

Market Update

Middle East Conflict

09 March 2026

Equities: Downgrading to Neutral – Going a Step Further.

We are downgrading equities to neutral this week, with Europe and Japan—the largest energy importers—facing the sharpest headwind. This follows our downgrade of Emerging Market equities last week and reflects a further shift in our macro assessment.

US policy objectives in the region remain uncertain. Washington has so far shown no urgency to bring energy prices down, with recent statements suggesting that short-term oil market disruption is seen as an acceptable cost. That said, a prolonged spike would carry domestic economic and political consequences – a factor that may increasingly weigh on decision-making. Until there is greater clarity on the conflict's trajectory and US strategic intentions, we prefer to reduce risk in the regions most directly exposed to an energy shock.

Market update

The conflict between the United States, Israel and Iran has escalated since our previous update. What initially appeared to be a high intensity but potentially contained geopolitical episode has evolved into a direct shock to global energy infrastructure, LNG supply chains and maritime transport. Oil infrastructure is now being targeted by both sides, the UAE and Kuwait have joined Iraq in cutting output, and the Strait of Hormuz continues to be largely avoided. Storage facilities are filling rapidly, insurers have withdrawn coverage, and freight costs have surged. Brent is today above \$100 per barrel¹, marking one of the largest weekly moves since the Gulf War in 1990.

¹ Source: Candriam, Bloomberg, 9 March 2026

Macro Implications: Rising Stagflation Risk

Our main scenario remains one of a short-lived impact, with oil prices retreating toward \$75/barrel.

We must nevertheless assign a higher probability to alternative scenarios than we did last week.

A sustained oil price above \$100 would imply a meaningful drag on global growth and a renewed impulse to headline inflation, with the key risk being that inflation expectations drift higher. If elevated energy prices persist, Central banks face a more complex reaction function. Markets are already pricing in two ECB rate hikes by year-end.

Our two adverse scenarios consider further escalation. The first draws on a 'Gulf War'-like parallel, with oil spiking to around \$125 for a period of several months. The second – a more severe, 1973-style shock – sees prices settling durably near \$150. In both cases, the impact on global growth and financial markets would be significantly more severe, as household spending comes under pressure and consumer and business confidence deteriorates.

Equities and Cross-Asset Strategy: Downgrading Risk

Given the escalation in energy disruption and the lack of a clear resolution path, we downgrade global equities from +1 to Neutral.

Regionally:

- **Europe:** Downgraded to Neutral, reflecting acute exposure to Middle Eastern oil and LNG dynamics and vulnerability to renewed headline inflation.
- **Japan:** Downgraded to Neutral due to structural energy import dependence.

The United States remains relatively more insulated thanks to domestic energy production and still-resilient private demand. However, a prolonged oil spike would eventually erode purchasing power and confidence, as historical precedents illustrate.

Going Forward: Key Signposts

We are monitoring closely:

- The duration and effective closure of the Strait of Hormuz
- Further damage to regional oil and LNG infrastructure



- The evolution of energy forward curves and inflation expectations
- Central bank reaction functions as inflation risks re-emerge
- Evolution of consumer confidence and spending

At this stage, capital preservation takes precedence over tactical opportunism. The medium-term investment case for risk assets remains intact, but the short-term macro regime has shifted. Our stance is neutral rather than negative for now. A sharp, exogenous repricing can create attractive entry points, and we will be watching closely for signals to act.

“Our stance is neutral rather than negative for now. A sharp, exogenous repricing can create attractive entry points, and we will be watching closely for signals to act. ”

IMPORTANT INFORMATION

This document is provided for information and educational purposes only and may contain Candriam’s opinion and proprietary information. This document does not constitute an offer to buy or sell financial instruments, nor does it represent an investment recommendation or confirm any kind of transaction, except where expressly agreed. The opinions, analyses and views expressed in this document represent Candriam’s views only. Although Candriam selects carefully the data and sources within this document, errors or omissions cannot be excluded a priori. Candriam cannot be held liable for any direct or indirect losses as a result of the use of this document. The intellectual property rights of Candriam must be respected at all times, contents of this document may not be reproduced without prior written approval.

The present document does not constitute investment research as defined by Article 36, paragraph 1 of the Commission delegated regulation (EU) 2017/565. Candriam stresses that this information has not been prepared in compliance with the legal provisions promoting independent investment research, and that it is not subject to any restriction prohibiting the execution of transactions prior to the dissemination of investment research.

This document is not intended to promote and/or offer and/or sell any product or service. The document is also not intended to solicit any request for providing services.