Focus

WAR GAMES

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In this note, we lay out four macro and market scenarios, alternative to our baseline, for the US and the EA economies under different assumptions regarding length and severity of the energy market stress stemming from the conflict in the Middle East.

The backbone of our framework is quantitative. We use a top-down, quarterly, semi-structural general equilibrium framework, while stretching the quantitative analysis by introducing a qualitative, judgement-based, estimate of the pass-through that the energy shock may have on core prices. In this respect, we introduce the concept of cyclically adjusted core inflation pass-through to control for the state of the macro cycle when assessing how core inflation might be influenced by rising oil and gas prices.

Against this backdrop, for every scenario we forecast the most likely monetary policy reaction that we think would be consistent with the current state of central banks' reaction functions.

We think government bonds offer value at current yield levels, especially in Scenarios I and II, where we assume that energy prices have already reached their peaks. Scenarios III and IV, where we assume that energy prices have not reached their peaks, are less favourable for government bonds in the short term, as nominal yields could still increase sizably from current levels, but only until markets start pricing in risks to growth and reprice expectations for central banks.

Our baseline remains constructive on equities. That said, the range of outcomes remains unusually wide, and the four scenarios highlight that the market path is unlikely to be linear. Depending on the evolution of the geopolitical shock, energy prices and financial conditions, equities could still deliver anything from a solid upside case to a much weaker outcome driven by multiple compression and earnings downgrades. In this context, the scenarios should be seen less as precise forecasts and more as a framework to assess how sensitive returns are to different macro regimes.

Our positioning on the DXY and EUR-USD would not substantially change in Scenario I and Scenario II (we would remain neutral tactically and short DXY and long EUR-USD strategically), as the easing of geopolitical tensions would leave the dollar exposed to its pre-war drivers. In Scenario III and Scenario IV, we would turn more constructive on DXY and more negative on EUR-USD given persisting geopolitical tensions and higher energy prices that would hit the EA economy more strongly than the US economy.

Completed: 31 March 2026

Engagement rules

In this note, we lay out several macro and market scenarios for the US and the EA economies under different assumptions regarding length and severity of the energy market stress stemming from the conflict in the Middle East.

Energy shocks are not all the same. While we understand that several energy and non-energy commodities might be affected by the geopolitical developments, in the interest of time and accuracy we prefer, at this stage, to focus on the well-known impact that the most used commodities have on the macro and market outlook.

For this reason, the energy shock considered in our scenarios is limited to the oil and gas markets. The macro impact of any other commodity, directly or indirectly affected by the conflict, is treated as a severe tail risk to which the most appropriate macro response is the exacerbation of our projected most market-unfriendly scenario. This working assumption is in line with the common practice followed by international institutions and private sector analysts.

We think this time is different. In 2022 and in the following years, the Russia–Ukraine war-related energy shock did not materially weaken growth, as Western economies could rely on several post-pandemic tailwinds, including low interest rates, low consumer prices levels, excess savings, and fiscal support. As those tailwinds have weakened, if not vanished in the case of the EA, downside risks to growth and inflation over the forecast horizon grow as the energy shock increases and lasts.

The backbone of our framework is quantitative. We use the BBG SHOK model. SHOK is a top-down, quarterly, semi-structural general equilibrium framework. It's New Keynesian in spirit but more flexible compared to standard DSGE models, as it features Bayesian techniques. For more, please refer to the Appendix.

The core that matters. As the SHOK model doesn't incorporate core inflation, we stretch the quantitative analysis by introducing a qualitative, judgement-based, estimate of the pass-through that the energy shock may have on core prices. In this respect, we introduce the concept of *cyclically adjusted core (CAC) inflation pass-through* to control for the state of the macro cycle when assessing how core inflation might be influenced by rising oil and gas prices.

Monetary policy. Against this backdrop, for every scenario we forecast the most likely monetary policy reaction that we think would be consistent with the current state of central banks' reaction functions. In this regard, our working assumption is that both the Fed and the ECB would first react by prioritising inflation risks before turning more concerned about growth spillovers. The magnitude and speed of the moves in both directions depend on the severity of the shock considered.
A word of warning: given that the forecast horizon of our exercise is the end of 2027, taking into account the delay with which monetary policy acts on the economy, the positive growth and inflation feedback loop stemming from central-bank-driven easing financial conditions is either minimal or out of scope and therefore not included.

Our framework doesn't control for the impact that financial conditions have on the scenarios presented. This has far-reaching implications. Firstly, under the assumption that the Fed and the ECB will react by putting greater weight on inflation than on growth risks, the model, by construction, introduces a positive, endogenous correlation between CAC inflation pass-through and the tightening of financial conditions. Secondly, we arbitrarily exacerbate the negative feedback loop that tighter financial conditions will have on growth and core inflation over the forecast horizon. For this reason, the outcome of our model, while structurally very similar, cannot be directly compared to that of the ECB.

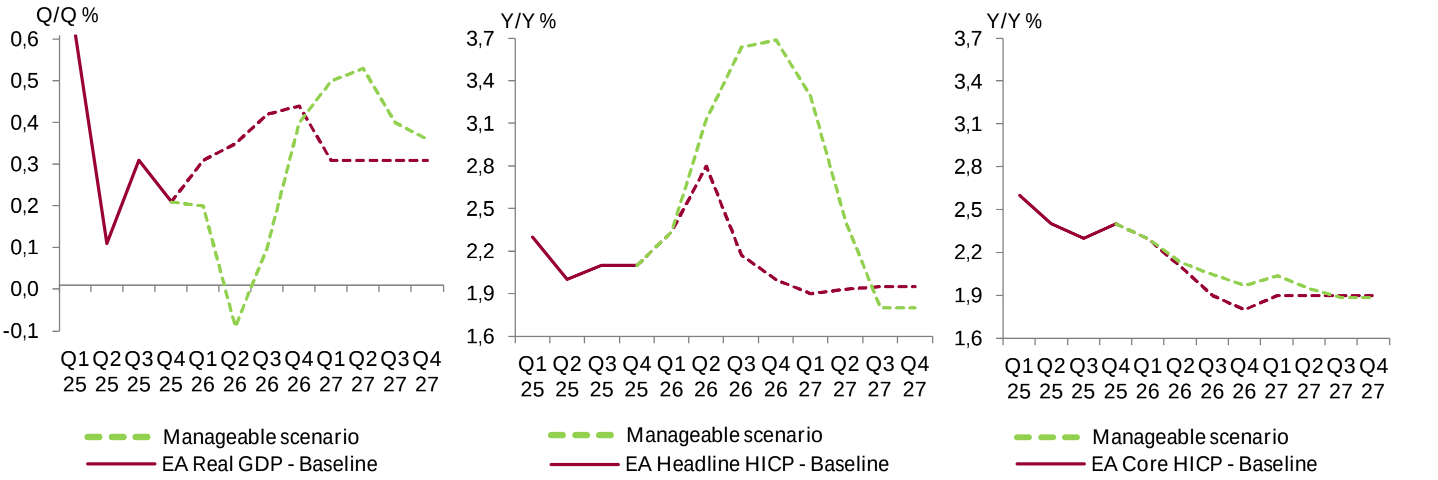
Scenarios and macro impact

Scenario 1: Manageable: *Brent and TTF gas prices remain at current level (~ $110/bbl and ~ EUR55/MWh, respectively) until the end of H1-26 before returning to pre-war by the end of Q1-27.*

EA – Holding up. We expect one quarter of negative growth in Q2-26, before economic activity momentum begins to recover. The economy returns to pre-conflict level by Q4-26. Headline HICP inflation peaks in Q4-26, while core HICP inflation is largely unaffected. The ECB remains on hold, with risks that it may cut 25bp between Q4-26 and Q1-27 (**Figure 1**).

Figure 1

EA Growth and inflation Baseline vs Manageable scenario

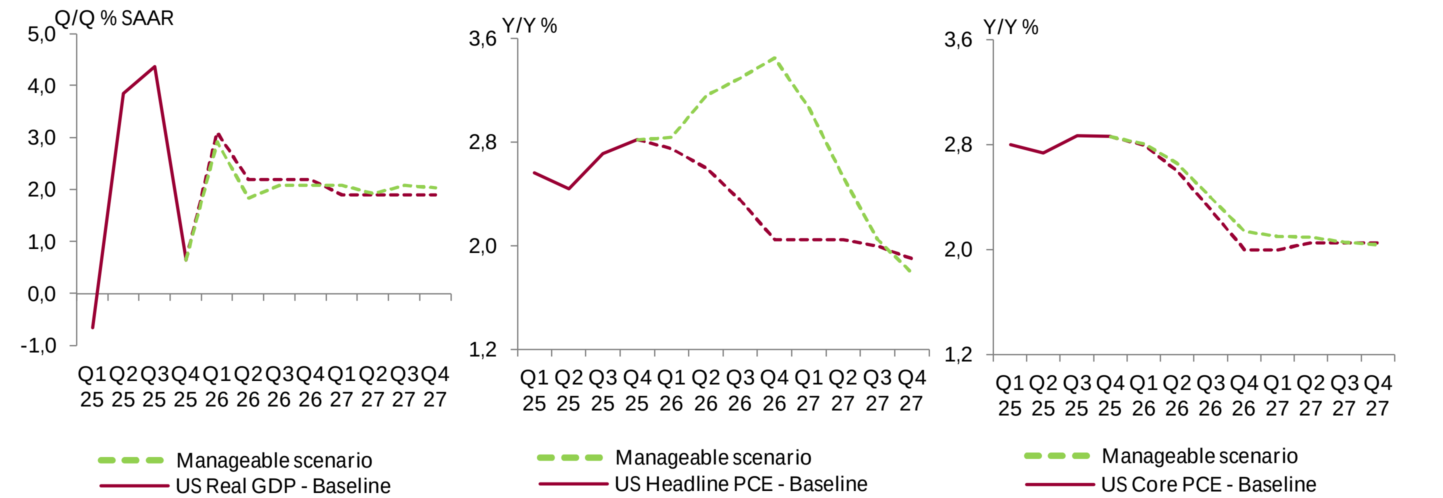


Source: Bloomberg, ANIMA Research

US – No sweat. Growth momentum continues to trend close to potential. Headline PCE inflation peaks at 3.5% in Q4-26, while core PCE inflation path is largely unaffected. We continue to expect the Fed to ease for disinflationary reasons 2/3 times though slightly later than in our current baseline (Q4 2026 and Q1/Q2 2027 as opposed to H1 2026) as headline PCE inflation reaccelerates temporarily (**Figure 2**).

Figure 2

US Growth and inflation Baseline vs Manageable scenario



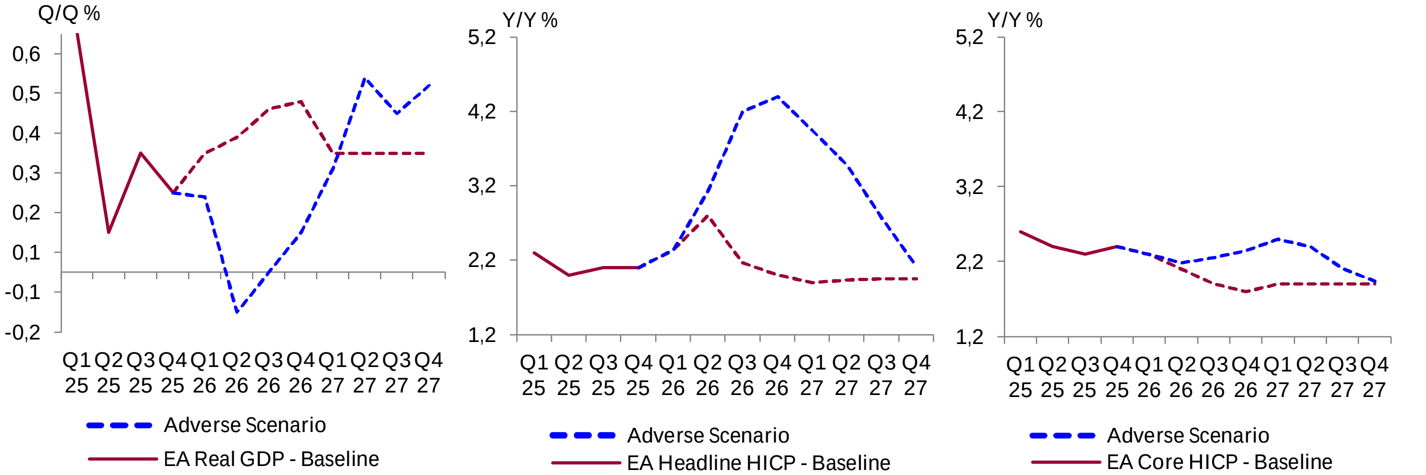
Source: Bloomberg, ANIMA Research

Scenario 2: Adverse: *Brent and TTF gas prices remain at current level (~ $110/bbl and ~ EUR55/MWh, respectively) until the end of H1-26 before returning to pre-war level by the end of Q4-27.*

<u>EA – Recession risks.</u> We expect one quarter of negative growth in Q2-26 followed by one quarter of stagnation. The economy returns to pre-conflict level by Q1-27. Headline HICP inflation peaks at 4.4% in Q4-26, while core HICP inflation reaccelerates peaking in Q1-27 (2.5%). The ECB acts in response to inflation by hiking 1-2 times (50bp in total) in Q2/Q3-26 before remaining on hold. Rates cuts in 2027 are possible, yet not a given (**Figure 3**).

Figure 3

EA Growth and inflation Baseline vs Adverse scenario

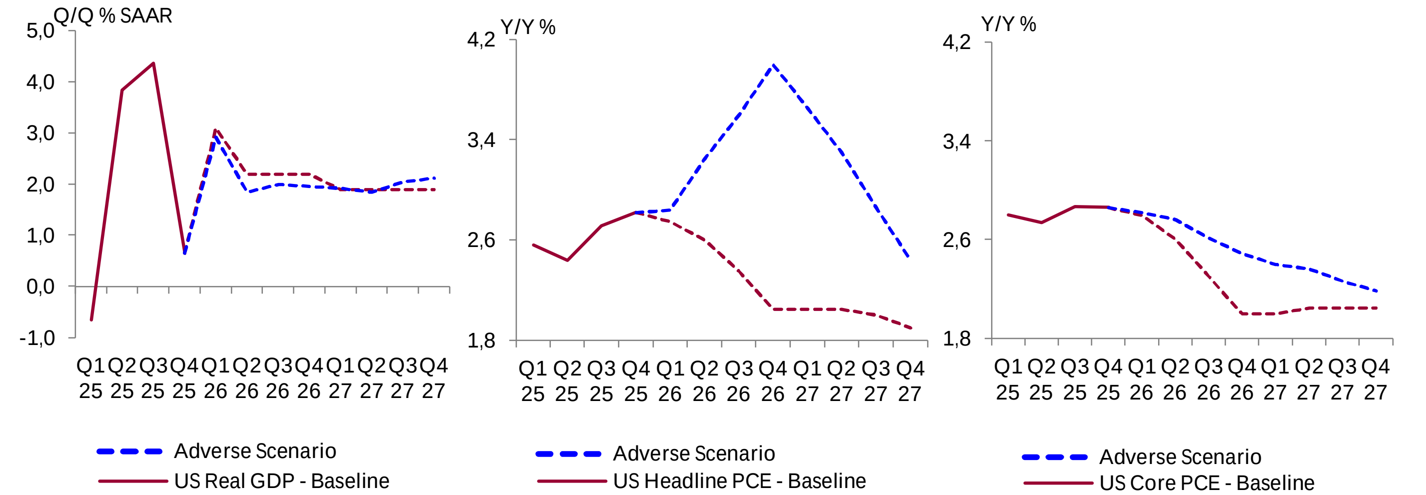


Source: Bloomberg, ANIMA Research

<u>US – Still unshaken.</u> Growth momentum continues to trend around potential. Headline PCE inflation peaks at 4.0% in Q4-26, while core PCE inflation is largely unaffected, though returning to target slightly later (Q4-27) than in our current baseline (Q4-26). The Fed remains on hold in 2026 before resuming cutting rates (50/75bp) from Q1/Q2 27 onwards after core PCE inflation slows below 2.3% (**Figure 4**).

Figure 4

US Growth and inflation Baseline vs Adverse scenario



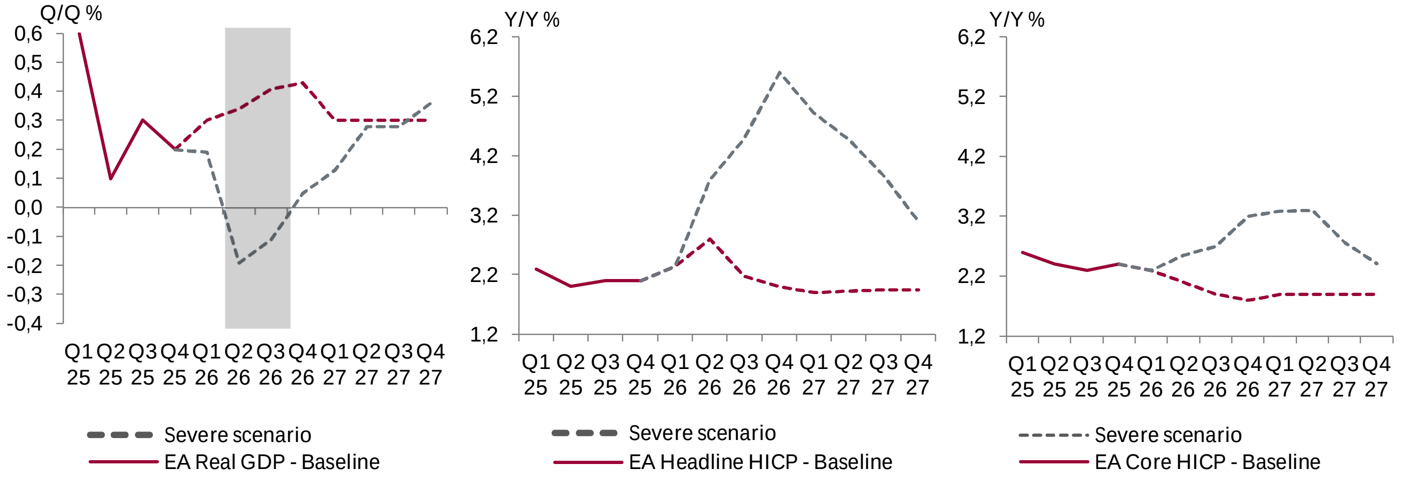
Source: Bloomberg, ANIMA Research

***Scenario 3 - Severe**: Brent and TTF gas prices rise further by 40% from current spot prices and remain at that level until the end of H1-26 before returning to pre-war levels by the end of Q4-28.*

EA – Recession. We expect the economy to enter technical recession in Q2-26 followed by at least one quarter of stagnation. The economy won't return to pre-conflict level before Q2/Q3-27. Headline HICP inflation peaks in Q4-26 (5.6%), while core inflation reaccelerates peaking in 3.3% in Q2-27. The ECB responds forcefully by hiking 3-4 times in 2026 (75-100bp in total) before reversing course of action in 2027 by cutting rates by a similar amount, as the economy weakens remarkably and downside risks to growth and inflation surge. (**Figure 5**).

Figure 5

EA Growth and inflation Baseline vs Severe scenario

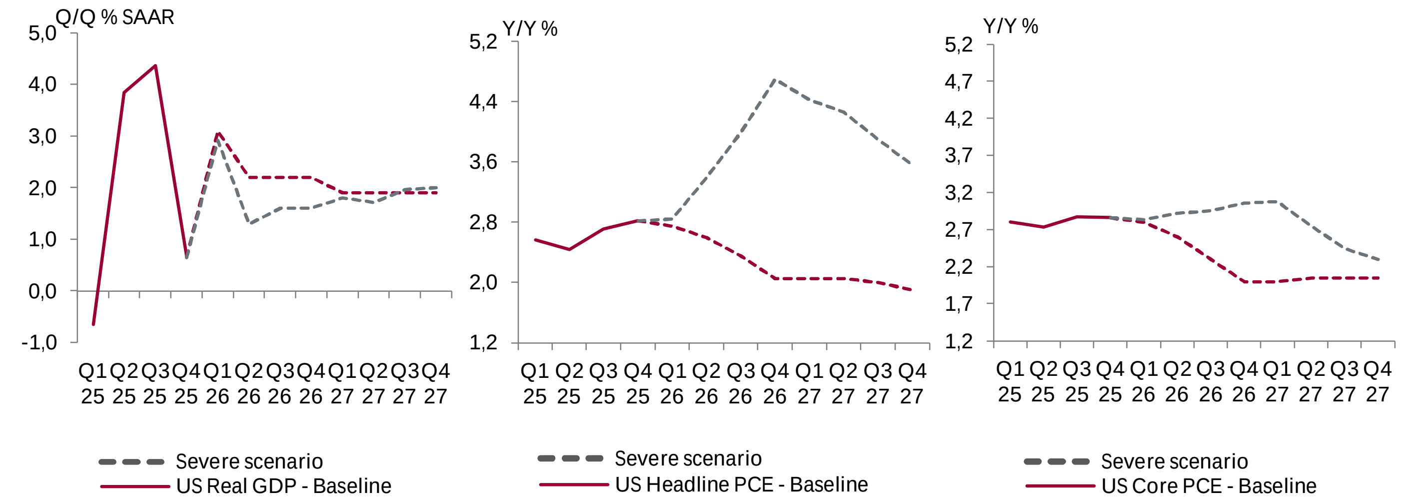


Source: Bloomberg, ANIMA Research

US – Below potential. Growth momentum slows significantly below potential, troughing at 1.3% q/q saar in Q2-26, without entering recession. The economy won't return to pre-conflict level before H2-27. Headline PCE inflation peaks at 4.7% in Q4-26, while core PCE inflation rises to 3.1% in Q1-27 before moderating, though the target won't be reached over the forecast horizon. The Fed hikes 1-2 times in H2-26 (50bp in total) and plateaus through H1-27, before beginning to ease 1-2 times in H2-27 (**Figure 6**).

Figure 6

US Growth and inflation Baseline vs Severe scenario



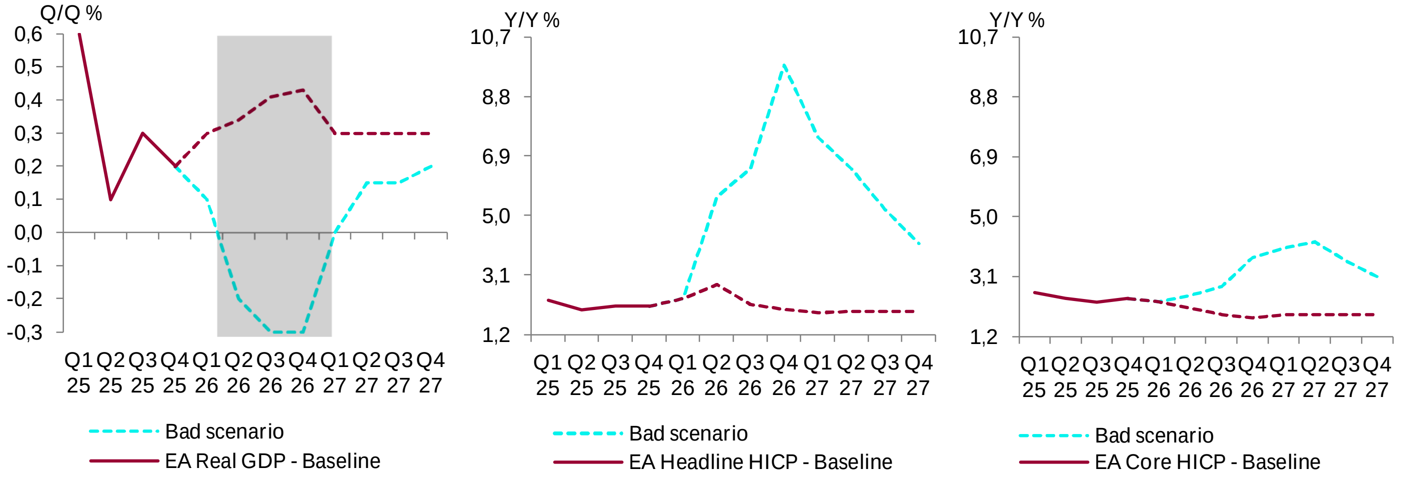
Source: Bloomberg, ANIMA Research

***Scenario 4 - Bad:** Brent and TTF gas prices surge to 2022 levels (~ $120/bbl and ~ EUR350/MWh, respectively) before returning to pre-war levels by the end of Q4-27.*

<u>EA – Severe recession.</u> Growth momentum plunges, and the economy enters recession in Q2-26. The economy doesn't return to pre conflict level over the forecast horizon. Headline HICP inflation comes close to hitting double digits in Q4-26, while core HICP inflation surges to 4.2% in Q2-27 and doesn't return to target over the forecast horizon. The ECB responds aggressively hiking rates 5-6 times through Q1-27 (125-150bp in total) before U-turning as growth collapses and downside risks to inflation starts to come through; 6-7 cuts likely through 2027 (**Figure 7**).

Figure 7

EA Growth and inflation Baseline vs Bad scenario

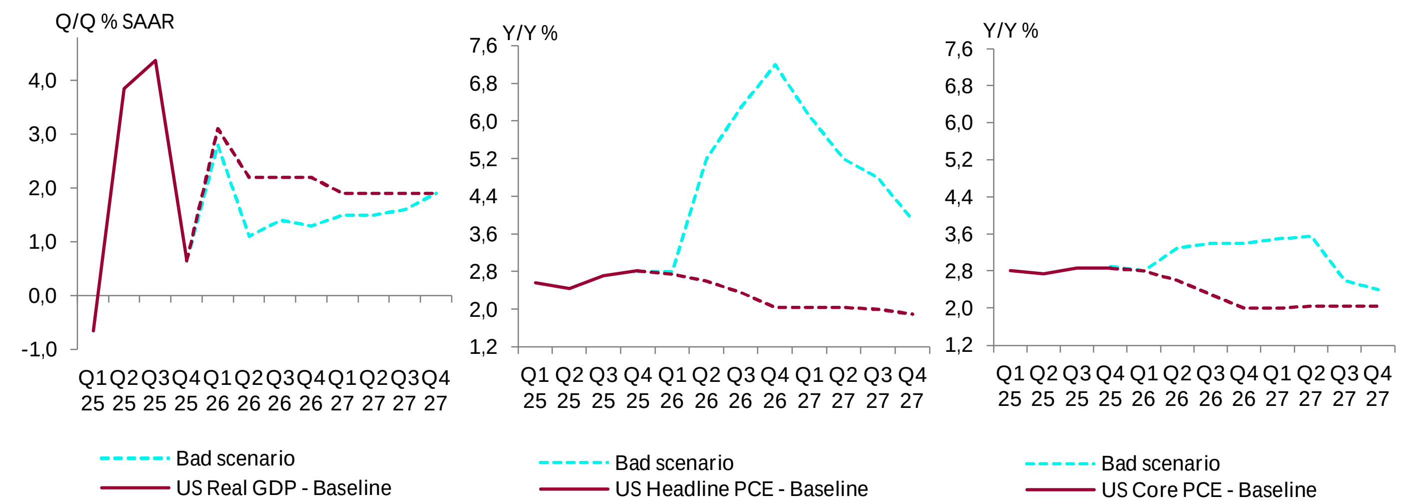


Source: Bloomberg, ANIMA Research

<u>US – Cracking, not cratering.</u> The economy manages to avoid recession, but growth momentum plunges well-below potential, troughing at 1.0% q/q SAAR, despite the severe shock. The economy doesn't return to pre-conflict level before Q4-27. Headline PCE inflation peaks Q4-26 at 7.2%, while core PCE inflation rises to 3.6% in Q2-27 before moderating, though the target won't be reached over the forecast horizon. The Fed hikes 3-4 times through Q1-27 (75-100bp in total) and plateaus through Q3/Q4-27, before beginning to ease 2-3 times (up to 75) - **Figure 8.**

Figure 8

US Growth and inflation Baseline vs Bad scenario



Source: Bloomberg, ANIMA Research

Summary

Scenario	**Fed**	**ECB**
Manageable	2/3 rate cuts through Q1/Q2-27	On hold, with risks of one rate cut between Q4-26 and Q1-27
Adverse	On hold in 26, 2/3 rate cuts from Q1/Q2-27	1/2 rate hikes in Q2/Q3-26, rate cut in 27 possible
Severe	1/2 rate hikes in H2-26. 1/2 rate cuts in H2-27	3/4 rate hikes in 2026. Similar amount of cuts in 2027
Bad	3/4 rate hikes through Q1-27. 2/3 rate cuts in 2028.	5/6 rate hikes through Q1-27. 6/7 rate cuts in 2027

Source: ANIMA Research. Note: One rate cut/hike amount to 25bp.

Rates Strategy

Looking at rates market action since the start of the Middle East conflict, it is evident that markets have so far underestimated the impact of the conflict on growth, especially in the euro area. Meanwhile, money markets have priced much more hawkish ECB and Fed. The more hawkish pricing of central banks, coupled with higher bond yields at the long-end, has already tightened financing conditions, reinforcing downside risks to growth further down the road. Against this backdrop, **we think government bonds offer value at current yield levels**, especially in Scenarios I and II, where we assume that energy prices have already reached their peaks. Scenarios III and IV, where we assume that energy prices have not reached their peaks, are less favourable for government bonds in the short term, as nominal yields could still increase sizably from current levels, but only until markets start pricing in risks to growth and reprice expectations for central banks.

Scenario I – “Manageable”

In this scenario, while volatility in rates would remain extremely high in the near term, the upside for medium to long term yields remains capped at around 10-15bp. In this scenario, current levels of breakeven and real yields are very near their highs. In the event of a relaxation of geopolitical tensions, while breakeven rates would deflate rapidly, we do not expect real yields to decline significantly, as the damage to growth would be negligible.

Against this backdrop**, we would continue to suggest gradually accumulating duration in episodes of bond sell-offs**, as current yield levels are very appealing even when considering 1) that they could rise another 10-15bp) 2) that, by the end of the year yields would probably still be around end-February levels.

Tactical view:

UST: LONG. Accumulate at 4.40-4.50% (vs. 4.30-4.40% in the baseline). NEUTRAL at 3.95% (vs. 3.75% in the baseline).

Bund: LONG. Accumulate at 3.10% (vs. 3-3.10% in the baseline). NEUTRAL at 2.60% (vs. 2.45% in the baseline).

BTPs: LONG. Accumulate at 4.10% (vs. 3.85-3.90% in the baseline). NEUTRAL at 3.30% (vs. 3.20% in the baseline).

Strategic view:
UST: Neutral.
Bund: Neutral.
BTPs: Neutral.

Curve shape: Until volatility related to the Middle East conflict prevails, more bear-flattening of the curve could be in the cards, although at a much more moderate pace compared to the last few weeks. A relaxation of tensions would lead to a bull-steepening of the curves, which we expect to remain in place until year-end (although at a very moderate pace).

Scenario II – "Adverse"

In terms of rates impact, this scenario would be very similar to Scenario I. While volatility would remain extremely high in the near term, the upside for medium to long-term yields would remain capped at around 20-25 bp, higher than in Scenario I, but still not enough to eat up all the gains coming from the carry, for three reasons:
1) Energy prices are near their peaks.
2) Even if the ECB and the Fed were to turn more hawkish for longer compared to Scenario I, they will be more dovish than what markets are pricing at the moment.
3) We do not expect a significant pass-through of higher energy prices to core inflation.

Against this backdrop**, we would continue to suggest gradually accumulating duration in episodes of sell-offs**, as current yield levels are very appealing even when considering: 1) that they could rise another 20-25 bp; 2) that, by the end of the year yields would probably be around the end-February levels. That said, we would slightly raise our accumulation bar compared to Scenario I.

Tactical view:
UST: LONG. Accumulate at 4.50-4.60% (vs. 4.30-4.40% in the baseline). NEUTRAL at 3.95% (vs. 3.75% in the baseline).
Bund: LONG. Accumulate at 3.20% (vs. 3-3.10% in the baseline). NEUTRAL at 2.60% (vs. 2.45% in the baseline).
BTPs: LONG. Accumulate at 4.20% (vs. 3.85-3.90% in the baseline). NEUTRAL at 3.30% (vs. 3.20% in the baseline).

Strategic view:
UST: Neutral.
Bund: Neutral.
BTPs: Neutral.

Curve shape: Until volatility related to the Middle East conflict prevails, UST and EGB curves would remain in a bear-flattening mode. A relaxation of tensions would lead to a bull-steepening of the curves, but given that the hit to growth would be more pronounced than in Scenario I, and that rate cuts by both the Fed and the ECB would be postponed until 2027, we do not expect a very pronounced curve trend for the rest of the year.

Scenario III – “Severe”

This scenario would be negative in terms of rates impact in the short term:

1) The beta of transmission from energy prices to government bond yields has been much higher in this energy crisis than in 2022. In the event of an escalation of the Middle East conflict and a further rise in energy prices, the upside to government bond yields could be sizeable, in our view.
2) In this scenario, we expect more rate hikes by the ECB and the Fed compared to what markets are pricing at present (especially for the Fed). This will likely trigger a further upward repricing of monetary policy expectations (potentially even above the expected number of rate hikes).
3) A further rise in energy prices and expectations of persistent higher energy prices over time will induce investors to price a much more significant pass-through of energy prices to core inflation reinforcing the rise in real yields triggered by point 2).

In the medium to long term, we expect yields to decline rapidly, as the tightening in financing conditions and the persistence of higher energy costs will hit growth. Against this backdrop, while the tactical view reflects a more negative environment for government bonds in the short term, strategically we would turn LONG across all geographical areas.

Tactical view:
UST: LONG but STOP ACCUMULATION. NEUTRAL at 3.95% (vs. 3.75% in the baseline).
Bund: LONG but STOP ACCUMULATION. NEUTRAL at 2.60% (vs. 2.45% in the baseline).
BTPs: LONG but STOP ACCUMULATION. NEUTRAL at 3.30% (vs. 3.20% in the baseline).

Strategic view:
UST: LONG (vs. neutral in the baseline).
Bund: LONG (vs. neutral in the baseline).
BTPs: LONG (vs. neutral in the baseline).

Curve shape: In this scenario, UST and EGB curves would remain in a decisive bear-flattening mode for most of the year.

Scenario IV – “Bad”

While we do not expect a repeat of 2022 in terms of size and duration of the sell-off in government bonds, this is the most negative scenario in terms of rates impact. In this scenario, on top of a further increase in energy prices, a rise in monetary policy rates by central banks and spillover effects from the energy prices to core inflation, expectations of fiscal easing to support the economy will push yields up in the near-term.

While the hit to growth will be very pronounced in this scenario, fiscal easing in a context of already very high public debt (higher than in 2022) could lead to the build-up of a term premium along the curves. Against this backdrop, in this scenario, we would stick to a neutral strategic positioning on USTs, Bunds and BTPs.

Tactical view:
UST: LONG but turn NEUTRAL on rallies.
Bund: LONG but turn NEUTRAL on rallies.
BTPs: LONG but turn NEUTRAL on rallies.

Strategic view:
UST: NEUTRAL**.**
Bund: NEUTRAL.
BTPs: NEUTRAL.

Summary

Below is the summary table of our scenarios:

Tactical view

Scenario	UST	Bund	BTP
Manageable	LONG. Accumulate at 4.40-4.50% . NEUTRAL at 3.95%.	LONG. Accumulate at 3.10%. NEUTRAL at 2.60%.	LONG. Accumulate at 4.10%. NEUTRAL at 3.30%.
Adverse	LONG. Accumulate at 4.50-4.60%. NEUTRAL at 3.95%.	LONG. Accumulate at 3.20%. NEUTRAL at 2.60%.	LONG. Accumulate at 4.20%. NEUTRAL at 3.30%.
Severe	LONG but STOP ACCUMULATION. NEUTRAL at 3.95%.	LONG but STOP ACCUMULATION. NEUTRAL at 2.60%.	LONG but STOP ACCUMULATION. NEUTRAL at 3.30%.
Bad	LONG but turn NEUTRAL on rallies.	LONG but turn NEUTRAL on rallies.	LONG but turn NEUTRAL on rallies.

Source: ANIMA Research.

Strategic view

Scenario	UST	Bund	BTP
Manageable	Neutral	Neutral	Neutral
Adverse	Neutral	Neutral	Neutral
Severe	Long	Long	Long
Bad	Neutral	Neutral	Neutral

Source: ANIMA Research.

Equity Strategy

The four scenarios presented below should be interpreted as a **strategic outlook through end-2026**, rather than as a precise short-term market forecast. Given all moving parts, markets are unlikely to follow a linear path under any of these scenarios, as shifting policy expectations, changes in sentiment and episodes of overshooting could lead to significant deviations over shorter horizons. The targets shown at the end should therefore be understood as our assessment of the likely medium-term direction and end-state for markets under each macro regime.

Scenario I – "Manageable"

Asset class view: In this scenario, **we would keep a neutral to mildly constructive view**. The shock is likely to keep volatility elevated, delay rate cuts and constrain further multiple expansion, but not severe enough to trigger neither a deep earnings recession nor a full bear-market derating As a result, **equities remain investable**, although expected returns are likely to be more moderate and more dependent on stock-picking than in a broad-based risk-on environment.

Regional allocation: We would express this through **a mild preference for the US over Europe and EM**.

US: **Overweight**. The US should be the relative winner in this scenario. While delayed Fed cuts may cap valuation upside, they are unlikely to undermine the earnings base materially. The US remains less exposed to imported energy stress and benefits from a more resilient market structure, with greater exposure to secular growth and higher-quality earnings.

Europe: **Underweight**. Europe faces greater economic challenges than the US due to high energy costs and slower policy adjustments.

EM: **Underweight**. The combination of a cautious Fed, firmer real yields, elevated volatility and still-high energy prices is not supportive of broad EM outperformance.

Style allocation: At the style level, **we would favour Cyclicals over Defensives**, **Growth over Value, and Large Caps over Small Caps**. The combination of slower growth, somewhat stickier inflation, delayed cuts and high volatility typically rewards companies with stronger earnings visibility, pricing power and more resilient balance sheets, while penalising the more economically sensitive. Large caps should also be preferred, as they tend to offer greater resilience, better financing access and lower earnings risk in a more uncertain macro environment.

In summary: Equities remain investable, but this is not a broad-beta environment. The preferred allocation is: OW US, relative to the Rest of the World, OW Cyclicals over Defensives, Growth over Value, and Large Caps over Small Caps.

Scenario II – "Adverse"

Asset class view: In this scenario, **we would move to a more cautious view**, as the shock becomes more persistent and starts to create a more meaningful drag on both growth and valuations. The combination of energy prices remaining elevated for longer, hawkish-for-necessity central banks, and weaker activity keeps volatility high and raises the risk premium demanded by investors. Unlike the manageable scenario, this backdrop is no longer consistent with just a pause in multiple expansion. In fact, it points to a period of weaker earnings confidence, more visible downside revisions and a more fragile equity market overall.

Regional allocation: We would still express this through **a clear preference for the US over Europe and EM, with the ranking US > Europe > EM**.

US: **Overweight on a relative basis**. Even in a weaker global backdrop, the US should remain the most resilient market thanks to its lower exposure to imported energy, stronger quality bias and better earnings durability.

Europe: **Underweight**. Europe looks significantly more vulnerable in this scenario, as the region faces both a prolonged energy shock and a tighter ECB stance despite very weak growth, creating an unfavourable mix for equities.

EM: **Underweight**. EM is the least preferred region, as the combination of higher-for-longer US rates, firmer real yields, elevated volatility and weak external demand is typically a difficult environment for broad EM performance.

Style allocation: At the style level, **we would favour Defensives over Cyclicals, Large Caps over Small Caps, and take a more balanced stance between Growth and Value**, with a mild tilt toward Value relative to Scenario I. The persistence of high energy prices and the more hawkish central-bank reaction reduce the support for long-duration assets, while the weaker growth backdrop continues to penalise the more economically sensitive parts of the market. Large caps should remain preferred, as they offer greater resilience, stronger balance sheets and better access to financing in an environment where macro uncertainty and earnings risk are both rising.

In summary: This is no longer a benign slowdown scenario. The preferred allocation is UW equities overall, with relative OW US, UW Europe and EM, OW Defensives over Cyclicals, a more cautious and balanced stance between Growth and Value with a modest tilt toward Value, and OW Large Caps over Small Caps.

Scenario III – “Severe”

Asset class view: In this scenario, **we would adopt a clear underweight stance**, as the macro backdrop turns distinctly more hostile for the asset class. A further sharp rise in energy prices, a much more persistent inflation shock and a renewed, outright aggressive tightening response from both the ECB and the Fed would materially weaken the earnings outlook while putting additional pressure on valuations through higher discount rates and a higher equity risk premium. Unlike previous scenarios, this setup is consistent with a much more pronounced de-rating in equities, as markets would need to absorb both a significant growth slowdown and a more aggressive central-bank reaction function.

Regional allocation: We would continue to express this through **a strong preference for the US over Europe and EM, with the ranking US > Europe > EM**.

US: **Overweight on a relative basis**. Even in a severe scenario, the US should remain the most resilient equity market thanks to lower energy vulnerability, stronger balance-sheet quality and a more robust earnings mix.

Europe: **Underweight**. Europe appears the most exposed region in this scenario, as the combination of persistent energy stress, recessionary conditions and a much more hawkish ECB would create a particularly adverse environment for equities.

EM: **Underweight**. EM remains the least preferred region, as tighter US policy, higher real yields, a firmer USD and weaker global demand would all act as clear headwinds for the asset class.

Style allocation: At the style level, **we would show a strong preference for Defensives over Cyclicals, Value over Growth, and Large Caps over Small Caps**. In this environment, the sharp rise in energy prices, the hawkish repricing in rates and the deterioration in the growth outlook would heavily penalise the more economically sensitive parts of the market, while also reducing support for long-duration growth assets. Large caps should again be preferred, as they tend to offer stronger balance sheets, greater earnings resilience and better access to funding in a period of very high macro uncertainty and tighter financial conditions.

In summary: This is a clear risk-off and equity-negative scenario. The preferred allocation is UW equities overall, with relative OW US, UW Europe and EM, strong OW Defensives over Cyclicals, OW Value over Growth, and OW Large Caps over Small Caps.

Scenario IV – “Bad”

Asset class view: In this scenario, **we would move to a max underweight stance**, as the macro backdrop becomes clearly incompatible with a constructive view on the asset class. The combination of a sharp energy shock, inflation moving materially higher, and an aggressive tightening response from both the ECB and the Fed would create a much more adverse mix of weaker growth, tighter financial conditions and higher discount rates. In this environment, equities would likely face both a meaningful earnings downgrade cycle and a significant valuation de-rating, making this a clear risk-off scenario for the asset class overall.

Regional allocation: We would continue to express this through **a strong preference for the US over Europe and EM, with the ranking US > Europe > EM**.

US: **Overweight on a relative basis**. Even in a markedly weaker global backdrop, the US should remain the most resilient equity market thanks to lower energy dependence, better earnings quality and greater market depth.

Europe: **Underweight**. Europe appears particularly exposed in this scenario, as the combination of an extreme energy shock, recessionary conditions and aggressive ECB tightening would create a very unfavourable environment for equities.

EM: **Underweight**. EM remains the least preferred region, as higher US rates, a firmer USD, weaker global trade and tighter external financing conditions would all act as major headwinds.

Style allocation: At the style level, **we would show a very strong preference for Defensives over Cyclicals, Value over Growth, and Large Caps over Small Caps**. The combination of sharply higher energy prices, aggressive policy tightening and a weaker growth backdrop would be especially negative for the more economically sensitive parts of the market, while higher real yields would also put substantial pressure on long-duration growth assets. Large caps should again be preferred, as they tend to offer stronger balance sheets, more resilient earnings and better access to funding in an environment of very tight financial conditions and elevated macro uncertainty.

In summary: This is a deeply risk-off and strongly equity-negative scenario. The preferred allocation is strong UW equities overall, with relative OW US, UW Europe and EM, strong OW Defensives over Cyclicals, strong OW Value over Growth, and strong OW Large Caps over Small Caps.

Summary and Targets

Below is the summary table of our scenarios:

Scenario	Asset Class	Regional Allocation	Sector Allocation	Style
Manageable	Neutral/ mildly constructive	Mild preference for the US > Europe = EM	Cyclicals > Defensives	Growth > Value Large > SMID
Adverse	More cautious	Clear preference for the US > Europe > EM	Defensive > Cyclicals	Growth = Value Large > SMID
Severe	Clear Underweight	Strong preference for the US > Europe > EM	Defensive > Cyclicals	Value > Growth Large > SMID
Bad	Max Underweight	Strong preference for the US > Europe > EM	Defensive > Cyclicals	Value > Growth Large > SMID

Source: ANIMA Research.

Against that backdrop, we expect the following 2026 EPS growth estimates and year-end2026 targets for S&P 500 and Stoxx 600:

Scenario	S&P 500 EPS growth (2026)	S&P 500 target (year-end2026)	STOXX 600 EPS growth (2026)	STOXX 600 target (year-end2026)
Manageable	+10% to +12%	6,900 to 7,100	0% to +3%	600 to 620
Adverse	+4% to +6%	6,200 to 6,500	-5% to -8%	540 to 560
Severe	-3% to -6%	5,500 to 5,900	-12% to -16%	470 to 500
Bad	-10% to -15%	4,900 to 5,300	-20% to -25%	400 to 440

Source: ANIMA Research.

FX Strategy

As for rates, our positioning on the DXY and EUR-USD would not substantially change in Scenario I and Scenario II, as the easing of geopolitical tensions would leave the dollar exposed to its pre-war drivers. In Scenario III and Scenario IV, we would turn more constructive on DXY and more negative on EUR-USD given persisting geopolitical tensions and higher energy prices that would hit the EA economy more strongly than the US economy.

Scenario I – “Manageable”

The dollar has benefited from the Middle East conflict, reflecting 1) its role as a safe-haven asset 2) better terms of trade for the US due to higher energy costs, and 3) a sharp upward revision of the Fed’s monetary policy expectations. If geopolitical tensions ease, we expect the dollar to correct its overperformance and revert to being driven by macro fundamentals, the political risk premium in the US, and investor flows. That said, given the uncertainty around the duration of the conflict, we would keep a neutral tactical position for the time being.

Strategically, we would maintain a short position on the DXY and a long position on the EUR/USD, reflecting the rise in hedging of USD assets and a continuation of foreign outflows from USD assets. That said, we continue to signal that the likely peak in the political risk premium and the approaching midterm elections could lead us to shift to a more constructive strategic position on the greenback.

Tactical view:
DXY: NEUTRAL.
EUR-USD: NEUTRAL.

Strategic view:
DXY: SHORT.
EUR-USD: LONG.

Scenario II – “Adverse”

While, on the one hand, the USD could benefit from energy prices remaining above the pre-war levels for most of 2027 via an improvement in terms of trade and the US economy remaining in decent shape, on the other hand, the EUR could be supported in the near term by the ECB delivering risk-management rate hikes in Q2/Q3 2026. Against this backdrop, we prefer to hold a NEUTRAL tactical position on both DXY and EUR-USD.

Strategically, we would maintain a SHORT position in DXY and a long position on EUR-USD. On top of the usual negative factors structurally weighing on the USD, in this scenario we expect the Fed to cut rates three times in 2027, while the ECB could cut rates one to two times.

Tactical view:
DXY: NEUTRAL.
EUR-USD: NEUTRAL.

Strategic view:
DXY: SHORT.
EUR-USD: LONG:

Scenario III – "Severe"

In the short term, the dollar will keep benefiting from the Middle East conflict, reflecting 1) its role as a safe-haven asset and 2) better terms of trade for the US due to higher energy costs. On the other hand, the EUR would continue to suffer due to the deterioration in terms of trade and expectations of a slowdown in growth. In terms of monetary policy, we expect the ECB to be slightly more aggressive than the Fed in raising rates, but both central banks will be raising rates. Against this backdrop, we would turn LONG on DXY and SHORT on EUR-USD from a tactical perspective (from neutral on both in our baseline).

Strategically, we would switch to a NEUTRAL stance on both DXY and EUR-USD. While, on the one hand, hedging of USD assets and outflows from USD assets will continue to weigh on the dollar's performance, in the context of slower global growth we expect the US economy to outperform the rest of the developed economies. This, coupled with more rate cuts expected from the ECB in 2027 compared to the Fed, should also weigh on EUR-USD performance.

Tactical view:
DXY: LONG (from neutral).
EUR-USD: SHORT (from neutral).

Strategic view:
DXY: NEUTRAL (from short)
EUR-USD: NEUTRAL (from long).

Scenario IV – "Bad"

In terms of FX impact, this scenario is very similar to Scenario III. For this reason, also in this scenario we would turn LONG on DXY and SHORT on EUR-USD from a tactical perspective (from neutral on both in our baseline), while strategically we would switch to a NEUTRAL stance on both DXY and EUR-USD (from short and long in our baseline, respectively).

Tactical view:
DXY: LONG (from neutral in the baseline).
EUR-USD: SHORT (from neutral in the baseline).

Strategic view:
DXY: NEUTRAL (from short in the baseline)
EUR-USD: NEUTRAL (from long in the baseline).

Summary

Below is the summary table of our scenarios:

	DXY		EUR-USD	
Scenario	**Tactical**	**Strategic**	**Tactical**	**Strategic**
Manageable	Neutral	Short	Neutral	Long
Adverse	Neutral	Short	Neutral	Long
Severe	Long	Neutral	Short	Neutral
Bad	Long	Neutral	Short	Neutral

Source: ANIMA Research.

Appendix

In order to assess the implications of the different energy scenarios, we use the SHOK model developed by Bloomberg Economics, by customizing it with the entering of our input parameters for the baseline and shocks. Such a model provides a valuable guide, bringing together insights from economic theory and empirical relationships to understand how shocks impact the outlook.

More in detail, SHOK is a quarterly semi-structural general equilibrium model developed for forecasting and scenario analysis, inspired by central bank models. Indeed, it has been calibrated for broadly match the key dynamics of FRB/US (FED), BASE/EA (ECB). It's New Keynesian in spirit but more flexible compared with DSGE models, as it uses Bayesian techniques.

In our exercise, we use our macro baselines for the US and Euro Area, respectively. As for shocks, we work solely on an energy supply shock, leveraging Brent prices and TTF natural gas prices, respectively. It is important to note that gas prices do not enter SHOK directly, but we have a rule of thumb which creates an oil price equivalence – in line with Bloomberg Economics findings. That suggests the upward move in European gas prices is comparable to something like an additional $16 increase in the price of oil. This is how we introduce the shock for the EA - it gives a hint at the magnitude of the impact.

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