

## ***The markets are beginning to acknowledge*** the reality of the war

### CONTEXT

#### **GEOPOLITICAL SITUATION: THE CONFLICT IS SETTLING IN FOR THE LONG TERM, BUT THE OUTCOME REMAINS UNCERTAIN**

One week after the launch of Operation “Epic Fury”<sup>1</sup>, the conflict has significantly expanded and become regional, with no clear signs of de-escalation for the time being. The intensification of airstrikes, the widening of the theatre of operations, and the now total paralysis of the Strait of Hormuz are raising concerns that the situation may evolve from a mere geopolitical risk premium to a genuine supply shock. Nevertheless, several elements-such as Iran’s restraint on certain targets and the first diplomatic signals-still leave the door open to a possible shift.

The conflict appears to be taking root. Iran announced on Sunday the appointment of Mojtaba Khamenei as the new Supreme Leader, following the death of his father during the early phases of the conflict. This appointment signals institutional continuity and rules out, at least in the short term, the prospect of a rapid collapse of the regime. However, the broader circumstances could reduce the likelihood of swift negotiations. President Pezeshkian, who had issued apologies on Saturday to Gulf countries for Iranian strikes on their territory, reversed his stance on Sunday by announcing an intensification of attacks on American targets in the region. Meanwhile, Donald Trump stated that he is not seeking a negotiated solution, and the White House maintains that military objectives could be reached within four to six weeks.

Despite the rapid destruction of a significant portion of Iran’s military forces-including a largely neutralized navy, an immobilized air force, and a sharp reduction in ballistic missile launches-the ability to keep the Strait of Hormuz closed, as well as the risk of attacks on desalination plants or oil infrastructure, continues to represent a major source of concern. Diplomatically, the coming weeks may bring developments with the potential to significantly alter the trajectory of events. China, the world’s largest oil importer and Iran’s main customer, has sent an envoy to the region, while Foreign Minister Wang Yi has been in close contact with his Iranian, Israeli, Omani, and Russian counterparts.

Key elements to monitor include any attempt by the United States to escort an oil tanker through Hormuz, a potential strike on a major energy facility, the positioning of the Houthis in the Red Sea, the tone and early decisions of Mojtaba Khamenei in his new role, China’s diplomatic maneuvers ahead of the Trump–Xi summit on March 31, and any additional strike on desalination infrastructure, which would represent a major escalation.

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<sup>1</sup> *Epic Fury: the name chosen by Washington for the massive military offensive led by the United States and Israël against Iran beginning on 28 February 2026.*

## OIL: THE MAIN MACROECONOMIC TRANSMISSION CHANNEL

A week into the conflict, the oil and gas markets remain under severe strain. Export flows from Gulf countries have almost come to a standstill: in seven days, only one Iranian tanker passed through the strait into the Arabian Sea, and none managed to enter the Persian Gulf, compared to around 50 entries and exits per day under normal circumstances. Lacking storage capacity, Kuwait, Iraq, and the United Arab Emirates have already begun reducing their oil and gas production.

Saudi Arabia is rerouting part of its crude flows via the Red Sea, using the ports of Yanbu and Al Muajjiz, and could export around 2.3 million barrels\* per day—a level well below its usual 6 million barrels. This solution remains fragile, as the East-West pipeline running from Dhahran across the desert could be targeted by drones. Moreover, these volumes must transit through the Suez Canal at a time when Houthis are threatening navigation in the Red Sea, while most Gulf oil is destined for Asia, making any major detour inefficient.

Without a swift reopening of Hormuz, production shutdowns across the Middle East are likely to accumulate, strengthening the case for oil prices above 100 dollars per barrel, or even 150 dollars in the event of a prolonged stalemate—an estimate mentioned by the Qatari energy minister. Initiatives proposed by the United States, including financial guarantees from the U.S. International Development Finance Corporation covering maritime freight risks up to 20 billion dollars\*, and the possibility of military escorts, have so far failed to restore traffic, as insurers and shipping companies continue to refuse operations in the area. Other options—such as a broader easing of sanctions on Russian oil or a partial release of U.S. strategic reserves—have been discussed, but historically these announcements have often been followed by rising prices.

The global effects are already visible: China has imposed restrictions on refined product exports, and U.S. gasoline and diesel prices are rising rapidly. The average price of gasoline reached approximately 3.41 dollars per gallon on Saturday and could exceed 3.50 dollars by midweek\*, a politically sensitive issue ahead of the midterm elections and the upcoming driving season.

The operational blockade of the Strait of Hormuz has pushed oil prices above 90 dollars—a rise of 25 dollars in one week—with prices temporarily exceeding 100 dollars yesterday evening. European gas prices have also surged to around 50 euros per megawatt hour, compared with 30 euros previously\*.

Our central scenario (read [here](#)) remains unchanged—resilient growth and contained inflation—although the conflict increases short term inflationary risks and downward risks to long term growth, especially in Europe, which is more dependent on energy imports.

At this stage, only marginal adjustments to our central scenario would be warranted. A prolonged conflict or sustained rise in energy prices would lead us to revise our outlook for both growth and inflation.

### IMPACT OF THE CONFLICT ON THE DIFFERENT ASSET CLASSES

#### EQUITY MARKETS: DEEPER CORRECTION IN THE EUROZONE THAN IN THE U.S.

U.S. markets have held up better than their international counterparts, with the S&P 500 falling by about 2% over the week. The U.S. economy, being largely self-sufficient in oil and gas, is minimally exposed to supply risks. Moreover, strong investment in artificial intelligence and the relatively low sensitivity of wealthier households to energy prices limit the risk of an economic slowdown despite higher energy costs.

Eurozone equities fell by a little more than 6%, giving back all the gains accumulated since the start of the year. The most affected sectors were energy intensive areas of discretionary consumption, particularly the automotive industry, as well as banks. Telecoms and energy stocks proved more resilient.

## BOND MARKETS: REACTING TO INFLATIONARY PRESSURES

While government bonds often act as safe havens in recessionary environments, their behavior changes dramatically when markets begin to price in inflation risk. In response to the war and recent events, interest rates have risen significantly, reigniting fears of an inflationary rebound.

In the Eurozone, the German 10 year yield rose by 22 basis points to 2.86%\*, while the 2 year yield increased by 32 basis points to 2.31%\*, leading to a flattening of the curve. Markets still do not anticipate any ECB rate cuts in 2026, but expectations are now tilted upward.

In the United States, the increase has been more moderate and more evenly distributed across the curve: the 10 year yield climbed by 20 basis points to 4.14%\*, and the 2 year by 18 basis points to 3.56%\*. Whereas two rate cuts were expected before the conflict began, the likelihood of a double easing has diminished significantly, with only one cut still considered plausible.

## CREDIT MARKETS: VOLATILITY<sup>2</sup> REMAINS CONTAINED

The European credit market has held up relatively well since the start of the conflict. Investment-grade spreads in the Eurozone remained stable at around 73 basis points\*. High-yield spreads widened by about 10 basis points, reaching 275 basis points\* by Friday.

### POSITIONING AND ALLOCATION DECISIONS

## PORTFOLIO MOVEMENTS AND OUTLOOK

We have made a few minor adjustments to our portfolios to adapt exposure to the new market environment without altering the strategic direction.

In Eurozone equities, the current situation calls for increased short term caution, though we have not adjusted our overall outlook for the year. In the United States, further market pullbacks remain possible due to volatility, but we remain attentive to opportunities to reinforce positions if valuations weaken. We continue to believe that U.S. fundamentals will reassert themselves once geopolitical tensions ease.

Credit markets have shown resilience, leading us to gradually reduce hedges on our investment grade and high yield funds to return to risk levels aligned with their benchmarks, while increasing duration after the rise in yields. On total return credit strategies, we have also reduced hedges but maintain a cautious stance: the remaining, still significant protections are intended to cushion potential stress should the conflict escalate.

## INSTITUTIONAL INVESTOR SENTIMENT

Some institutional investors, still underexposed to equities, are using the return of volatility to slightly increase their positions in Europe. The rise in sovereign yields is also reviving interest in carry strategies through duration. In investment grade credit, investors remain cautious: spreads are still tight and offer limited protection in the event of renewed stress, increasing the asymmetry of risks and encouraging a more selective approach.

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<sup>2</sup> Volatility : corresponds to the calculation of the amplitudes of variations in the price of a financial asset. The higher the volatility, the riskier the investment will be considered.

## **CONCLUSION**

Although we are not revising our central scenario at this stage, recent developments underscore the need for heightened vigilance. We remain ready to adjust our positioning quickly should the situation evolve. The environment remains uncertain, and our management approach will continue to be flexible and responsive in the coming weeks.

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## **Important Information**

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