gas utilities	High / Lower	Medium / Higher	Low / Higher	Medium / Mixed	LNG tight ~3 years; Qatar ~20% global LNG; Europe hedged ~1–1.5 years
Power utilities (overall)	Medium–High / Mixed	Medium / Higher	Low / Higher	Medium / Mixed	Korea vulnerable (spot exposure + weak pass-through); China power mix gas ~3%
Autos	Medium / Mixed	Medium / Mixed	Medium / Mixed	Medium / Mixed	Risk shifts from cost to reliability if prolonged; demand timing risk
Steel & aluminium	Medium / Mixed	Medium / Mixed	Low–Medium / Higher	Medium / Mixed	Energy intensity + freight disruption; aluminium shipping dependence
Semiconductors & tech hardware	High / Mixed	Medium / Mixed	Medium / Mixed	Low / Mixed	Helium risk: Qatar ~1/3 global helium; mitigants: inventory, diversification, recycling

Source: S&P Global, HSBC AM, June 2026.

For now, developments in the Middle East don't justify a broad defensive repositioning across credit. It does, however, demand greater selectivity and a focus on balance sheet strength, supply chain resilience and pricing power. If the disruption renews or persists, the associated credit risk is likely to become nonlinear. The shock would then evolve from being primarily price led – where costs rise, margins adjust, and markets reprice – to one driven by depleted inventories, unreliable delivery and potential production rationing. At that point, analysis must move beyond earnings sensitivity to focus on liquidity, working capital management, sovereign linkage risk and the durability of free cash flow under stress.



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