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# Flash

## Middle East conflict: our analysis

### Impact on financial markets

The US and Israel launched air strikes against Iran on 28 February 2026. While financial market reactions were initially relatively contained, the blockade of the Strait of Hormuz and damage to Gulf state oil and gas infrastructure have increased the risk premium on risk assets. Qatar, which accounts for around 20% of global liquefied natural gas (LNG) production, is no longer able to continue exporting LNG. Even under an optimistic scenario in which the conflict comes to an end in the near term, the economic consequences are now likely to last longer. Since the beginning of the year, the price of a barrel of oil (Brent) has risen by 76%, while European TTF gas prices are up by more than 90%. These price swings reflect the sharp rise in geopolitical tensions. However, prices remain below the levels reached in 2022 following the invasion of Ukraine. Beyond the immediate impact on energy markets, global supply chains could also be affected. In addition to being a key energy corridor, the Strait of Hormuz is a critical transit route for fertilisers, petrochemical products and industrial gases. These flow disruptions may materialise with a lag but should impact input costs and corporate margins over the longer term, resulting in a second round of inflationary pressures.

### A more uncertain environment for investors

Volatility in both equity and bond markets has increased markedly in recent weeks. In equity markets, heightened uncertainty is reflected in greater performance disparity across regions and sectors. Europe and Asia remain more vulnerable due to their energy dependence, while US markets have shown greater resilience. Bond markets are gradually pricing in higher inflation expectations, with long bond yields rising significantly over recent weeks.

### In search of safe havens

While gold traditionally benefits from its safe-haven status, this has not been the case since the onset of the Middle East crisis, with prices down 17% in US dollar terms. In 2025, the price of gold nearly doubled, driven by strong central bank demand and the simultaneous decline in interest rates and the US dollar. Since early March, however, the environment has shifted. The US dollar has strengthened and interest rates have moved higher. As bond yields rise and make fixed income more attractive, precious metals — which offer no yield — tend to lose some appeal in relative terms. In addition, some investors have used the significant gains accumulated on gold to offset losses in other asset classes in recent weeks.

By contrast, the US dollar, which was heavily challenged as a safe haven in 2025, has perked up. In today's context, US economic growth is expected to prove more resilient, due to the country's energy independence. That said, financing needs linked to the conflict could continue to weigh on an already elevated level of public debt. Against this backdrop, we maintain our 12-month EUR/USD target at 1.20.

### Our central scenario unchanged

At this stage, we maintain a scenario of a slowdown in global economic growth, weighed down by persistently higher oil prices. A recession would require oil prices to remain above USD 100 per barrel for several months, which is not our base scenario, particularly given the upcoming US midterm elections. That said, damaged energy infrastructure will take time to be fully repaired, preventing a return to pre-conflict price levels.



## Monetary and economic implications

As previously highlighted, the current situation points to an upward inflation trajectory compared with initial expectations.

In the euro area, the ECB has kept its policy rates unchanged in March but has already incorporated material impacts on growth and inflation for 2026 into its updated macroeconomic projections, to account for higher energy prices. The ECB's inflation forecasts for 2026 have been revised up to 2.6% (from 1.9%), while growth expectations have been revised down to 0.9% (from 1.2%), with alternative scenarios in the event of a further escalation of the conflict. The ECB's new central scenario assumes a limited and temporary price shock, with energy prices easing relatively quickly from the third quarter.

At this stage, the ECB still expects inflation to return to its 2% target in 2027. The central bank continues to insist on a meeting-by-meeting approach according to economic data to adapt its monetary policy. ECB President Christine Lagarde has indicated that a "*measured*" tightening would be considered if inflation remains above target for an extended period, while avoiding excessive volatility in interest rates and credit markets.

At its latest meeting, the Federal Reserve also revised up its inflation outlook for 2026, albeit in a more contained manner, under the implicit assumption of a temporary shock. Fed Chair Jerome Powell stated that it was "*too early to know*" the full inflationary impact of the conflict in Iran. At this stage, the Fed still anticipates inflation returning towards its 2% target over a relatively short horizon. As with the ECB, the Fed is allowing time to assess the impact of the conflict on inflation dynamics, while standing ready to react, if needed, at its next meeting in April.

Both central banks are navigating an environment marked by heightened geopolitical uncertainty. While inflation control remains their primary objective, their room for manoeuvre is constrained by rising risks to economic growth. Future policy decisions will largely depend on the evolution of the conflict and its impact on energy prices.

## Conclusion

In this stagflation-like macroeconomic environment(\*), we adopt a more cautious stance on risky assets, particularly global equities, high-yield credit, and emerging market debt.

We have downgraded equities to Neutral, after maintaining a Positive stance since late 2022. From a regional perspective, we have also downgraded Japan and Emerging Markets to Neutral—with a more cautious stance on Asia, while maintaining a Positive view on oil-exporting Latin American countries—and have downgraded Europe to Underweight.

From a sector perspective, we have downgraded Energy to Neutral, while continuing to favour the oil equipment & services subsector. In the short term, certain segments are emerging as beneficiaries of the current environment, notably Western fertiliser producers and strategic metals used in the war.

Several industrial sub-sectors remain attractive, supported by the acceleration of defence and infrastructure spending across Western economies. Investor interest in renewable energy and energy efficiency is also increasing. The plan to accelerate the rollout of low-carbon technologies to reduce reliance on fossil fuels, combined with the surge in electricity demand from data centres, represents powerful structural megatrends.

Some alternative strategies, such as market-neutral long/short funds, which are less dependent on overall market direction, may also provide diversification benefits relative to equity and bond markets. In periods of heightened volatility, these strategies can help reduce overall portfolio risk and limit drawdowns while remaining invested.

In this context, a prudent approach is warranted in fixed-income portfolios. Duration exposure should be kept below benchmark levels, both in Europe and in the United States. The fact that short-term interest rates have risen faster than long bond yields (a flattening of the yield curve) suggests that the most attractive opportunities lie in bonds with maturities of 3 to 5 years, rather than in durations beyond 10 years. Should expectations of imminent policy rate hikes reverse, shorter-dated bonds would likely benefit from declining yields.

We currently maintain a Neutral stance on sovereign bonds overall and continue to favour European Investment Grade corporate bonds.

Despite the recent correction, the structural factors underpinning precious metals remain intact (short supply, diversification of central bank reserves and inflation hedging) and represent a buy opportunity.

**We therefore maintain our price targets, at USD 5,500 per ounce for gold and USD 90 per ounce for silver, reflecting increased upside potential following the recent pullback.**

### How to act?

In the current environment, one of the key risks lies not so much in market dislocations, but rather in behavioural misalignments. Heightened uncertainty may encourage investors to overreact or trade too frequently. For long-term investors, discipline remains essential: portfolio adjustments can be appropriate, but they should be implemented gradually and selectively.

Your relationship manager remains available and ready to support you and to assess any necessary portfolio adjustments, ensuring alignment with your long-term asset allocation strategy.

(\*) Stagflation: an economic environment characterised by weak economic growth alongside high inflation.

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