

Swiss Re L&H Market Event 2026 - Forward, Together: Navigating Hong Kong's Next Chapter

Global Macroeconomic and Insurance Outlook



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Macro overview: Supply Shocks and Statecraft = Stagflation déjà vu?

Stagflation: expect weaker GDP growth, higher inflation, higher interest rates, fiscal sustainability fears, financial market uncertainty

Supply: food and energy price spikes hurt most APAC economies and central banks will wait-and-see so long as inflation is not high to begin with

Shocks: Despite ceasefire(s), damage already done and normalization will also be slow (this time is different from 2025's tariff escalation/de-escalation)

Statecraft: from win-win globalisation to hard-asset (geo)politics – for APAC, best response is investment in infrastructure, energy transition, diversification

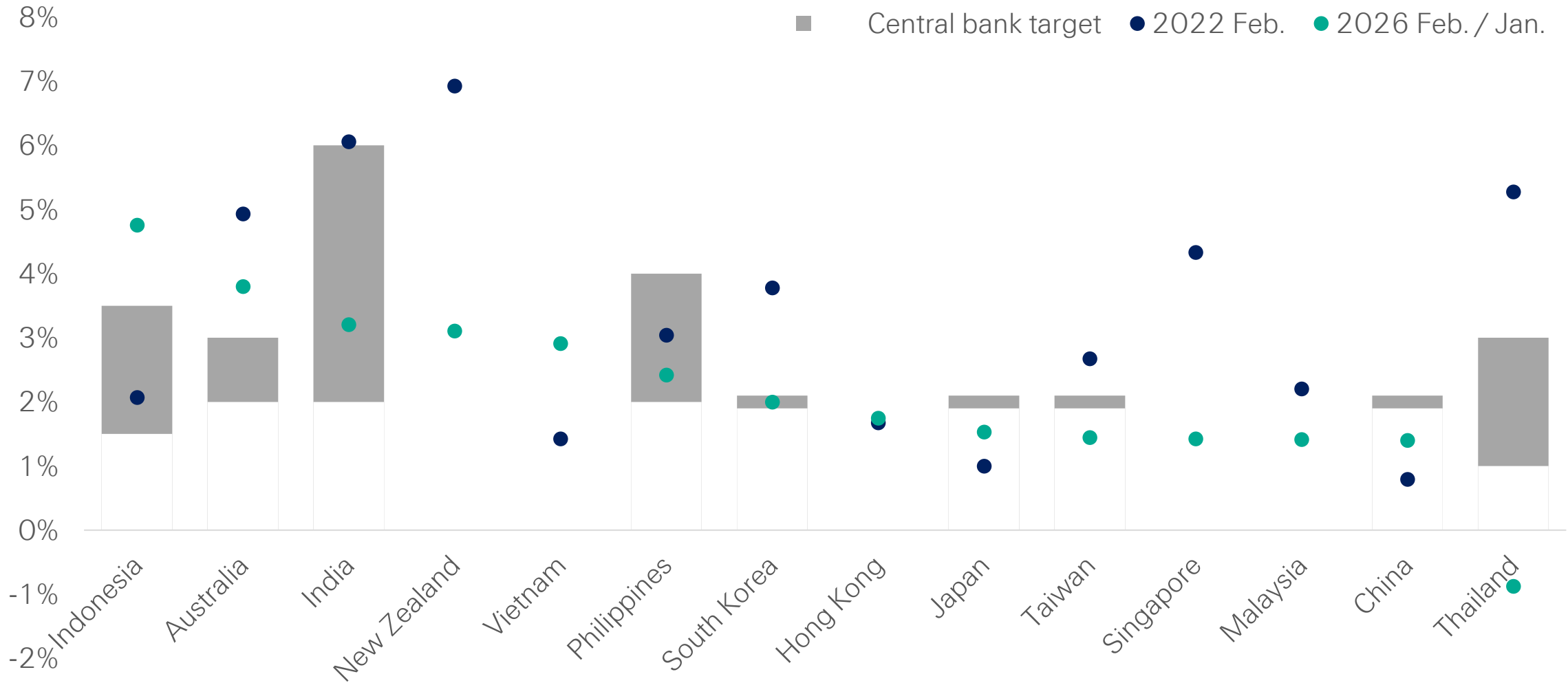
Medium–long term: uncertainty over supply chains, harder to find stable equilibrium with many competing themes (AI, tariffs, ageing, climate change)

Impact on insurance industry

Key risks	Implication for insurers
Higher inflation	<ul style="list-style-type: none"> • Higher claims costs, with premiums lagging inflation • Pressure on margins and affordability • Fixed-benefits products less attractive with higher and more volatile inflation • However, growth slowdown and price increases lower buyers' purchasing power
Higher interest rates/yields	<ul style="list-style-type: none"> • Increases demands for savings products • Higher reinvestment income for re/insurers • However, risk of credit quality deteriorating especially in recession scenarios
Greater uncertainty and volatility	<ul style="list-style-type: none"> • General increase in model/parameter uncertainty and risk accumulation, as military strikes can lead to multi-line events • More volatile asset prices could mean mark-to-market losses • Less risk appetite, particularly for long-tail business (Reinsurance can help provide relief)
Fragmentation & supply chain disruption	<ul style="list-style-type: none"> • Potentially more business interruption/contingent BI losses in property and engineering • May boost investments in energy transition infrastructure
Policy, regulatory & systemic risks	<ul style="list-style-type: none"> • Regulatory and political risk (e.g. constraints on pricing) • Barriers extend to services, flows and data transfers • Status of the USD as dominant reserve currency questioned

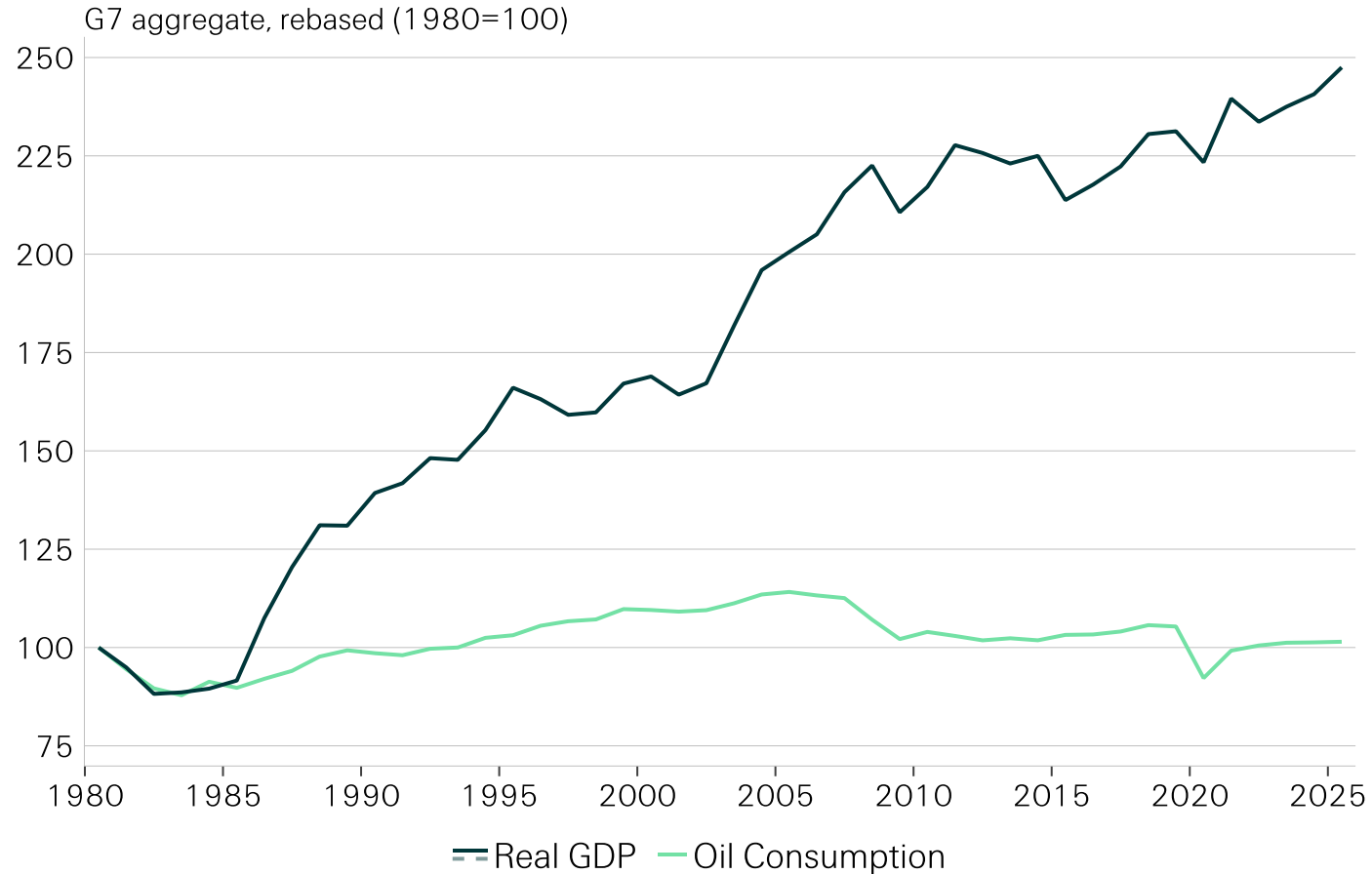
APAC initial conditions: inflation starting points are generally lower

Inflation in much of APAC relatively low, giving policymakers more policy buffers



Versus the 1970s stagflation shock? Oil intensity of economic activity is much lower

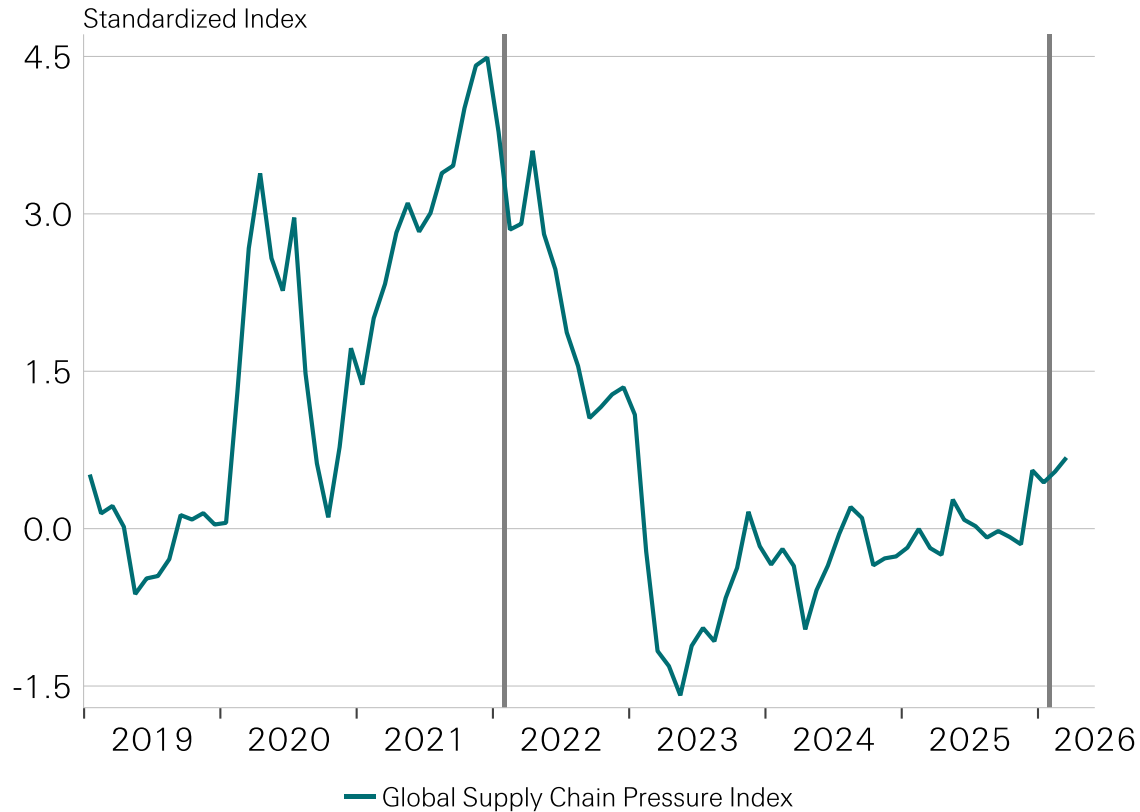
Advanced economies have become less oil intensive since the 1980s



Oil consumption not inclusive of Germany. Source: EIA, IMF, Macrobond, Swiss Re Institute

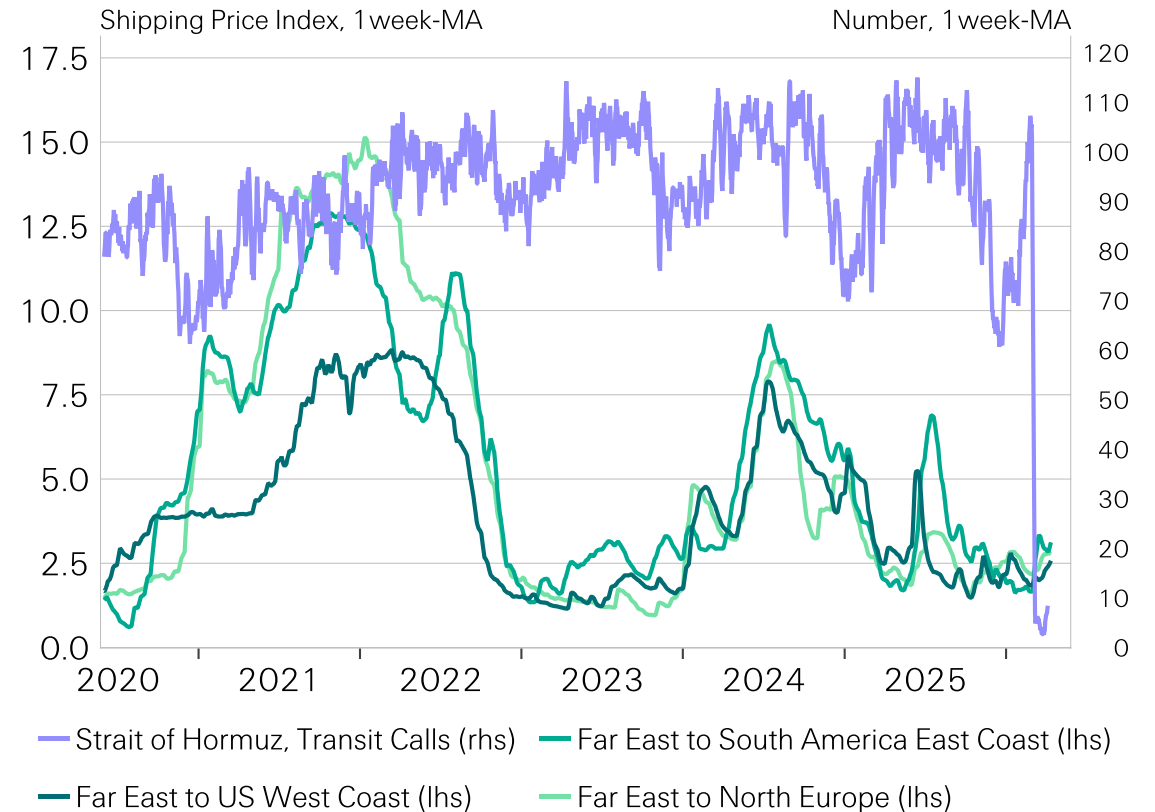
Versus Ukraine invasion energy shock? Supply chain disruptions still far 2021-2022 episode

Better starting point: Supply chain pressures much lower than when the Ukraine conflict broke out



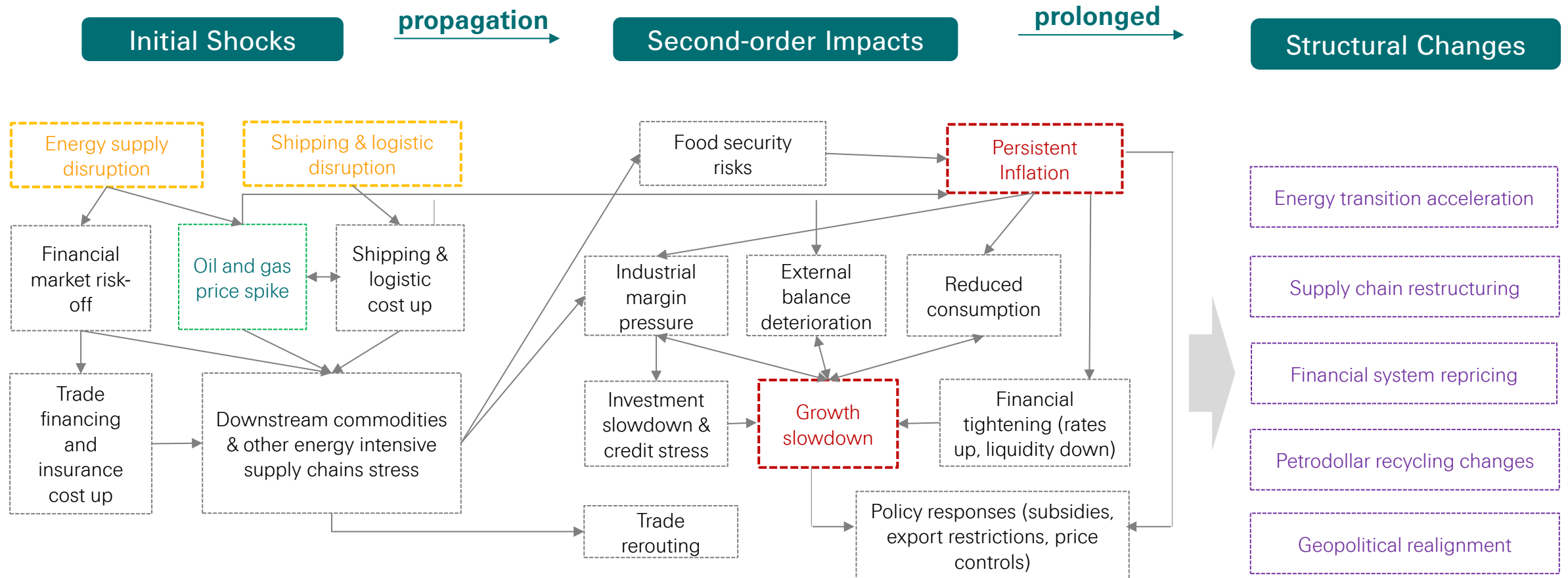
A value 0 indicates an average level of pressures. Source: New York Fed, Macrobond, Swiss Re Institute

Hormuz flows have been brought to standstill, but shipping prices have not surged materially (yet)

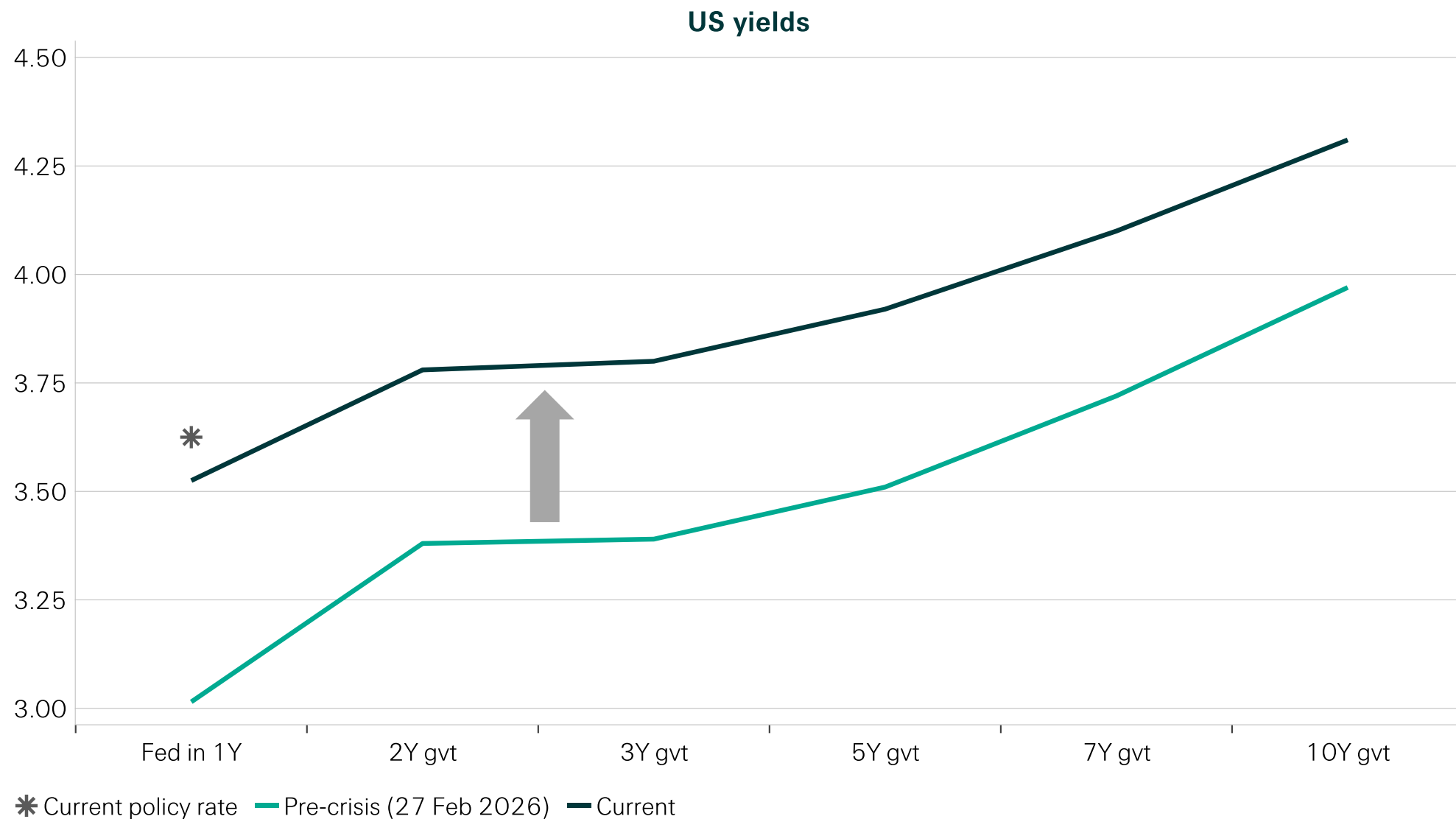


Source: IMF, Compass, Macrobond, Swiss Re Institute

Lagging but persistent second-order effects

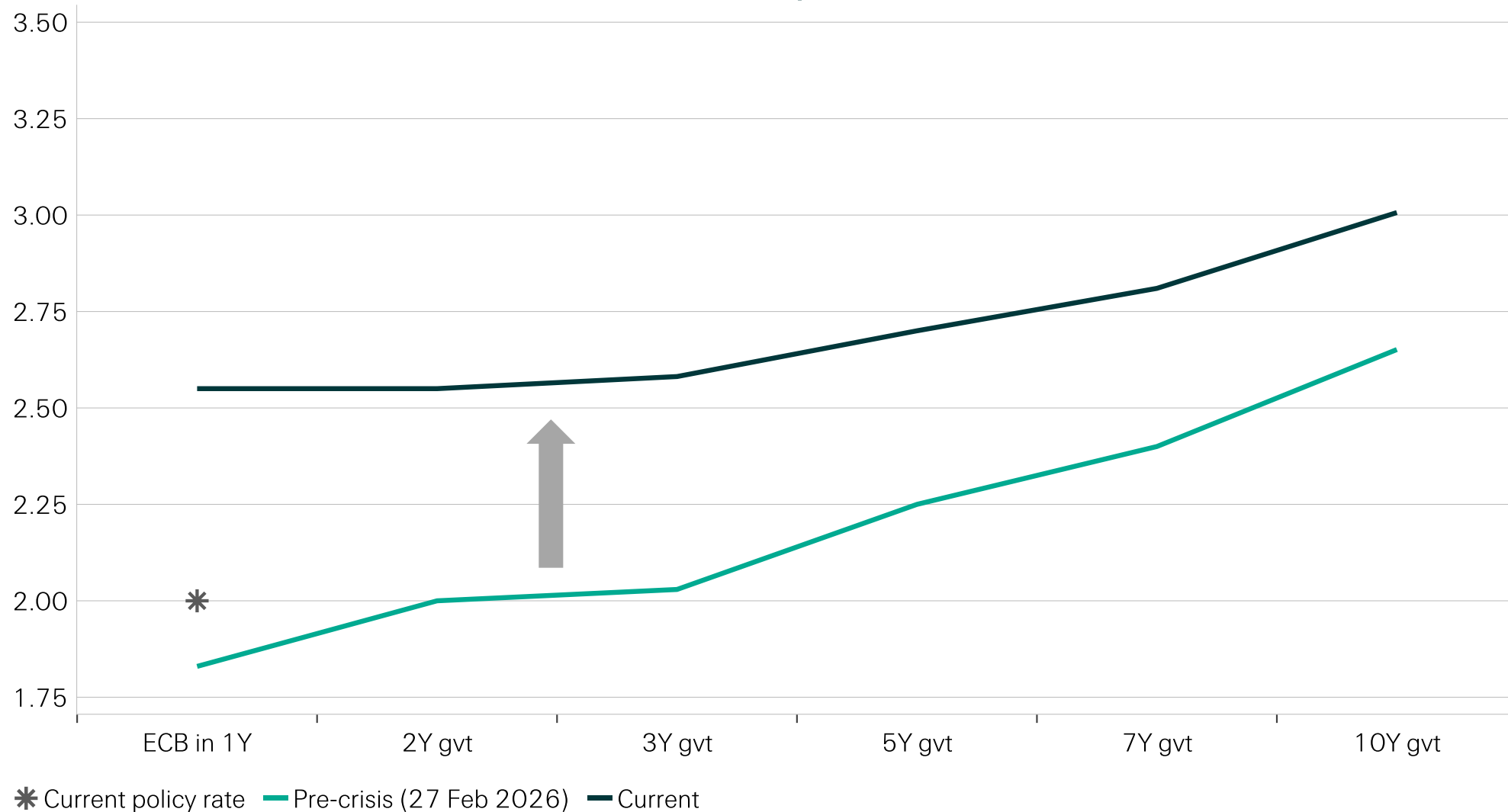


Interest rates: Markets pricing in higher inflation and tighter monetary policy



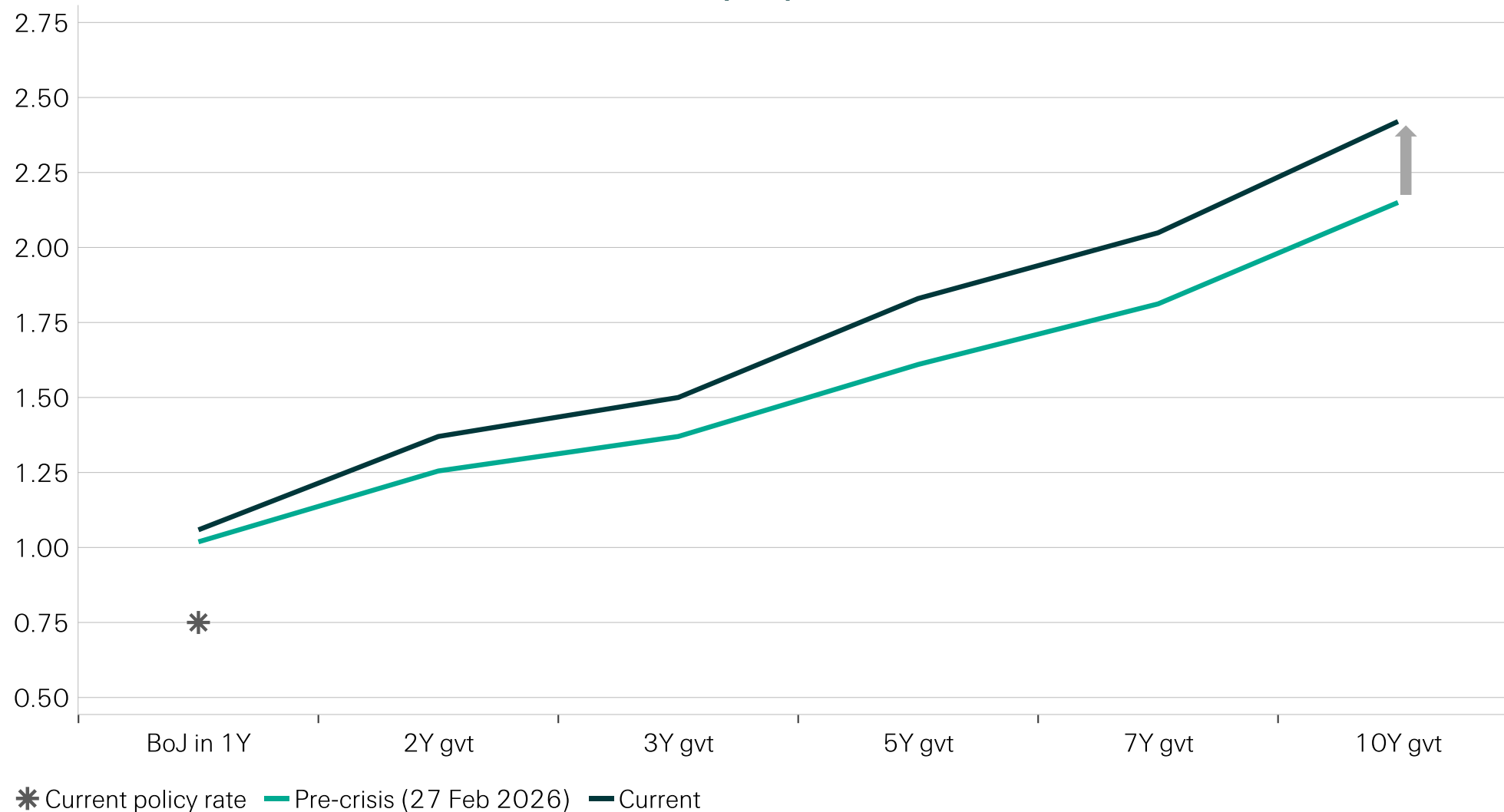
Interest rates: Markets pricing in higher inflation and tighter monetary policy

German yields

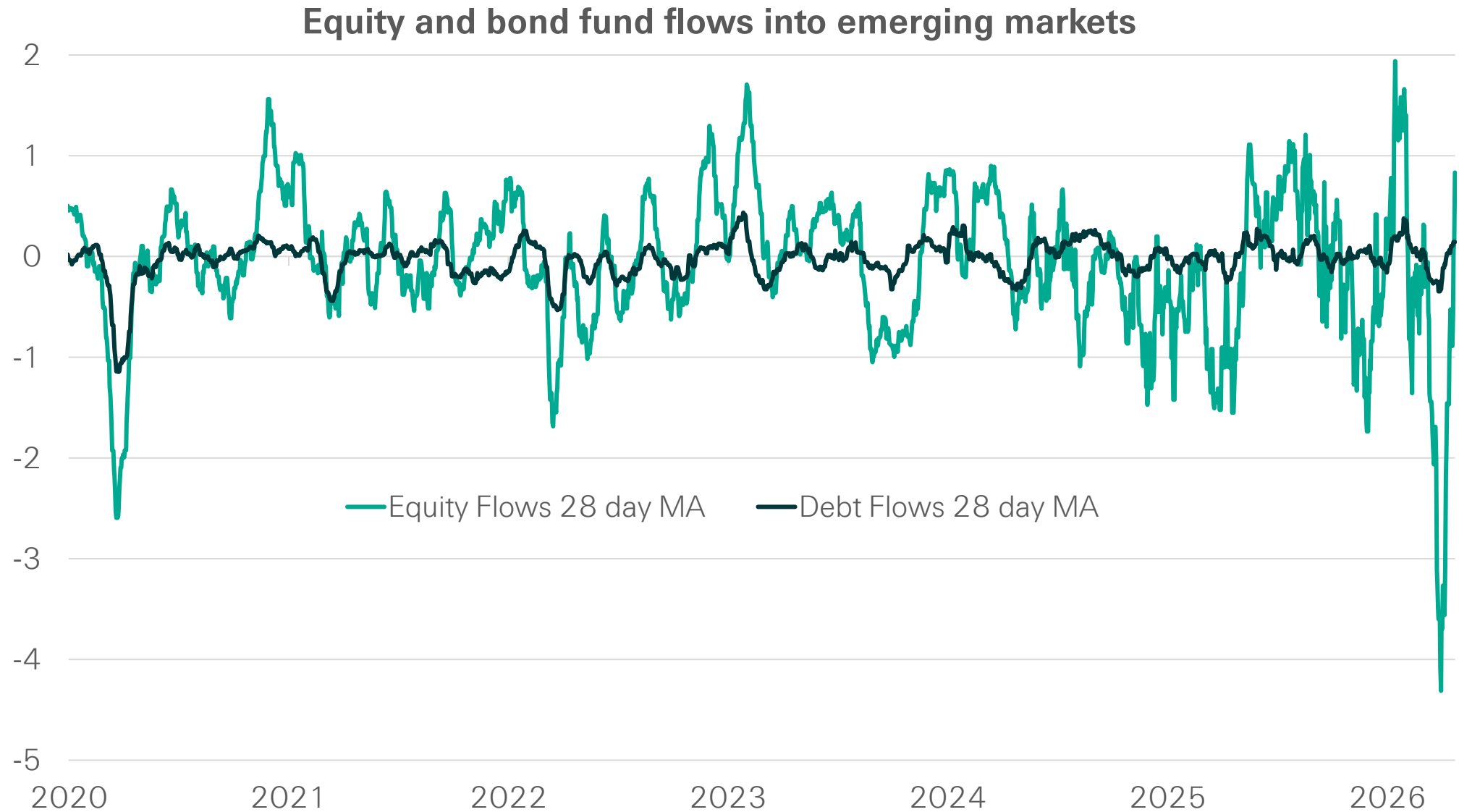


Interest rates: Markets pricing in higher inflation and tighter monetary policy

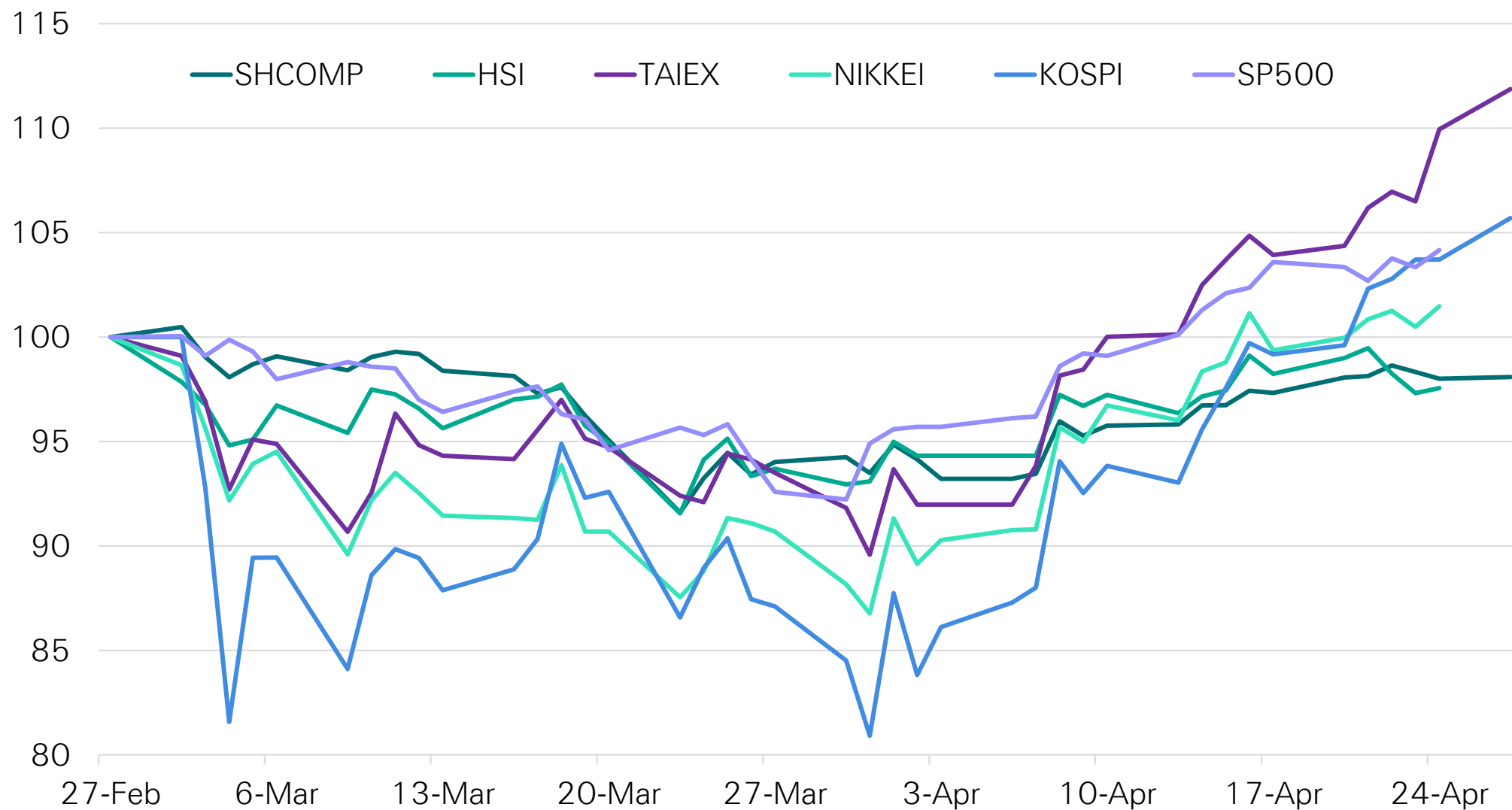
Japan yields



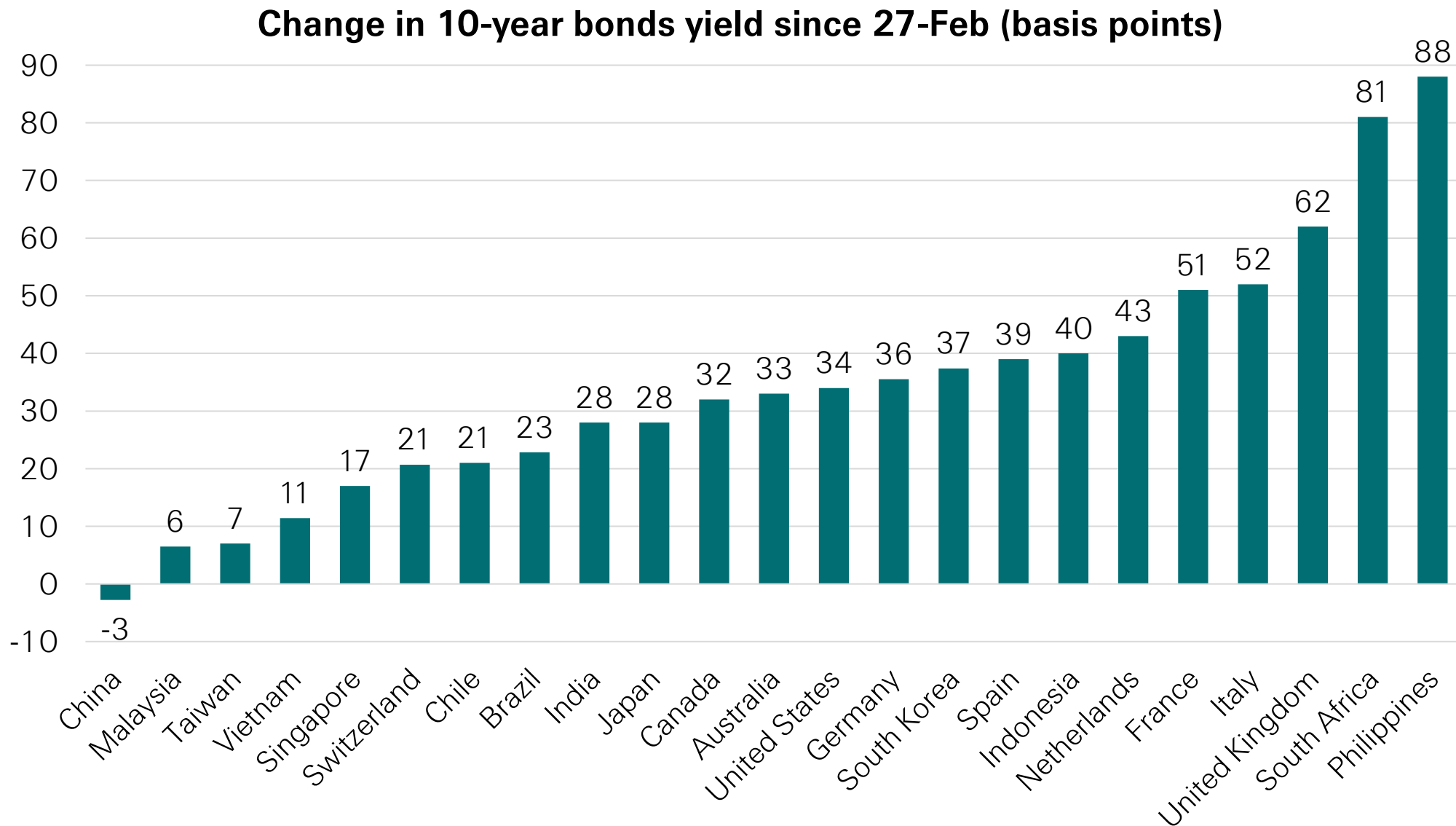
Capital flows: March 2026 was an equity risk-off event, but flows have recovered



Equities: impact very short-lived, but the stock market is not the real economy...



Bonds: sovereign debt also sold off, but more differentiated by country



Key takeaways: asset prices not pricing in stagflation risk

Whether a geopolitical asset price shock proves temporary or prolonged primarily depends on whether commodity supply is durably disrupted

If commodity supply is not impaired: Geopolitical shocks tend to produce temporary risk-off episodes

- **Equities:** Initial sell-off, but recovery typically unfolds within weeks
- **Rates:** Yields fall on a flight to safety, then revert toward pre-shock levels
- **Credit spreads:** Largely range-bound
- **Macro regime:** Growth and inflation dynamics stay intact. The shock is one of sentiment rather than fundamentals

If commodity supply is durably impaired: The shock transitions into a persistent stagflationary regime.

- **Equities:** Prolonged correction as inflation and recession risks dominate
- **Rates:** Yields rise on sustained inflation pressures
- **Credit spreads:** Widen meaningfully amid growth risks
- **Macro regime:** Higher inflation and weaker growth. The shock becomes structural rather than episodic

The Middle East conflict implications for **life insurers**

Indirect macro effects dominate for life insurers, with prolonged conflict amplifying downside risks

Macro factors (Middle East conflict channels)	Life insurance impact	Commentary
Higher inflation (energy shock)	●	Persistent energy-driven inflation erodes real disposable income and can weaken savings flows and demand for long-term life savings products, while also potentially lifting nominal rates and reinvestment yields. The net impact depends on whether higher rates (supporting investment income and liability discounting) outweigh the drag on premiums and new business.
Higher interest rates & Steepening yield curve (long-end up relative to short-end)	●	Higher rates and a steeper long-end of the yield curve improve reinvestment yields and the profitability of savings products, while reducing the present value of long-duration liabilities. Near term, however, mark-to-market losses on existing legacy bond portfolios and higher lapse risk as policyholders seek better yields can partially offset these benefits.
Widening corporate credit spreads → Higher corporate default risk	●	Wider spreads improve prospective returns on new corporate bond purchases, but signal deteriorating credit conditions. They immediately reduce market values of existing holdings and increasing the risk of downgrades and defaults, which can lead to impairments and higher capital requirements.
Decline in equity markets & Higher financial market volatility	●	Reducing the value of insurers' equity holdings, weakening own funds through mark-to-market losses and typically worsen solvency ratios, while also increasing hedging costs and pressuring fee income from unit-linked product AUM.
Tighter financial conditions feeding into economy	●	A growth slowdown typically reduces new business volumes and premium growth and can lift unemployment-related lapses; it also worsens credit fundamentals, reinforcing spread and default risks.



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