

Market Update

Iranian Conflict: Impact on Fixed Income

06 March 2026

Executive Summary

1. **Iranian conflict is disrupting oil, LNG and shipping flows.** A higher oil price will weigh on growth and push inflation higher. A regional escalation and a prolonged Hormuz blockade pushing oil above \$100 would trigger stagflation concerns.
2. Up to now, **bond rates market repriced** a higher inflation scenario, pushing yields higher in the credit space.
3. **Fixed Income strategy:**
 - **Neutral on duration stance** as persistent inflation concerns and CB reaction function continue to outweigh flight to safety dynamics.
 - **Cautious in credit** with high quality approach **and slightly negative on High Yield.**

Current situation

Coordinated U.S. and Israeli strikes against Iran that began on Saturday 28 February have been followed by rapid, region-wide retaliation and an expansion of the theatre beyond Israel and Iran. The market's central challenge is not only the intensity of the military exchanges, but also the lack of clear and credible "end states" being communicated by the main actors, which keeps the probability distribution skewed toward further escalation. In parallel, the conflict has



increasingly targeted (directly or indirectly) the Gulf's strategic energy and logistics infrastructure, raising the risk of a macro shock rather than a short-lived geopolitical risk premium.

The energy and shipping channel has become the primary transmission mechanism to global markets. The Strait of Hormuz is effectively shut to commercial flows, with maritime traffic reported down sharply and several tankers struck; crucially, major insurers have pulled coverage, making transit economically prohibitive even when it is technically possible. Reports also point to damage and shutdowns linked to strikes on Saudi oil infrastructure (Ras Tanura) and disruption at UAE port facilities (Fujairah), while Qatar has halted LNG production and subsequently communicated additional operational steps, underscoring the risk of sustained supply constraints. The result has been a sharp repricing of energy and freight: oil has moved into the low-to-mid \$80s¹ and shipping costs have surged, with a growing number of vessels anchored rather than transiting—conditions that amplify supply-chain frictions well beyond crude and gas.

Implications for fixed income markets

1) Rates and inflation: an energy-driven repricing of the long end

The rates move has been atypical for a geopolitical shock. Instead of a clean flight-to-quality rally, the dominant impulse has been an inflation-risk repricing driven by energy and logistics constraints:

- Energy as the inflation catalyst. Iran is a material exporter, and the broader Middle East (including Qatar) is a cornerstone of global oil and LNG supply. With Hormuz effectively closed and parts of regional infrastructure disrupted, markets are now pricing a higher probability that elevated energy prices persist, feeding through to headline inflation and, via expectations, potentially to core.
- Inflation expectations are reacting. U.S. market-based inflation compensation has firmed: the 5-year breakeven inflation rate rose to 2.46% (3 March), up from 2.40% (27 February)².

¹ Sources: Candriam, Bloomberg, WTI Crude oil price 05/03/2026

² Sources: Candriam, Bloomberg



Yields are moving higher across the curve. – we have in fact seen little movement on the 2-10 spreads (both US and Euro) despite large overall moves. This reflects the fact that, mechanically, higher oil and gas prices increase the probability of:

- A higher term premium (investors demand more compensation to hold long duration in an inflation-uncertain regime), and
- Less accommodative monetary policy – i.e. a higher probability of fewer or later cuts (in the US) or of sooner hikes (in the Euro Area).

In Europe, the channel is arguably even more delicate because the shock is not only crude but also LNG availability and pricing. With Qatar central to LNG exports and freight/insurance dynamics worsening, the “energy-tax buffer” does not eliminate the risk of a renewed headline inflation impulse—especially if disruption persists into the period when storage and spot procurement matter most.

2) Credit: limited headline pain, but clear dispersion under the surface

So far, credit has behaved in a measured way relative to the scale of the geopolitical headlines:

- European credit: We have observed limited spread widening to date—approximately +10 bps in European IG³ and +20 bps in European HY⁴—with most of the move concentrated in lower-quality and more cyclical segments. Higher-quality paper has seen some selling, but it has been comparatively contained.
- U.S. credit: Spread widening has been even more muted. Two structural factors matter:
 1. Energy is a larger weight in U.S. HY, making higher oil prices a partial offset at the index level; and
 2. the U.S. economy’s greater energy self-sufficiency dampens the immediate macro vulnerability versus large net importers.

All-in yields are improving. Even where spreads have widened only modestly, the parallel move higher in sovereign yields has lifted yield-to-maturity in both IG and HY. This is an important stabilizer: carry and rolldown become more meaningful cushions, and investors can be paid to be patient—provided default risk remains contained and the shock does not morph into a prolonged stagflationary regime.

³ Source: Candriam, Bloomberg, ICE Euro Corporate Index, 05/03/2026

⁴ Source: Candriam, Bloomberg, ICE Euro High Yield Index, 05/03/2026



Finally, we also see technicals holding up as IG primaries remain open and absence of material outflows.

The key near-term credit risk is not a sudden, broad-based fundamental deterioration, but rather a shift in the macro mix: higher inflation expectations and higher real yields tend to raise refinancing costs and tighten financial conditions. If Hormuz disruption persists and energy stays elevated, the sectoral winners/losers should become more pronounced (energy and some commodity-linked issuers versus transport, discretionary, and other energy-intensive cyclicals). Liquidity conditions and primary market tone will be critical signposts.

Candriam stance

We entered the episode with a neutral view on US duration and moderate overweight position on Euro duration. In select eligible funds, we were (and continue to be) long on US inflation breakevens.

We have since returned to a neutral position on Euro duration, as well. As noted, inflation fears have taken the upper hand over “flight to safety” behaviour both in the euro area and in the US. The likelihood of increased fears on inflation becoming embedded in realized inflation are both outcome-dependent and time-dependent, i.e. a prolonged conflict should lead to higher energy prices even absent further escalation. Indeed, we have seen rates proving to be less resilient than many risk markets. As long as this resilience remains in place, it seems likely that inflation worries will prevail over flight-to-safety dynamics. We prefer not to be buyers of duration unless we have more clarity on:

- A credible and durable restoration of Persian Gulf energy production and shipments
- A change in dynamics, potentially an escalation, that would lead risk-off dynamic to prevail over inflation worries

Something we will closely watch is energy contracts. Currently, market pricing implies that the impact will be relatively contained to the shorter term, which would limit the impact of inflation into 2027. However, if and when we see longer-term contracts catch up to shorter term pricing we may take this as a signal to initiate a more defensive positioning on outright EUR duration. On the other hand, we also envisage becoming buyers of duration if we believe that the market reaction has overshoot the likely central bank reaction function (on the short end) and/or that risk premia embedded in longer-dated paper is excessive vis-à-vis the true increase in uncertainty.



Credit

We entered the year with a cautious, quality-biased credit posture, and the current episode reinforces that discipline. In practice, this has meant a preference for higher-quality credit risk (including a tilt toward BBs within high yield), selective exposure to hybrids, and an emphasis on defensive sectors where balance sheets and cash-flow visibility can absorb volatility. Our credit sensitivity has been kept broadly close to benchmark, reflecting an intent to participate in carry while avoiding an uncompensated reach for beta.

At this stage, we do not see a compelling reason to make a significant directional shift. Spreads have not widened materially enough to create a broad valuation opportunity set, and the market is still in the process of assessing whether this is a short-lived geopolitical shock or the beginning of a more persistent energy-and-inflation regime.

We are therefore maintaining our current positioning, preserving liquidity and selectivity, and monitoring developments closely—with a clear readiness to adjust risk should either

- (i) spreads reprice to levels that offer attractive compensation, or
- (ii) the macro outlook deteriorates toward a more stagflationary tail scenario.

Going forward

What we are watching most closely:

1. whether Hormuz remains effectively closed and for how long,
2. further damage to regional energy infrastructure and LNG flows,
3. the reaction function signaled by major central banks as inflation expectations move, and
4. whether credit dispersion broadens from lower-quality cyclicals into the core of high-quality IG.



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