CANDRIAM
BY NEW YORK LIFE INVESTMENT MANAGEMENT

Market Update

Middle East Conflict

23 March 2026

Executive Summary

1. **The US-Iran conflict has triggered a structural energy shock, forcing a sharp repricing of growth, inflation and monetary policy. The pause in US strikes announced today by President Trump is welcome, but the fundamental picture has not yet changed.**
2. **We move our equities view from neutral to slightly negative, and adopt a more defensive stance across credit and precious metals.**
3. **We remain ready to re-engage with risk assets should the Strait of Hormuz reopen, oil stabilise toward $80–85/barrel, and rate pressures ease.**

A broader escalation

After three weeks of attacks on Iranian regime targets, military infrastructure, and production facilities, tensions in the Middle East have escalated sharply, with Israel striking Iran's critical South Pars gas field. Iran responded by targeting key energy assets in Qatar, Saudi Arabia, and the UAE. The situation deteriorated further after a US ultimatum to reopen the Strait of Hormuz, prompting Tehran to threaten wider regional strikes against US and Israeli infrastructure, including energy, IT, and desalination facilities.

A material risk to the global economy

The duration of the conflict, the extent of damage to energy infrastructure, and the pace at which shipping traffic normalizes in the Strait of Hormuz are critical in shaping the global economic outlook. A large share of global energy flows through this strategic chokepoint. Roughly a quarter of global oil exports transit through it, along with around one-fifth of global LNG exports.[1] Hormuz is not only about energy – fertilizers, aluminum and other commodities also pass through the

[1] Source: Bloomberg.com

Strait. Most of these flows are destined for Asia. But any disruption affects all regions because energy prices and supply chains are global.
The scale and duration of US involvement, the evolution of domestic political stability in Iran, and the speed at which oil and gas flows normalize in the Strait of Hormuz will be key determinants of the outcome. We outline three potential scenarios:

- *Short-lived oil price spike*: Growth expectations would be revised down modestly and inflation expectations would rise slightly, but the overall outlook would remain relatively constructive.
- *1990-91 Gulf War–like scenario*: The shock lasts several months. Economic activity would be significantly affected but should recover as traffic in the Strait of Hormuz normalises and energy prices decline.
- *1973-like scenario*: Disruption would be deeper and of longer duration. Inflation would likely surge and a severe recession unfold. In this scenario, the length of the shock could trigger second-round inflation effects strong enough to compel central banks to tighten policy despite a downturn.

A shift in our macroeconomic scenario

The prolonged conflict, the closure of the Strait of Hormuz, and the reported damage to at least 40 energy assets across the Gulf region point to a shift toward a more bearish macroeconomic environment. In this context, **we have reduced our probability of the short-lived oil price spike scenario to 40%** (from 50% previously) **and raised our likelihood of a 1990–91 Gulf War–type scenario to 50%** (from 40% previously)**, while maintaining our probability estimate of the worst-case scenario unchanged at 10%.**

Upward revision of our Gulf War–type scenario

Under this scenario, oil prices would remain elevated at around $120 per barrel during a few months, triggering a confidence shock and further downside in equity markets. Consumption weakens and GDP growth slows, while inflation rises temporarily before gradually normalizing as oil prices ease into 2027. In terms of monetary policy, we think the Federal Reserve is likely to look through the shock, whereas the ECB may adopt a more cautious stance, delivering a first 25 basis point hike in the coming months as an insurance policy move.

Where Markets Stood Going In

Markets had been increasingly pricing in a stagflationary shock ahead of the weekend of 21-22 March. Brent crude had pushed above $112/barrel, 10-year Bund yields had broken above 3% for the first time since 2011, gilt yields had approached 5%, and the ECB was being priced for more than two hikes this year — a dramatic reversal from the easing cycle expectations that were still in place just weeks ago. Equities reflected this repricing: the S&P 500 reached a four-month low, while the STOXX 600 approached technical correction territory, down nearly 10% from its peak.[2]

President Trump's announcement today (23 March) of a five-day pause in military strikes against Iranian energy infrastructure, following what he described as productive talks with Tehran, has brought some relief to markets. That said, the fundamental picture has not yet materially changed.

For now, the balance of risks continues to point toward higher inflation, weaker growth, and less room for central banks to cushion the blow. **We are adjusting our equities positioning from Neutral to slightly Negative.**

We remain ready to shift back to a more constructive outlook should the situation continue to improve. The key conditions to watch for are a reopening of the Strait of Hormuz, oil stabilising toward $80–85/barrel or below, and an easing of rate pressures. Until those conditions are met, or some significant event occurs, we will manage our portfolios defensively and preserve optionality to re-engage with risk assets as clarity improves.

Equities: Downgrading from Neutral to slightly Negative – Further Deterioration.

Europe's acute dependence on Middle Eastern oil and LNG, combined with its vulnerability to renewed headline inflation and potential monetary policy tightening, leaves it as the most exposed among developed markets. Japan faces similar pressures from structural energy import dependence, with a weaker yen further amplifying imported inflation. Many emerging market economies face a triple headwind of higher imported energy costs, weaker global growth weighing on exports, and tighter financial conditions if the dollar strengthens, with energy-importing economies in Asia and Eastern Europe most at risk. The US remains relatively better insulated by virtue of domestic energy production and still resilient private demand; we are not downgrading US equities at this stage, but a prolonged oil spike would eventually erode purchasing power, and the risk premium for US assets is rising.

Neutral duration and cautious on Italy

Central banks are facing a complex trade-off, with markets increasingly pricing in the possibility of further rate hikes. At the same time, uncertainty around further fiscal spending needs is adding upward pressure on rates. In this environment, we remain cautious in the near term and particularly on Italy.

[2] Sources: Candriam and Bloomberg, 20 March 2026

Defensive in credit

Credit markets have remained resilient, but rising energy-driven inflation, higher rates, and concerns in private markets are weighing on their attractiveness. High Yield technicals are deteriorating amid outflows and increasing supply, supporting an underweight stance. Investment Grade fundamentals remain solid, but sensitivity to higher rates warrants a neutral positioning. Meanwhile, emerging markets face a challenging backdrop of higher yields, a stronger dollar, and rising volatility, leading to a neutral stance on both EM local debt and corporates.

Precious metals

We remain constructive on gold over the long term, but tactically it is not working as a hedge in the current environment. Regional sovereigns may need to liquidate holdings to offset lost oil revenues, rate cuts are firmly off the table, and valuations are stretched after a near-150% rally since early 2024.[3] On silver, we are more cautious: with roughly 60% of consumption driven by industrial applications, a growth slowdown hits physical demand directly, and the market is thin enough to amplify dislocations sharply in either direction.

The Iranian conflict has shifted the global macro environment in a matter of mere weeks, combining rising inflation, slowing growth and pressure on central banks to tighten in a way that is rarely seen simultaneously. The pause in US military strikes announced by President Trump has brought some relief today (March 23), and we will be monitoring developments closely. In this environment, a degree of caution remains warranted, and we have repositioned our portfolios more defensively. We remain ready to return to a more constructive stance should the situation continue to improve. The key conditions to watch are credible signs of the reopening of the Strait of Hormuz, oil stabilising around $80–85/barrel, and easing of interest rate pressures. Should those conditions be met, we would move quickly to re-engage with risk assets.

[3] Source: Bloomberg

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.