

### Middle East Crisis



We hope this message finds you, your loved ones, and your colleagues safe and in good health. During this period of unrest, uncertainty, and regional conflict, we would like to express our solidarity and our sincere hope for stability, safety, and prosperity across the region.

We would also like to reassure you that Mashreq Capital (DIFC) Ltd., as a wholly owned subsidiary of Mashreq, operates within the robust framework and infrastructure of one of the region's leading financial institutions. This foundation provides us with strong operational resilience and comprehensive business continuity capabilities, enabling us to continue fulfilling our fiduciary responsibilities and prudently managing the assets entrusted to us. We remain fully operational and committed to maintaining the highest standards of service throughout this period.

This special report is intended to summarise the latest key market developments over the last 2 weeks combining the two notes published to date. sharing our insights to help inform our investment decisions. In the coming days, and for the duration of this period of uncertainty, we will provide regular updates, webinars, and communications that we hope you will find valuable.

We remain at your service and are committed to supporting you as your trusted partner.

**Philip Philippides**  
CEO Mashreq Capital

# Mashreq Capital – Market Update on the Middle East Crisis

## Author



**Andreas Anthis**  
 Head of Multi Asset &  
 Absolute Return

## Contributors



**Amol Shitole**  
 Head of Fixed Income



**Ibrahim Masood**  
 Head of Equities

## Global Commentary

### Geopolitical Overview

Over the weekend, the Middle East experienced a major escalation following coordinated U.S.–Israeli military operations targeting Iran. Reports confirm that Iran’s Supreme Leader Ayatollah Ali Khamenei was killed during these strikes, alongside several senior Iranian security officials—a development described by Iranian leadership as a declaration of war that triggered widespread retaliatory action. Israel and the United States conducted extensive bombardments across Iran, including in central Tehran, prompting Iran’s Islamic Revolutionary Guard Corps (IRGC) to launch multiple waves of missiles and drones at Israeli military assets and 27 U.S. bases across the region, with confirmed strikes reported across Gulf and Levant states.

There have been numerous casualties following these attacks, with additional injuries reported across multiple Gulf countries as Iran expanded its retaliation. The conflict also prompted widespread airspace closures and significant disruptions to aviation infrastructure across the Gulf—developments consistent with the announced retaliatory missile and drone strikes on regional hubs including Dubai and other Gulf cities. Hezbollah further escalated tensions by launching missiles into northern Israel in response to Khamenei’s killing, triggering counterstrikes by the Israeli Defense Forces.

The cumulative effect of these events has materially heightened geopolitical risk across global markets.

### Scenario 1: Diplomatic De escalation (Most Benign)

Under a coordinated diplomatic pullback, market stress would moderate. Equity markets would normalize with value and quality factors leading performance, while oil would likely stabilize in the \$65–70/bbl range and gold would trade between \$5,100–5,300/oz. U.S. 10 year yields would be expected to return toward ~4.0%, with credit spreads tightening modestly (by ~2bps) and EM assets recovering.

### Scenario 2: Persistent Harassment at the Strait of Hormuz (“War Risk Tax”)

In this environment, the global economy would not experience an acute supply shock but would instead bear a chronic cost of transport premium driven by elevated war risk insurance, freight delays, and repeated operational disruptions. Oil would reprice into a structurally higher band as logistical friction, stockpiling behavior, and ongoing uncertainty lift marginal costs.

## Mashreq Capital – Market Update on the Middle East Crisis

Implications include:

**Equities:** Margin compression for fuel and logistics sensitive sectors; outperformance of tanker owners and upstream energy producers.

•**Rates/Credit:** Sticky inflation keeps central banks constrained; credit spreads widen, led by Emerging Market and High Yield.

•**Commodities:** Tight front-month Brent, LNG (Liquefied Natural Gas) shipping volatility, and elevated agricultural prices due to higher fertilizer and transport costs.

•**FX (Foreign Exchange):** USD strength persists; Emerging Market energy importers weaken; Gulf currency pegs face periodic speculative pressure.

### Scenario 3: Full Closure of the Strait of Hormuz (Severe Global Shock)

A multi-week or multi-month military closure of the Strait would constitute a sizeable negative economic event. Nearly one third of global seaborne crude and a substantial share of LNG (Liquefied Natural Gas) flows could be halted, driving Brent prices into the triple

USD digits level.

#### Key effects:

•**Equities:** Volatile sector specific sell offs, particularly in airlines, transportation, petrochemical industries, and consumer discretionary; outperformance of integrated oil majors, defense companies, and long-duration renewables.

•**Rates:** Safe-haven sovereign bonds rally initially before stagflation pushes long-term yields higher.

•**Credit:** High-Yield defaults accelerate; Investment Grade remains stressed; Emerging Market credit deteriorates.

•**Commodities:** Energy and food prices spike; industrial metals sell off on global recession fears.

•**FX:** The United States Dollar, Canadian Dollar, and Norwegian Krone strengthen significantly, while Asian importers and the Chinese Yuan come under extreme pressure.

Such a scenario would likely weaken the global economy into a synchronized stagflationary recession, characterized by supply disruption, policy paralysis, and broad risk asset reweighting in portfolios.

# Mashreq Capital – Market Update on the Middle East Crisis

## Regional Commentary

### MENA Fixed Income

**GCC core economies (UAE, Saudi Arabia, Qatar, Kuwait, Oman) provide a strong anchor of stability** within the MENA bond fixed income universe. These sovereigns benefit from very low debt-to-GDP ratios, robust external balance sheets, and high A/AA credit ratings, offering DM-like quality with EM-level carry.

**Local GCC bond market liquidity remains resilient**, supported by deep domestic investor bases and strong banking-sector demand. In addition, trading conditions have stayed orderly despite elevated geopolitical noise.

**Credit risk remains contained across the region**, with no default or restructuring candidates in the GCC sovereign space. Any immediate spread widening is likely to be sentiment-driven and concentrated in high-beta sovereigns such as Egypt, Turkey, Lebanon, Bahrain, and Jordan.

### MENA Equities

**MENA equities have traded in an orderly manner to date.** Since hostilities began on **28 February**, **Qatar is down 3.97%**, **Saudi Arabia is 2.49% lower**, **Egypt has fallen 2.47%**, **Kuwait is down 1.90%**, and **Oman is broadly flat**. **UAE markets were closed on 1 March and 2 March.** Trading volumes have remained contained, and we have not observed widespread illiquidity or a broad absence of bids across the market, as has occurred in certain historical stress episodes. Overall, the move has been orderly, with no clear signs of investor panic.

**Large-cap constituents with higher weights in global emerging market benchmarks have driven the decline** (Al Rajhi Bank, Saudi National Bank, Qatar National Bank). Airline stocks have come under pressure as investors respond to ongoing airspace closures and rising fuel costs. In contrast, upstream energy leaders **Saudi Aramco** and **OQEP** have traded higher as oil prices rallied and investors anticipate that **OPEC+** may need to maintain or increase output to keep global markets adequately supplied.

# Mashreq Capital – Market Update on the Middle East Crisis

## Author



**Andreas Anthis**  
 Head of Multi Asset &  
 Absolute Return

## Contributors



**Amol Shitole**  
 Head of Fixed Income



**Ibrahim Masood**  
 Head of Equities

## Global Commentary

### Geopolitical Overview

During the first week of March, geopolitical developments in the Middle East led to material adjustments across global energy markets and asset prices. In our paper last week, we put forward three potential scenarios:

1. A rapid de-escalation,
2. A sustained high-tension environment with a market risk premium, or
3. An escalation with direct implications for supply chains.

By 3 March, U.S. and Israeli operations expanded to include strikes on missile, drone, and naval targets, while Iran indicated it would prevent vessel transit through the Strait of Hormuz. Several regional producers adjusted operations, shipping flows declined significantly, and oil prices rose toward \$80 alongside higher global yields and divergent equity performance.

Subsequent days saw additional military activity in Lebanon, the Gulf, and later Azerbaijan, along with refinery disruptions and refined product export suspensions in Asia. Oil traded between \$82–\$90 toward week end, with periodic stabilization in equity indices supported by U.S. macro data. At the start of the current week, Brent briefly exceeded \$118 before retracing toward \$110 following reports of potential coordinated reserve releases and further regional production adjustments.

Policy communications from the U.S. and Israel suggest that the duration of the conflict may extend beyond initial expectations. Events seem to be developing towards the third scenario above, as military activity has widened and the Strait of Hormuz has been effectively closed to commercial shipping.

Below we present an update of our scenarios looking forward from here and their market implications:

### Scenario 1: A negotiated shift back to diplomatic engagement

If the parties involved were to pivot from conflict back to diplomatic engagement, we would likely see a significant unwind of the "war premium" that has been priced into markets. This would imply a market regime where inflation expectations moderate, central banks regain room to cut rates, and investors rotate from defense and energy stocks into cyclical and transports.

## Mashreq Capital – Market Update on the Middle East Crisis

**Equities:** Stock markets would likely rally on the removal of uncertainty. Historically, the S&P 500 tends to recover from geopolitical shocks within a month following the initial drawdown. Sectors that were punished by the conflict, such as airlines, cruise lines, and other transport stocks sensitive to fuel costs, would be primed for a strong rebound. Cyclical sectors tied to consumer spending would also benefit from a more stable growth outlook.

**Fixed Income:** The dynamic would flip from the recent risk off sentiment. If a diplomatic resolution lowers oil prices, it reduces immediate inflation fears. This would allow markets to reprice central bank policy, potentially leading to lower bond yields as investors reinstate expectations for rate cuts later in the year. Corporate bond spreads, which widened due to uncertainty, would tighten and we can see the EMD Hard Currency bonds to be the asset of preference.

**Commodities:** Brent, could see a sharp decline. Prices would likely drop as markets price in the reopening of critical chokepoints and the resumption of flows from the ~20% of global oil that transits the region. Gold as a safe-haven asset, would likely see selling pressure. Its recent weakness has been tied to a strong dollar and fading rate-cut expectations. If diplomacy lowers the inflation outlook, gold could stabilize, but its immediate appeal as a crisis hedge would diminish.

**Currencies:** The dollar's recent strength would likely reverse or at least pause. Currencies of major energy importers, like the Japanese Yen and the Euro, would find relief. With oil prices stabilizing, the economic pressure on these nations' eases, allowing their currencies to recover some ground against the dollar.

## Mashreq Capital – Market Update on the Middle East Crisis

### Scenario 2: A short-term consolidation of control and reduced hostilities

A short-term consolidation of US control in Iran implies a market regime where inflation expectations remain sticky, central banks pause their easing cycles, and investors favor USD cash, energy commodities, and defense stocks over cyclical equities and the currencies of energy importers.

**Equities:** Defensive stance to be maintained with preference to Energy and Defense sectors given the expected elevated oil prices and defense related activity to follow. European equities will remain strained due to high energy-import reliance and lower gas inventories.

**Fixed Income:** Core bond yields to remain elevated as oil-driven inflation expectations reduce the likelihood of near-term rate cuts. On Credit, we could face scenarios creating selective opportunities in sector specific names while we might see some pockets of value in the EM Local Currency space.

**Commodities:** Brent, could see a sharp decline. Prices would likely drop as markets price in the reopening of critical chokepoints and the resumption of flows from the ~20% of global oil that transits the region. Gold as a safe-haven asset, would likely see selling pressure. Its recent weakness has been tied to a strong dollar and fading rate-cut expectations. If diplomacy lowers the inflation outlook, gold could stabilize, but its immediate appeal as a crisis hedge would diminish.

**Currencies:** The dollar's recent strength would likely reverse or at least pause. Currencies of major energy importers, like the Japanese Yen and the Euro, would find relief. With oil prices stabilizing, the economic pressure on these nations' eases, allowing their currencies to recover some ground against the dollar.

## Mashreq Capital – Market Update on the Middle East Crisis

### Scenario 3: A prolonged multi actor conflict accompanied by sustained pressure on energy markets.

In this scenario the market implications would move beyond a temporary "war premium" to a fundamental supply shock that reshapes macroeconomic policy and asset valuations globally. More precisely, the regime will shift to higher inflation, slower growth, tighter financial conditions, and a sustained "safe-haven" bid for the USD. It would force investors to seek refuge in energy, defense, and select commodity assets while avoiding sectors and countries most exposed to high energy costs and a slowing global economy.

**Equities:** Global markets would likely enter a sustained bearish phase. Defense stocks are clear winners and Energy producers and oilfield services will benefit from higher prices and on the flip side, airlines, transport, and logistics will struggle.

**Fixed Income:** Initially, bond yields would rise due to inflation fears, as markets price out rate cuts. However, if growth fears intensify, a "flight to quality" could eventually drive yields on safe-haven bonds lower, even as inflation remains high. Credit will become very selective.

**Commodities:** Global oil supply could effectively drop by ~15% that could lead to Brent sustainably above \$100 per barrel. Gold will benefit in the same way safe-haven assets would as interest rates fall and risky assets face volatility.

**Currencies:** The dollar would strengthen significantly as the ultimate safe-haven and due to the US's relative energy independence. This will put pressure on emerging market currencies while Japanese Yen, Indian Rupee and Euro would weaken due to their heavy reliance on energy imports and deteriorating terms of trade.

# Mashreq Capital – Market Update on the Middle East Crisis

## Regional Commentary

### MENA Fixed Income

**GCC core economies (UAE, Saudi Arabia, Qatar, Kuwait, Oman) provide a strong anchor of stability** within the MENA bond fixed income universe. These sovereigns benefit from very low debt-to-GDP ratios, robust external balance sheets, and high A/AA credit ratings, offering DM-like quality with EM-level carry. Importantly, recent volatility has not translated into material stress, with CDS moves remaining contained, Abu Dhabi has widened by ~13bp and Saudi Arabia by ~12bp month to date, underscoring the relative resilience of core GCC risk.

**Local GCC bond market liquidity has become increasingly dispersed.** While higher-quality sovereign and quasi-sovereign credits continue to trade in an orderly manner, weaker high-yield issuers, particularly in real estate, have seen a marked deterioration in market depth. In these names, bid-ask spreads have widened to around 2 points versus a more typical 0.5, reflecting limited buyer appetite.

**Credit risk remains contained across the region,** with no default or restructuring candidates in the GCC sovereign space. Any immediate spread widening is likely to be sentiment-driven and concentrated in high-beta sovereigns such as Egypt, Turkey, Lebanon, Bahrain, and Jordan and High Yield real estate corporates.

**Investment implications,** we remain duration neutral, preferring to await greater clarity on the outlook for oil, inflation and global growth before taking directional rate risk. Within credit, we are maintaining a selective approach to high yield, focusing on issuers with resilient balance sheets and funding profiles. We expect weaker credits with stretched fundamentals and limited liquidity to continue to underperform in the current environment.

## Mashreq Capital – Market Update on the Middle East Crisis

### Regional Commentary

#### MENA Equities

**Regional equities declined by 1.56% over the past week**, with MENA markets showing a clear divergence in performance. Countries that continue to maintain export access outperformed, while markets such as the UAE and Kuwait lagged amid ongoing constraints. Over the week, Saudi Arabia advanced by 5.04% and Oman gained 3.42%, whereas Dubai declined by 9.01% and Abu Dhabi fell by 5.27%.

**Excluding the UAE, regional markets have largely traded in an orderly manner.** UAE markets resumed trading on 4 March following a two-day closure, with revised daily fluctuation limits reduced to 5% from 10%, amid pressure in the banking and real estate sectors.

**In Saudi Arabia, market strength was driven by key petrochemical names**, supported by higher fertilizer and petrochemical prices. This reflects supply-side dynamics, given the strategic importance of the Strait of Hormuz for global fertilizer trade. Port access for Kuwait and Abu Dhabi remains constrained, and markets in these regions are expected to continue facing headwinds should the situation persist.

## DISCLAIMER:

This document has been prepared based on the sources believed to be reliable solely for information purposes by Mashreq Capital (DIFC) Limited ("MC"). MC is incorporated in the Dubai International Financial Center ("DIFC") and regulated by the Dubai Financial Services Authority ("DFSA"). This document is only directed at "Professional Clients" as defined by the DFSA - Conduct of Business Rulebook and no person should rely upon the information contained within it. Neither the DFSA or any other authority or regulator located in the GCC or MENA region has approved this information. This information and associated materials have been provided for your exclusive use. This document is not intended for distribution to, or use by, or relied upon by any person or entity in any jurisdiction or country where such distribution would be unlawful under the relevant laws. Any distribution, by whatever means, of this document and related material to persons other than those referred to is strictly prohibited.

This document does not constitute investment advice, solicitation, any offer or personal recommendation by MC or any related MC entity (which includes for the purpose of this disclaimer, any employee, director, officer or representative of any MC entity), to buy or sell any security, product, service or investment, or to engage in or refrain from engaging in any transaction, including any jurisdiction where any such investment advice, solicitation, offer and/or personal recommendation would be contrary to any law or regulation in that jurisdiction. Certain assumptions may have been made in the analysis that resulted in any of the information, projection, results and/or returns detailed in this document. The opinions expressed here may change. The information and opinions are derived from proprietary and non-proprietary sources deemed by MC to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by MC, its officers, employees or agents. This material may contain 'forward looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. This material is NOT intended to be relied upon as a forecast, investment research or advice, and is not a recommendation, offer or solicitation to buy or sell any financial instrument or to adopt any investment strategy. The opinions expressed herein may change drastically at any time due to market conditions. Reliance upon information in this material is at the sole discretion and risk of the Professional Client/reader. Investing involves risks.

Professional Clients are required to undertake their own assessment and seek appropriate financial, legal, tax and regulatory advice to determine whether any investment is appropriate for them in light of their experience, objectives, financial resources and other relevant circumstances. Neither MC nor any related entity accepts any liability whatsoever for any direct, indirect, consequential or any other category of loss (except for gross negligence and willful misconduct on part of MC) arising from any use of this document and/or further communication in relation thereto. Neither MC nor any related entity has any obligation to correct or update the information or opinions in this document and any opinion expressed is subject to change without notice.

Any terms in this document are indicative and do not constitute solicitation or an offer to sell to the public, whether on any particular terms or at all. This document is not intended to identify, represent or notify any conclusive terms and conditions of any transaction, or other material considerations or any possible risk, direct or indirect that would or may be involved in undertaking any such transaction.

## CONTACT US:

Mashreq Capital (DIFC) Ltd.  
Al Fattan Currency House,  
Tower 1, Floor 1, Office 111,  
DIFC, Dubai, United Arab  
Emirates

**Tel:** +971 4 424 4618  
**Email:** MarketingTeam@  
mashreq.com

**[www.mashreqcapital.ae](http://www.mashreqcapital.ae)**