

# Conflict in the Middle East: Implications for markets and macro

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## In Summary

- **The US-Israeli strikes on Iran will have implications for energy markets, shipping costs, inflation risks and financial conditions – but everything hinges on how long the conflict lasts.** While a prolonged war could bring back a 2022-style inflation shock, we continue to expect a relatively short-lived escalation, with oil prices expected at 70 USD/bbl (more than +15% from previous estimate; peak expected at 85 USD/bbl) and contained implications for global GDP and inflation. This would not change the course of the ECB and Fed as in Europe and the US, a 10% higher oil price leads to around 0.1-0.2pp higher inflation in the short term. A conflict extending beyond a four- to six-week window would have greater macro and market implications: We view three months as the turning point towards a switching regime risks and a recessionary scenario. But the US administration has an incentive to end the conflict soon as higher oil prices worsening the affordability crisis could mean less support in the November midterm elections.
- **Navigation through the Strait of Hormuz – critical for 30% of global hydrocarbon flows – and disruption of oil production in the Gulf remain the crucial transmission channels.** The immediate market reaction has been driven by maritime disruption rather than field-level scarcity: Oil prices spiked to about 82 USD/bbl (up +13% after the market opened on 2 March) and shipping data currently show more than 200 oil and LNG vessels anchoring outside the Strait of Hormuz, reflecting war-risk insurance issues and precautionary operational pausing. A prolonged conflict with significant disruptions in the Strait of Hormuz could see oil reaching 100 USD/bbl, but it should still end 2026 around USD 70/bbl as the market would eventually adapt. In a tail-risk scenario in which the Iranian regime targets energy infrastructure in the region and disrupts shipping in the strait, Brent could rise above 130 USD/bbl before consolidating towards 80 USD/bbl by end-2026.
- **For markets, policy constraints are shaping the backdrop as rising inflation fears delay rate cuts, keeping volatility elevated despite only moderate repricing so far.** Oil-driven inflation is likely to sustain pressure on rates and weigh on easing expectations. Elevated valuations leave equities and credit vulnerable if energy costs remain high and growth slows, while defense, consumer non-cyclicals and energy are better positioned (especially upstream energy, non-Gulf LNG and some refiners); macro-exposed and energy-intensive sectors remain challenged (e.g. airlines, petrochemicals etc.), and technology faces a mixed environment. Recently higher CDS hedging may help limit spread widening, while private markets may see slower PE distributions and modest private debt spread increases. Markets face branching outcomes, requiring base-case positioning with protection against regime shifts. In the baseline scenario, the front end remains sticky, the belly benefits from growth repricing and the long end drifts toward 4.3% on US 10-year bonds and 2.7% on Bunds; in the tail-risk scenario, inflation pushes these to 5.0% and 3.2% as term premia rebuild and nominal bonds lose hedging properties. Equities may see a moderate correction before recovering to high single-digit returns in the baseline, but fall around -20% in the tail as sustained energy inflation pressures discount rates and earnings. Credit stays near 85bps for IG in the baseline, widening to 125bps under stress, while private markets diverge: infrastructure returns 10% in the baseline and 6% in stress, PE ranges from +12% to -12%, and private debt spreads widen from 500 to 650 bps as coverage ratios weaken.

## Conflict's scope and duration: three scenarios to determine impact

**The US and Israel struck key military and civilian infrastructure targets in Iran after weeks of unsuccessful diplomatic negotiations around a new nuclear deal.** These resulted in the deaths of Supreme Leader Ayatollah Ali Khamenei and multiple senior IRGC and intelligence officials, which have raised questions about the future leadership of the country. In contrast with the short-lived June 2025 war, the US has declared "major combat operations", making this categorically different in duration and escalation risk. Iran has responded by targeting US military infrastructure in the Gulf and the wider Middle East, disrupting air travel and economic activity. Key questions remain around implications for energy markets, as well as the potential tail risk of a total regional war.

**The non-linear geopolitical shock will have implications for energy markets, shipping costs, inflation risks and financial conditions.** The escalation materially raises tail-risk probabilities, particularly via the Strait of Hormuz, a critical chokepoint through which roughly 20mn b/d of crude and 30% of global seaborne hydrocarbons (oil and LNG gas) transit. Early indicators already point to severe operational disruptions: Crossings have dropped by more than -70% following the attacks, with major shipping lines (including Maersk) temporarily avoiding Hormuz, reassessing routing decisions on a 24-hour basis. Iranian Revolutionary Guards have reportedly warned commercial vessels against transiting the strait via VHF transmission (marine radio transmission), even if enforcement remains uneven. Given Hormuz's centrality to global energy flows, even a partial disruption represents a shock larger than recent Red Sea episodes.

**As the conflict continues to unfold, its length will determine the lasting impacts of the conflict on the global economy.** President Trump has alluded to a four-week period needed for a sustainable negotiations and change in the Iranian regime towards a "pragmatic ruler". High oil and gas stocks should make the shock bearable for the global economy if this is the case. Other key considerations are Iran's military capacity to sustain the counteroffensive – Teheran's missile stockpiles remain a question mark – as well as the White House's willingness to continue the offensive. While President Trump has indicated that the attacks will continue until military objectives are met (without specifics on the objectives), he has also offered the Iranian regime a path to de-escalation, an end to the offensive and a softening of economic sanctions if a pragmatic leader is elected. President Trump has an incentive to conclude the offensive sooner rather than later as higher oil prices worsening the affordability crisis could have a negative impact on the midterm elections in November.

Figure 1: Iran scenarios

		Feb 28th	Baseline (High probability) – Short lived escalation with military exchange	Prolonged conflict (Medium probability) – Hormuz blocked for longer	Tail risk (Low probability) – Long sustained escalation with oil industry destruction in the region
			2026	2026	2026
Description			War lasts for less than four weeks. US and Iran deal with a transition of power in Iran. Strait of Hormuz shortly blocked (< two weeks), no destruction of oil industry in the region.	War lasts for longer between US and Iran. No short-term smooth transition of power in Iran in near term.	War escalates significantly, oil infrastructure in the region as well as US military bases are severely attacked. Hormuz Strait needs to be secured by US Navy on a permanent basis.
Oil Brent (USD / barrel), peak / eoy 2026		73\$	85\$ / 70\$	\$100 / 70\$	\$130 / 80\$
GDP	EZ	1.3%*	1.2%	1.0% (-0.2pp)	0.8% (-0.4pp)
	US	2.6%*	2.5%	2.3% (-0.2pp)	2.1% (-0.4pp)
Inflation	EZ	1.9%*	2.1%	2.5% (+0.4pp)	3.1% (+1.0pp)
	US	2.5%*	2.6%	3.1% (+0.5pp)	3.8% (+1.2pp)
EURUSD		1.18	1.19	1.17 (-2%)	1.15 (-4%)
Monetary Policy	ECB	2.0	2.0	2.0 (unch.)	2.0 (unch.)
	Fed	3.75	3.5	3.75 (+25bp)	4.00 (+50bp)
10y	DE	2.6	2.7	2.9 (+0.3pp)	3.2 (+0.6pp)
	US	4.0	4.3	4.5 (+0.5pp)	5.0 (+1.0pp)
Equity market	EZ	6	9	7 (-2pp)	-10 (-19pp)
	US	1	11	3 (-8pp)	-20 (-31pp)
IG Credit spread	EZ	83	85	90 (+5bps)	125 (+40bps)
	US	84	85	90 (+5bps)	125 (+40bps)
Insolvencies	EZ	+1%	+1.1%	+1.6% (+0.6pp)	+2.4% (+1.3pp)
	US	+5%	+5.7%	+6.5% (+0.8pp)	+8% (+2.3pp)

Source: Allianz Research

\* 2026 Allianz Research forecasts before Middle-East war started, other numbers in this column refer to current/ytd values

## Channels of impact: macro and market implications

Transmission mechanisms are layered, and while some are already active (energy prices), others remain in the probability of disruption.

- 1. It's all about energy prices. The ongoing conflict in Iran has led to retaliatory attacks that have disrupted energy shipping and rapidly widened to the broader Gulf.** The immediate market reaction is driven by maritime disruption rather than field-level scarcity: Oil prices spiked to about 82 USD/bbl (up to +13% after the market opened on 2 March) and shipping data currently show more than 200 oil and LNG vessels anchoring outside the Strait of Hormuz, reflecting war-risk insurance issues and precautionary operational pausing. In our baseline scenario of a US–Iran deal within four weeks, associated with a transition of power in Iran, Brent could spike to 85 USD/bbl but should end 2026 around 70 USD /bbl. If the conflict is prolonged and disruptions in the Strait of Hormuz are significant, oil could reach 100 USD/bbl but should end 2026 around USD 70/bbl as the market would eventually adapt. In a tail-risk scenario in which the Iranian regime targets energy infrastructure in the region and disrupts shipping in the strait, Brent could rise above 130 USD/bb before consolidating towards 80 USD/bbl by end-2026.

**Timing is of the essence: the longer the disruptions in Hormuz or to production (in case of infrastructure damage), the more upside risks for global energy prices.** Recent announcements on production volumes (i.e. OPEC+’s supply increase of 206 kb/d) will not do much to reassure markets as they are economically marginal and would still transiting through the strait. For Europe, gas remains the key vulnerability. Almost all of Qatar’s LNG transits through Hormuz, and around one-fifth of global LNG trade goes through the strait. Disruption therefore propagates quickly into global spot LNG price formation and physical availability. As the winter ends in the region, it is not an immediate risk but prolonged disruptions could inflate the gas bill during restocking season. Strategic buffers are also asymmetric. The EU has a 90-day net import strategic reserves requirement for crude oil and had gas storage at 30% on 28 February (vs 38% a year ago). Japan’s emergency oil reserves were reported at 254 days of consumption, while LNG inventories were roughly three weeks. India has about two months of imports and China about 90 days. However, some emerging economies have a smaller buffer. Thailand, for instance, decided to ban fuel exports to protect its domestic supply. To avoid a renewed 2022-style inflation shock, shipping confidence needs to be restored and tensions de-escalated quickly.

- 2. Inflation and central bank reactions will depend on the length of the conflict and the reaction function of fiscal policy.** The biggest concern is an inflation shock from higher oil prices. In Europe and the US, a 10% higher oil price leads to around 0.1-0.2pp higher inflation in the short term. Our new baseline at 70 USD/bbl compared to around 60 USD/bbl would therefore lead to only a small, negligible impact on inflation, without changing the course of the ECB and Fed. However, a prolonged-war scenario with an oil spike to 100 USD/bbl or more, we would see inflation rising by around +0.5pp. In parallel, rising bunker oil prices could also represent a transmission channel, likely pushing up containership freight rates. With fueling representing about 35% of total operating costs and bunker oil prices increasing by around +20% over the past month, a 40-50% increase in fueling costs could translate into shipping carriers raising freight costs by 15-20%, to offset the impact, which could ultimately impact inflation by 0.3-0.5pp, as ocean freight is typically 2–3% of the final retail price for manufactured goods. Although a prolonged war could push bunker oil prices even higher, we do not expect maritime freight rates to reach post-Covid highs, as trade growth is moderating in 2026, fleet capacity is set to expand by around +8% y/y and rerouting has become standard practice. But the ECB and Fed would likely react differently to higher inflation, given the differing economic backdrop. In the Eurozone, inflation and inflation expectations are already anchored around target, making second-round effects of higher energy prices on broader prices and wages dynamics less likely; the ECB would look through this negative supply shock and keep rates steady at 2%, same as in our baseline. In the US, inflation has been above target since 2021, and recent data indicate that price pressures are far from being contained (accelerating core PPI at +3.6% y/y in January). Besides, growth momentum is more solid than in the Eurozone, adding upside risks to inflation if the central bank is too accommodative. Therefore, we would expect the Fed to refrain from cutting rates further in 2026 (vs June rate cut in our baseline) and to keep rates at an elevated 3.75% instead. Possible fiscal responses from governments, as in 2022-23, would also mean upside risks to inflation, making central banks more skewed towards keeping rates on hold or to hike rather than cut. Yet, given stretched fiscal positions in many countries, the fiscal response will likely be contained at symbolic measures such as tax cuts on energy products.

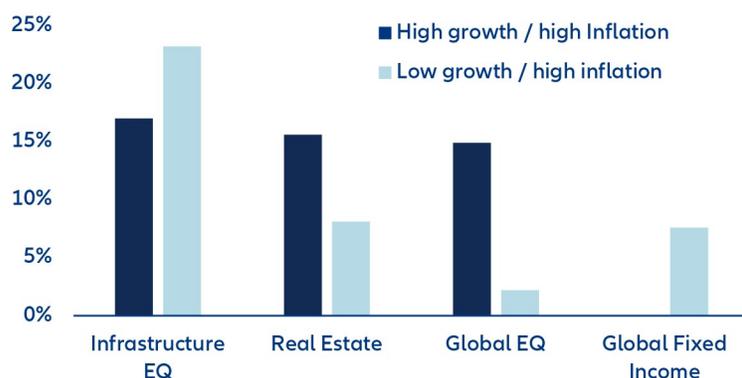
3. **Sector implications:** In our baseline scenario, energy price dynamics are primarily a volatility shock rather than a sustained supply shock, with oil briefly testing higher levels before normalizing as de-escalation materializes and flows through the Strait of Hormuz remain broadly intact. With risk premia embedded in freight, and insurance and futures temporarily spiking, the principal winners are upstream companies, particularly non-Gulf producers with direct leverage to spot prices. Integrated oil majors would also benefit from short-term cash-flow uplift and stronger trading results, LNG exporters outside the Gulf could capture opportunistic margin increase in Europe and Asia, some refiners would be supported by firmer middle distillate cracks, shipping companies may leverage the heightened geopolitical risk and (oil) market uncertainty to implement freight rate increases or surcharges, while defense would also benefit from the current situation. The relative losers are airlines facing higher jet fuel costs (with limited immediate pass-through) and operations disruptions in the region, petrochemical producers exposed to feedstock inflation and weaker downstream margins, gas-intensive European utilities sensitive to LNG repricing and political constraints on tariff adjustments and consumer discretionary sectors in energy-importing economies where temporary fuel inflation compresses real incomes and weighs on confidence.
4. **Rising liquidity risks with a more uncertain Fed backstop.** A sustained Brent move to 85 -100 USD/bbl would be a severe collateral shock and a massive balance sheet constraint for (notably European) primary dealers and/or banks. As the demand for USD increases (hedging, energy imports etc.) the EUR/USD basis will widen further from currently -25bps. We still have some way to go before reaching crisis levels. During the liquidity crisis of March 2020 it reached -90bps before the Fed opened its Swap lines and re-anchored it. If the blockage of the Hormuz street continues and the swap line question becomes more virulent (European) dealers might face a funding gap. The difference is that with Kevin Warsh as new Chairman, the Fed might be more reluctant to extend its balance sheet in favor of international monetary stabilization.
5. **Sharper market reactions could be expected.** Due to recent short-lived Middle East shocks in past decades, markets anchor to a baseline scenario of rapid stabilization for now. However, the distribution of risks has clearly shifted. The VIX has already risen above 25 and the term structure is now strongly inverted, with futures pricing the index back down to an average longer-term level of around 22 already three weeks out. Oil-driven inflation risks skew outcomes toward higher rates volatility, especially if markets initially price lower yields on safe-haven flows before repricing inflation. This should favor the short-end of the US curve as the purest safe-haven trade. From elevated valuations and earnings expectations, broader equities and credit remain exposed to correction under higher energy, rates and lower growth. Defense stocks can be expected to benefit the most from deployment of resources and evidence of geopolitical tensions escalating to war. Non-cyclical sectors in general can be expected to outperform macro-exposed and energy intense business, e.g. consumer non-cyclicals and energy should benefit vs. pressure for chemicals and airlines. Technology, which was under pressure in recent months, may find support from lower cyclical risk but pressure remains from higher financing cost for data centers and higher rates reducing appeal of growth. Investors' CDS-hedging in recent months balanced additions to corporate bonds. Such recent risk steering should help moderate spread widening. For private markets, the near-term impact is likely a further freeze in PE distributions and exit activity alongside spread widening in private debt (but not to alarming levels). Meanwhile, infrastructure equity is likely to emerge as the clear structural winner irrespective of the scenario as energy security, LNG, and power grid assets are likely to continue to be repriced higher.
6. **Implications for markets:**
  - a. **Rates (EUR & US): The central issue is not whether inflation will rise, but whether it will rise sufficiently to change current policy rate expectations.** Supply-driven oil shocks are fundamentally different from demand-driven ones in terms of their rate transmission. They compress real incomes and slow growth at the same time as they lift headline CPI, creating a policy paralysis that keeps central banks on hold rather than driving them to hike. Markets are well aware of this dynamic, which is why the inflation curve response to supply shocks is historically muted relative to the initial oil move. In our baseline, Brent crude oil prices peak at 85 USD/bbl and settle at 70 USD/bbl, contributing only 0.1-0.2pp to inflation on both sides of the Atlantic. This scenario leaves the ECB anchored at 2.0% and the Federal Reserve at 3.5%. The subsequent curve dynamics are mechanical: front-end rates remain sticky as cuts are postponed and the long end drifts modestly wider on term premium. We see US 10y at 4.3%

and 10y Bund at 2.7%, reflecting a modest risk premium rebuild. The most significant development is the whether nominal bonds will preserve their ability as a portfolio hedge. Sovereigns did not rally on the day of the strikes, yields actually increased. While this might be due to market mechanics in the short-run, it could be a first hint that in a supply driven inflation regime, the traditional correlation between bonds and equity is impaired as it was in the post-Covid deflation period. If this scenario unfolds, it strongly argues for shifting duration exposure from nominals to inflation-linked instruments. However, in a protracted conflict the Federal Reserve would maintain a 3.75% interest rate not because inflation is demand-driven, but rather because it cannot be seen to accommodate a second consecutive energy price spiral with inflation expectations still not fully re-anchored. In the wake of these developments, governments are also expected to implement fiscal responses. These responses are likely to increase sovereign debt supply which translates into higher term premium. As a result, the US 10-year yield is projected to reach 5.0%, leading to a shift in the bear-steepening trade from a tactical to a structural position. At that point, the EUR/USD basis, already at -25bps from dollar hedging and energy import demand, risks approaching the -90bps levels seen in March 2020. Unlike then, the Federal Reserve's willingness to extend swap lines to stabilize European dealers is far less certain under the current leadership.

- b. **Public Credit (Investment Grade): While the fundamental credit story is stable in the baseline, the downside scenarios' combination of lower growth and higher rates challenges spreads which are still near historic tights, especially if liquidity gains attention.** The resilience of the credit market under baseline conditions is primarily supported by two key factors: the brevity of the conflict, which limits macroeconomic damage, and stable credit metrics and earnings outlook within an \$85–70 USD/bbl oil environment. Additionally, the CDS hedging accumulated by investors in recent months should help moderate outflows. In the Euro credit space, the banking sector warrants particular attention due to its dominant market weight and its position at the intersection of commodity financing and USD liquidity. The banking sector's previously defensive characteristics in oil price spikes may be challenged under more extreme energy market dislocations when also USD liquidity is tight. Due to investment grade credit's high seniority and quality, we anticipate modest widening in most scenarios but the tail may trigger broader risk-off and Treasuries cannibalizing investor demand, pulling spreads close to median which is also inline with credit metrics. As such, even in the tail risk we expect re-anchoring to fundamentals.
- c. **Public Equities: elevated starting conditions add downside, especially for the US market.** The Iran escalation has heightened macroeconomic risks amid already high market valuations and earnings expectations, particularly in the US. While risk assets may initially overreact, fundamentals are likely to prevail, with limited impact on GDP growth supporting broader market earnings. Non-cyclical sectors should remain resilient, but energy-dependent industries like airlines and chemicals may face pressure. US market valuations, especially in technology, are vulnerable if interest rates rise or growth slows, potentially leading to a shift toward more normalized valuations in a riskier global environment. In adverse scenarios, equity markets could see significant declines—up to -20pp for US equities—driven by reversion to mean of valuations (2/3) and earnings cyclicality (1/3). With -10pp we would expect Eurozone equities to be less exposed to those two factors but cannot escape broader risk-appetite and re-allocation to Treasuries offering increased yields.
- d. **Private Markets: Infrastructure has proven to be a resilient asset during this period of uncertainty. The key question is whether private equity and credit have sufficient reserves to withstand a macroeconomic shift without causing unintended distribution issues.** Infrastructure is the one private markets asset class that draws strength from the very forces destabilizing everything else. Energy security has become a political imperative overnight, and the capital already committed to LNG terminals, power grids, and pipeline diversification will now flow faster and at structurally higher valuations. We expect +10% returns in 2026 under the baseline, holding at +6% even in a prolonged conflict, as scarcity repricing proves durable. This is similar to what happened with European energy infrastructure after 2022, when it was permanently re-rated, and there was no turning back. Private equity is an entirely different matter. The underlying portfolio companies are not the problem; staples, healthcare, and technology are largely insulated. However, the transaction machinery that monetizes them encounters issues when rates and volatility rises, M&A multiples compress, and risk appetite

fades. We observed precisely this in 2022, when global deal volumes fell by approximately 35% and LP distributions compressed sharply. Our base case of +12% PE returns in 2026 flips to -12% in the downside as exit windows close, hold periods extend, and marks come under pressure, creating real J-curve stress for investors managing liquidity commitments. Private debt is in a strong position, with floating rates, senior secured positioning, and higher-for-longer underwriting standards all working in its favor. We expect middle market lending spreads to widen from 500 basis points (bps) in the baseline to 650 bps in the downside scenario. This is due to pressure on coverage ratios experienced by vulnerable verticals such as energy-intensive borrowers in chemicals, packaging, and consumer discretionary, which necessitates active portfolio management. All in all, private markets are not isolated from inflationary shocks but history suggests private assets are more resilient under supply-driven inflationary shocks, especially for infrastructure (Figure 2).

Figure 2: Historically infrastructure has outperformed compared to other asset classes during high inflationary environments (annual average performance)



Sources: Blackrock ([link](#)), Allianz Research

Note: Bloomberg, Barclays, EDHEC for Infrastructure equity; NCREIF for Global Real Estate; MSCI for Global Equities; BBG Barclays Global Aggregate Index TR for Global fixed income, as of May 22, 2023 (annual data since 2001). High inflation periods are when U.S. CPI > 2.5%. High growth periods are when U.S. GDP > 2.5% and Low growth periods are when U.S. GDP < 2.5%.

**7. Implications for the Gulf region.** The fastest transmission channel for the region was the airspace closure, with flights cancelled across the world as the Gulf hosts some of the world’s busiest airports (especially the Dubai airport). In addition, Iran’s retaliation brought the conflict to the Gulf, as missiles were seen across the skylines of main Gulf cities, whose debris reached several civilian infrastructure in Bahrain, the UAE and Kuwait. The length of the war will determine the full impact to the region, as food supplies could run low in the import dependent region if disruption at the main ports lasts, economic activity is stopped and tourism arrivals drop for a sustained period. In June 2025, the 12-day war had only a temporary impact on economic activity, Saudi Arabia consumer sentiment dropped to recover just a month later, and stock indexes in the region also suffered temporary losses experiencing a V-shaped rebound by the end of June 2025 closing the month in positive territory. As the region has remained mostly untouched over the last few years of conflict between Israel, the US and Iran, the Gulf faces now the greatest challenge as the Iranian regime is put into question, testing the security and economic apparatus.

Figure 3: Post US intervention scenarios

Regime continuation	Regime mutates		Regime falls	
Clerics continue in power with IRGC support	Spain style regime change	Soviet style breakdown	Syria style breakdown	Yugoslavia style breakdown
Mid probability	Low probability	Higher probability	Mid probability	Lowest probability
<b>In a nutshell:</b> Regime successfully navigates killing of Ayatollah Khomeini. Regime	<b>In a nutshell:</b> Following Ayatollah Khomeini’s death, a new appointed autocrat leads the regime	<b>In a nutshell:</b> Fall of cleric regime is followed by a military regime, key members of the IRGC take	<b>In a nutshell:</b> regime fall brings country to civil war path between different factions. Possible	<b>In a nutshell:</b> regime collapses, non-Persian majority regions threaten secession,

transitions to a new appointed cleric with IRGC support, status quo remains with increased domestic repression but deal with the US.	through economic and political liberalization.	leadership roles (i.e. speaker of the House Ghalibaf).	breakdown within the IRGC. High risk of conflict extending towards Iraq.	especially Kurds and Azeris in north-West, Baloch's in South-East and Arabs in the South.
<b>Geopolitical implications:</b> no major changes, unless regime takes a conciliatory tone with US and Israel.	<b>Geopolitical implications:</b> Iran returns to global scene closer to Western countries. Impacts to Yemen, Lebanon and Iraq as Iran cleric regime has had great influence on these capitals for decades.	<b>Geopolitical implications:</b> no major changes, unless regime takes a conciliatory tone with US and Israel.	<b>Geopolitical implications:</b> Broader Middle Eastern region could suffer more instability given continued internal conflict.	<b>Geopolitical implications:</b> Broader Middle Eastern region could suffer more instability given continued internal conflict.

Sources: Foreign Affairs, Allianz Research

### Box 1: Lessons of history for the ongoing conflict

The Middle East has experienced several foreign intervention and regime change events, which indicate key considerations as developments unfold, notably the 1979 Iranian Revolution that ended the Pahlavi regime and the 2003 overthrow of Saddam Hussein and Baath Party.

**Power vacuum.** The aftermath of the US invasion of Iraq in 2003, with the removal of the top leadership of the country after more than 20 years in power, together with the increased external influence (US and Iran) that followed, created both a complete break with previous institutions, as well as a long-lasting instability given the devastating blow to the economy and the civil war that emerged from it. Years of power vacuum and devastating economic and social conditions resulted in the spread of terrorism

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**Security apparatus strength.** In both the 1979 Iranian overthrow of the Shah and the 2003 invasion of Iraq, military forces rapidly collapsed and defections quickly took place. During recent demonstrations in Iran, there were no reports of defections and no public dissent within the leadership against Supreme Leader Khamenei. The IRGC is far more ideologically integrated into the regime's economic and political fabric. History tell us that military force alone will not translate into a quick regime change as structure remains.

**Regional contagion.** The 2003 US invasion of Iraq caused displacement of people across Iraqi borders, bringing refugees to neighborhood countries. The political influence of the Iranian revolution was deep in countries across the region. Regime change or regime instability can have unpredictable effects on other nations in the region.

**Reviewing recent geopolitical events and their market impacts – across equities, yields, oil, FX, gold, and IG spreads – offers a useful lens for assessing impacts of the current conflict on macroeconomics and markets.** History shows that the impact of geopolitical tends to be short-lived. However, the heterogeneity of events, timelines and affected regions means historical parallels remain inconclusive. Equities and oil tend to show the greatest sensitivity, though the direction and magnitude of price responses vary considerably. On the oil front, concerns involving supply translate to greatest impact, versus just the geopolitical premium price hike. Finally, events that persist over longer periods and trigger structural shifts – such as the First Gulf War or Russia's invasion of Ukraine in 2022 – tend to produce larger but more delayed market impacts. While it is too early to determine how the current Iran conflict will unfold, our tail-risk scenario falls into this category: a sustained rise in oil prices over an extended period, with cascading consequences for broader capital markets.

Figure 4: Historically, market reactions on conflicts turn out to be quite mild

Stock index changes in %											
Event	Date	Days to recover	Max down	4w before	1w before	1w	2w	4w	8w	6m	12m
<b>First Gulf War</b> 02/08/1990											
S&P 500		190	-17%	1%	0%	-5%	-4%	-9%	-14%	-5%	7%
Eurostoxx (297)		1094	-28%	1%	1%	-9%	-10%	-14%	-24%	-25%	-13%
<b>9/11 Attacks</b> 11/09/2001											
S&P 500		32	-12%	9%	4%	-5%	-8%	-3%	1%	7%	-20%
Eurostoxx (297)		37	-17%	12%	7%	-8%	-12%	-5%	2%	10%	-25%
<b>Second Iraq War</b> 20/03/2003											
S&P 500		none	-	-3%	-8%	0%	1%	1%	7%	16%	28%
Eurostoxx (297)		none	-	1%	-13%	-1%	-1%	4%	6%	19%	31%
<b>Crimea Crisis 2014</b> 27/02/2014											
S&P 500		none	-	-4%	-1%	2%	1%	0%	2%	8%	14%
Eurostoxx (297)		none	-	-4%	-1%	0%	-2%	-1%	1%	-1%	11%
<b>Russian invasion of Ukraine 2022</b> 24/02/2022											
S&P 500		none	-	3%	6%	4%	1%	5%	6%	-2%	-3%
Eurostoxx (297)		34	-12%	4%	4%	-4%	-6%	-2%	-1%	-8%	4%
<b>Israel-Hamas War</b> 07/10/2023											
S&P 500		4	0%	3%	0%	0%	-2%	1%	7%	21%	34%
Eurostoxx (297)		4	-1%	3%	1%	0%	-3%	1%	6%	19%	19%
<b>Israel-Iran War</b> 13/06/2025											
S&P 500		13	-1%	-2%	-2%	-1%	2%	4%	5%	13%	N/A
Eurostoxx (297)		26	-3%	0%	1%	-3%	-2%	1%	7%	7%	N/A
Median				1%	1%	-1%	-2%	1%	2%	7%	9%
Average				2%	0%	-2%	-3%	-1%	0%	6%	7%

Sources: LSEG Datastream, Allianz Research

10y yield changes in bps											
Event	Date	Days to recover	Max down	4w before	1w before	1w	2w	4w	8w	6m	12m
<b>First Gulf War</b> 02/08/1990											
US 10y		none	-	9	20	45	36	52	70	-24	-10
DE 10y		none	-	1	-9	32	21	36	54	18	13
<b>9/11 Attacks</b> 11/09/2001											
US 10y		none	-	13	0	-22	-12	-33	-54	49	-91
DE 10y		11	-9	-7	-7	-5	4	-19	-55	33	-46
<b>Second Iraq War</b> 20/03/2003											
US 10y		none	-	-10	-40	-6	-6	-4	-46	28	-22
DE 10y		none	-	-31	-40	-3	-10	-9	-32	-6	-33
<b>Crimea Crisis 2014</b> 27/02/2014											
US 10y		7	-7	0	6	2	5	2	2	-29	-56
DE 10y		none	-	3	5	-1	-2	-5	-10	-66	-124
<b>Russian invasion of Ukraine 2022</b> 24/02/2022											
US 10y		none	-	-13	7	-11	-3	34	86	106	185
DE 10y		15	-33	-29	5	-21	-3	26	64	107	224
<b>Israel-Hamas War</b> 07/10/2023											
US 10y		12	-23	-54	-22	-18	12	-22	-58	-45	-101
DE 10y		12	-17	-29	-5	-16	-1	-25	-53	-49	-76
<b>Israel-Iran War</b> 13/06/2025											
US 10y		none	-	10	4	3	-11	-1	-11	-17	N/A
DE 10y		none	-	15	11	4	9	18	16	37	N/A
Median				-3	2	-4	-1	-3	-10	6	-39
Average				-9	-5	-1	3	4	-2	10	-11

Sources: LSEG Datastream, Allianz Research

Oil											
Event	Date	Days to recover	Max up	4w before	1w before	1w	2w	4w	8w	6m	12m
<b>First Gulf War</b> 02/08/1990											
WTI		154	89%	-19%	-10%	18%	22%	21%	80%	-3%	0%
Brent		169	108%	-19%	-6%	24%	31%	31%	102%	1%	-2%
<b>9/11 Attacks</b> 11/09/2001											
WTI		9	8%	1%	-1%	4%	-22%	-19%	-28%	-14%	5%
Brent		8	7%	-6%	-4%	2%	-22%	-26%	-31%	-17%	0%
<b>Second Iraq War</b> 20/03/2003											
WTI		none	-	24%	27%	-4%	-4%	-2%	-2%	-6%	21%
Brent		none	-	20%	23%	-5%	-5%	-8%	-3%	-3%	18%
<b>Crimea Crisis 2014</b> 27/02/2014											
WTI		none	-	-5%	1%	-1%	-4%	-2%	-1%	-7%	-48%
Brent		none	-	-2%	1%	-1%	-2%	-3%	-1%	-7%	-45%
<b>Russian invasion of Ukraine 2022</b> 24/02/2022											
WTI		162	34%	-4%	2%	20%	18%	27%	11%	1%	-15%
Brent		161	32%	-7%	-2%	17%	15%	26%	10%	0%	-14%
<b>Israel-Hamas War</b> 07/10/2023											
WTI		25	8%	6%	10%	6%	6%	-2%	-11%	4%	-17%
Brent		32	9%	7%	13%	7%	9%	1%	-7%	6%	-15%
<b>Israel-Iran War</b> 13/06/2025											
WTI		12	10%	-8%	-7%	10%	-3%	-1%	-6%	-15%	#N/A
Brent		12	14%	-7%	-6%	14%	-2%	-1%	-4%	-11%	#N/A
Median				-5%	0%	7%	-2%	-2%	-3%	-4%	-8%
Average				-1%	3%	8%	3%	3%	8%	-5%	-9%

Sources: LSEG Datastream, Allianz Research

FX and Gold										
Event	Date	4w before	1w before	1w	2w	4w	8w	6m	12m	
First Gulf War										
EURUSD	02/08/1990	-3%	-2%	0%	2%	2%	1%	5%	-10%	
Gold		-3%	0%	2%	8%	3%	9%	1%	-2%	
9/11 Attacks										
EURUSD	11/09/2001	0%	1%	2%	2%	2%	0%	-3%	10%	
Gold		1%	1%	7%	6%	7%	3%	7%	17%	
Second Iraq War										
EURUSD	20/03/2003	1%	4%	1%	2%	2%	9%	7%	15%	
Gold		3%	3%	-2%	-2%	-3%	5%	12%		
Crimea Crisis 2014										
EURUSD	27/02/2014	0%	1%	1%	2%	1%	1%	-3%	-17%	
Gold		-5%	0%	1%	3%	-2%	-3%	-4%	-9%	
Russian Invasion of Ukraine 2022										
EURUSD	24/02/2022	0%	0%	-2%	-2%	-3%	-4%	-12%	-6%	
Gold		-4%	-2%	1%	5%	1%	2%	-9%	-4%	
Israel-Hamas War										
EURUSD	07/10/2023	2%	0%	0%	0%	2%	3%	3%	6%	
Gold		5%	1%	5%	9%	9%	12%	25%	44%	
Israel-Iran War										
EURUSD	13/06/2025	-3%	-1%	-1%	1%	1%	0%	0%	#N/A	
Gold		-5%	0%	0%	-2%	-2%	0%	25%	#N/A	
Average EURUSD		-1%	1%	0%	1%	1%	1%	-1%	#N/A	
Average Gold		-1%	0%	2%	4%	2%	4%	8%	#N/A	

Sources: LSEG Datastream, Allianz Research

IG Spreads											
Event	Date	Days to recover	Max up	4w before	1w before	1w	2w	4w	8w	6m	12m
First Gulf War											
US IG Spread	02/08/1990	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
EUR IG Spread		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9/11 Attacks											
US IG Spread	11/09/2001	565	113	-9	-6	24	44	25	35	12	70
EUR IG Spread		79	18	-10	-7	11	17	16	17	-6	21
Second Iraq War											
US IG Spread	20/03/2003	none	-	5	6	-5	-9	-18	-33	-50	-69
EUR IG Spread		none	-	-3	5	-4	-6	-12	-20	-33	-36
Crimea Crisis 2014											
US IG Spread	27/02/2014	none	-	5	1	-1	0	-4	-10	-11	15
EUR IG Spread		none	-	4	2	0	-2	-2	-8	-16	-23
Russian Invasion of Ukraine 2022											
US IG Spread	24/02/2022	37	28	-21	-10	9	23	7	5	20	2
EUR IG Spread		36	29	-29	-9	16	24	11	2	57	9
Israel-Hamas War											
US IG Spread	07/10/2023	6	0	-6	-5	-2	4	0	-18	-37	-37
EUR IG Spread		6	2	-8	-11	-2	2	-7	-15	-49	-44
Israel-Iran War											
US IG Spread	13/06/2025	5	0	6	1	0	1	-5	-8	-9	#N/A
EUR IG Spread		13	2	6	-2	2	-2	-11	-13	-16	#N/A
Median				-5	-4	0	2	-3	-9	-14	-11
Average				-5	-3	4	8	0	-6	-12	-9

Sources: LSEG Datastream, Allianz Research

These assessments are, as always, subject to the disclaimer provided below.

#### **FORWARD-LOOKING STATEMENTS**

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed

or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends,

(v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the EUR/USD exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures,

and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

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The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.