

Focus

WHERE THE STRAITS HAVE NO NAME

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Compared to our base-guesstimate, risks that the conflict in the Middle East could either escalate or persist have increased lately. Neither US-Israel nor Iran seems willing to back down, while the Strait of Hormuz is effectively closed.

Given that risks surrounding our macro baseline are mounting, in this note we present two high-level alternative macro and markets scenarios based on the assumption that both energy- and non-energy commodity prices remain at current levels for the next three months.

A word of warning. The aim of this exercise is to provide tentative macro and market scenarios. At this stage, given time constraints, the level of accuracy is, for obvious reasons, limited. As the situation becomes clearer (hopefully) and time passes, we will fine-tune our views and mark-to-market our current working macro baseline.

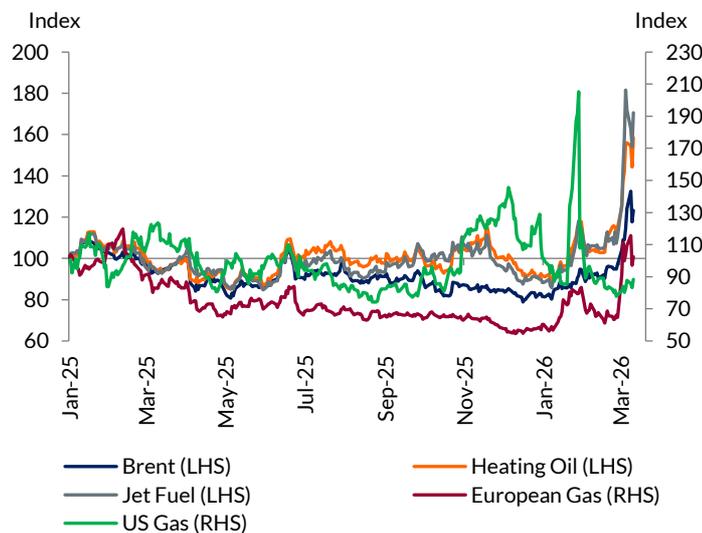
RISKS ON THE RISE

Compared to our base-guesstimate, risks that the conflict in the Middle East could either escalate or persist have increased lately. Neither the US-Israel nor Iran seems willing to back down, while the Strait of Hormuz is effectively closed.

The tensions have quickly spread across the energy commodity markets. Brent crude oil futures prices have surged above USD100 per barrel, while gas prices in Europe have risen to 52 €/MWh. But that is not all. Although these developments are not all directly related to tensions in the Middle East, other commodity prices, including aluminium, copper and steel have also been on an upward trend. Last, but not least, there's food: fertiliser prices are also on the rise (Figures 1 and 2).

Figure 1

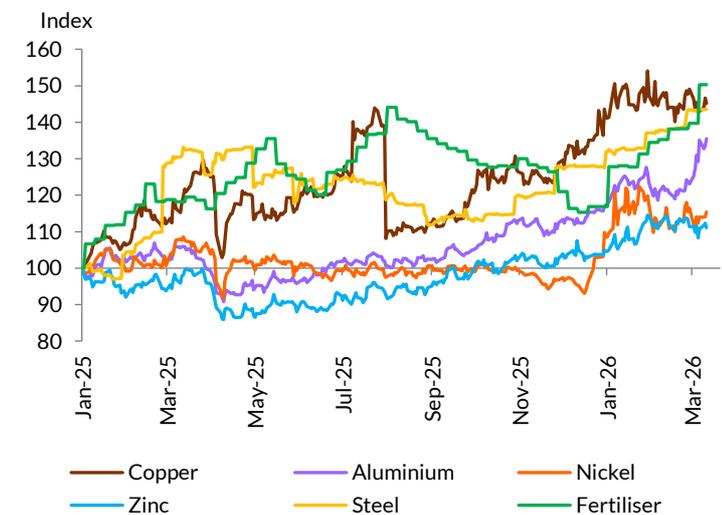
Global: Energy commodities on fire



Source: Bloomberg, ANIMA Research. Note: prices as of 11th March 2026.

Figure 2

Global: Metals and fertilizers prices on the rise



Source: Bloomberg, ANIMA Research. Note: prices as of 11th March 2026.

SCENARIO ANALYSIS

Given that risks surrounding our macro baseline are mounting, in this note we present two high-level alternative macro scenarios based on the assumption that both energy- and non-energy commodity prices remain at current levels for the next three months.

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Scenario 1 – Temporary hit

Headline inflation surges in Western economies, led by energy and possibly food prices. However, the pass-through to core inflation remains limited. Given 1) the current very high price levels, 2) stalling or declining wage growth, 3) the depletion of liquid savings, and, 4) that citizens' tolerance for inflation is likely lower than in 2022, commodity pressures are absorbed along the (core) price chain without fully reaching final consumers.

Growth slows as consumers feel the impact of higher energy and food prices, while businesses and households delay their spending decisions as confidence weakens. At this stage, it is very hard to tell whether Western economies will enter a recession. Given the current macroeconomic starting point, we would tentatively say no. In terms of risks, however, the euro area (EA) would be more exposed.

Scenario 2 – Stagflation risks

Headline inflation surges in Western economies, led by energy and food prices. Core inflation also starts to increase as commodity pressures pass through to final consumers. Compared to Scenario 1, the impact on growth is more pronounced. Risks of recession would increase disproportionately in the EA, given the weaker macro backdrop compared to the US.

Déjà vu?

Can Western economies weather the shock as they did in 2022? 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, excess savings and fiscal support.

These supporting factors helped the economies escape stagflation. As those tailwinds have weakened, if not vanished in the case of the EA, stagflation would be a significant risk under Scenario 2.

CENTRAL BANKS

In Scenario 1, we expect Western central banks to look through the spike in headline inflation, while any slowdown in growth momentum later on would lead to a moderate easing bias.

In Scenario 2, where the energy shock passes through to core inflation, central banks will likely adopt a more hawkish stance initially, amid inflationary risks, before easing their stance as risks to growth become more prominent in their policy reaction function. The more hawkish the stance becomes in the first place, the higher the risk of a dovish U- turn in the medium-term, especially in the EA, given it's a net oil importer and the macro backdrop is more vulnerable.

RATES

Looking at rates market performance during the 2022 increase in energy prices, we think that the short-term performance of US and euro area (EA) rates markets will depend on when the peak in energy prices is reached.

Until energy prices continue rising, we expect a further increase in nominal yields driven by breakeven inflation rates, with the short end underperforming and curves bear-flattening, especially in the EA. Once the peak in energy prices is reached, the key drivers of rates will become developments in core inflation and the stance of monetary policy.

Against this backdrop, **in Scenario 1, given the limited pass-through of energy prices to core inflation, we see yields declining both in the EA and the US,** especially at the short-end, with a clear case for a re-steepening of the curve in the EA, given that investors have gone too far in pricing the ECB's hawkish turn.

In Scenario 2, we expect government bond yields to remain at high levels or rise further even after the peak in energy prices has been reached, as we expect the market to price in more hawkish central banks based on evidence of a stronger pass-through of energy prices to core inflation. This would lead to a further bear-flattening of curves both in the US and in the EA, and a further widening of the sovereign spreads in the EA.

Contrary to 2022, however, we do not expect the trend of rising government bond yields to last for months, given that the economic starting point, especially in the EA, is not as solid and safe as it was in 2022.

Against this backdrop, **once cracks in growth start to emerge, we expect rates markets to turn rapidly and begin pricing in more dovish central banks, with yields declining and curves bull-steepening.**

EQUITY

In Scenario 1, we anticipate that global equities will decline between 10% and 15%, driven by a combination of multiple contraction - stemming from worsening investor sentiment - and a deterioration in earnings due to a challenging macroeconomic environment. Corporate margins, still historically high, leave room for normalization should energy and transport costs rise further while demand weakens. The duration required for the market to return to its prior peak will depend on both the length of the shock and the measures implemented by fiscal and monetary authorities.

From a regional perspective, we would favor the US over other markets. The former benefits from relative energy independence and tends to outperform when the US dollar strengthens in periods of reduced risk appetite. By contrast, Europe appears more vulnerable given its higher exposure to imported energy and already weaker macro backdrop. Emerging markets are likely to face headwinds from a stronger greenback and tighter global financial conditions, which historically weigh on local economies.

From a sector perspective, we prefer defensive sectors over traditional Cyclical, including Consumer Discretionary and Financials, which are more exposed to weaker demand and tighter credit conditions. Within the growth universe, we favor software over hardware and semiconductors, as recurring revenues and lower input-cost sensitivity should support margins in a slowing growth environment. In this context, we would also highlight energy producers as a potential hedge against further commodity price increases, while monitoring earnings revisions and credit spreads, which typically lead broader equity market adjustments.

In Scenario 2, we expect equities to enter a full bear market, with losses across major regions exceeding 20%, largely driven by a double-digit contraction in

earnings. Within this environment, we expect the US market to decline less than other regions, while defensive sectors should outperform Cyclical, which are more exposed to the deterioration in economic activity.

Consistent with previous bear markets triggered by economic recessions, **we expect equity indices to bottom when downward earnings revisions significantly outnumber upward revisions**. Historically, a ratio of roughly six downward revisions for every upward revision has coincided with market troughs. In past cycles, this signal has marked an attractive entry point for equities, even though the macroeconomic backdrop typically remained weak and growth momentum remained subdued.

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