

Global economic view Energy chokepoints story

Protracted or not, that is the question

The US-Israel military operation in Iran has potentially deep and persistent geopolitical implications. In our baseline scenario, we don't expect a protracted conflict, limiting upside to oil to \$10-\$15/bbl but tail risks are much bigger than in 2025. A persistent spike in oil prices exposes the global economy to a risk of stagflationary shock. A related issue is the US vs China race to influence chokepoints: the US has incentives to increase control of strategic energy supply and advanced chip technology, to counteract China's dominance in rare earth minerals. Developments from now until the Trump-Xi meeting in April will be key to watch beyond the very fluid dynamics of the US-Iran conflict.

Limited global inflation shock, with EMEA most exposed

EMEA is the most exposed region to energy price shocks, with an average share in the basket well higher than any other. Emerging Asia is also exposed but prices are less sensitive. Most DMs, including the US, are generally less sensitive to energy prices, somewhat limiting inflation risks. But the Euro Area's and Japan's exposure to energy is more elevated. Besides oil, shipping prices could spike again in the short term. As with the conflict in the Red Sea, this may most significantly impact Asia-Europe routes.

For growth, focus on ToT, beware wealth effects in the US

The impact on growth depends on the terms of trade, but we think it should be a moderate negative for the global economy in central scenarios. For the US, which has become a net energy exporter, we see the shock to growth from oil prices as muted, but we should watch shipping prices and most importantly any potential negative wealth effects from an eventual stock market correction. We think the shock is unlikely to move Fed policy barring worst-case scenarios, but the ECB could be compelled to cut.

Three big uncertainties: Hormuz, energy infra, Iran oil

Even small disruptions at Hormuz could add to an initial spike in prices, with a multi week slowdown adding up to \$10/bbl and a prolonged shutdown as much as \$40-\$80/bbl to Brent. Targeted attacks on major regional facilities, or a collapse in Iran's output, could move prices by \$10-\$50/bbl. Historical precedents from Libya, Syria, and Iraq suggest that military interventions often lead to long lasting supply disruptions.

Buy the dip in equities, USD and rates up, cautious EM

For equities, geopolitical events have historically offered buying opportunities, but low cash balances from investors and attacks on US allies offer caveats. We expect USD strength to extend against a backdrop of higher oil prices and lower equities. For rates, the oil price move likely dominates, creating upside risks over coming weeks. The initial reaction to EM assets could be substantial given initial conditions.

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Global letter

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A chokepoints story

The US-Israel military operation in Iran has potentially deep and persistent geopolitical implications. In our baseline scenario, we don't expect a protracted conflict, limiting potential upside to oil to \$10-\$15/bbl. However, tail risks are much bigger than in 2025. A more persistent increase in oil prices increases the risk of a stagflationary shock for the global economy. Not only the supply of oil matters, where OPEC's decisions can mitigate the short term increase in oil prices, but also disruptions in shipping and delivery are worth to monitor.

Certainly this is not only about oil prices but a race to influence chokepoints: the US has incentives to increase control of strategic energy supply and advanced chip technology, to counteract China's dominance in critical minerals and rare earths. Developments from now until the Trump-Xi meeting in April will be key to watch beyond the very fluid dynamics of the US-Iran conflict.

Three big uncertainties: Hormuz, energy infra, Iran oil

Critical for the evolution of energy prices, we focus on 3 flashpoints: the Strait of Hormuz, the vulnerability of regional energy infrastructure, and the stability of Iran's own oil production and exports. Even small disruptions at Hormuz—through which 21mn b/d of oil and 20% of global energy LNG volumes transit—could have outsized price effects and contribute to an initial spike in prices, with a multi week slowdown adding \$5-\$10/bbl. A prolonged shutdown could add as much as \$40-\$80/bbl to the Brent market. Meanwhile, targeted attacks on major regional facilities, or a collapse in Iran's output, could move prices by \$10-\$50/bbl. Historical precedents from Libya, Syria, and Iraq suggest that military interventions often lead to long lasting supply disruptions.

Limited global but heterogenous stagflation shock

Historically, oil price spikes have been stagflationary shocks. However, oil dependency and oil sensitivity have changed significantly relative to the past, in particular in the US. In addition, initial conditions are important, and the US is still outperforming other DM and is now a net energy exporter. And oil importers like Japan, China and Europe are operating with negative output gap, which somewhat limits the inflationary shock.

The other important dimension is how protracted the shock will be. If perceived as short-lived, the effects would be more limited. Our base case is a temporary spike of \$10-\$15 dollars in oil prices. This would have limited impact on inflation and activity in the US, though there is a relatively strong correlation between oil prices and inflation expectations. For Europe, Japan and China, the impact should be somewhat higher but also limited by subpar economic activity.

Therefore, we expect a temporary shock to have limited impact on global growth and inflation, while a more protracted shock would have a more significant but heterogeneous stagflationary impact. Importantly, the shock is more than just to oil prices, which can be moderated by OPEC's reaction function. In addition, it is worth monitoring shipping prices and supply chains, and the impact of a more protracted conflict could be non-linear.

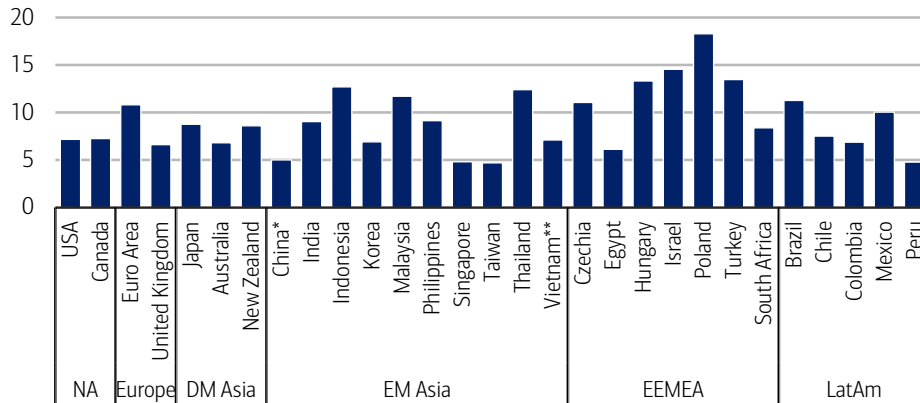
EEMEA and the Euro area are most exposed to energy price shocks

Exhibit 1 shows the energy shares in CPI baskets for a broad range of economies. EEMEA is the most exposed region to energy price shocks, with an average share in the basket well higher than any other. Emerging Asia is largely exposed but prices are less sensitive.



Exhibit 1: EEMEA has a larger CPI share on energy prices than any other region in the world

Energy share in the CPI (%)



Source: BofA Global Research, Haver

Notes: Data as of 2023. *Estimated from China's 2021 household consumption survey. **Energy estimated from official commentary.

BofA GLOBAL RESEARCH

Most DMs, including the US, are generally less sensitive to energy prices, somewhat limiting inflation risks. But the Euro Area's and Japan's exposure to energy is more elevated, though Japan counts with a cushion of close to a year in oil reserves by the end of 2025. China, the biggest oil importer, should certainly be impacted, but the initial shock would be cushioned by existing inventories and the state of the economic cycle, where deflationary pressures persist.

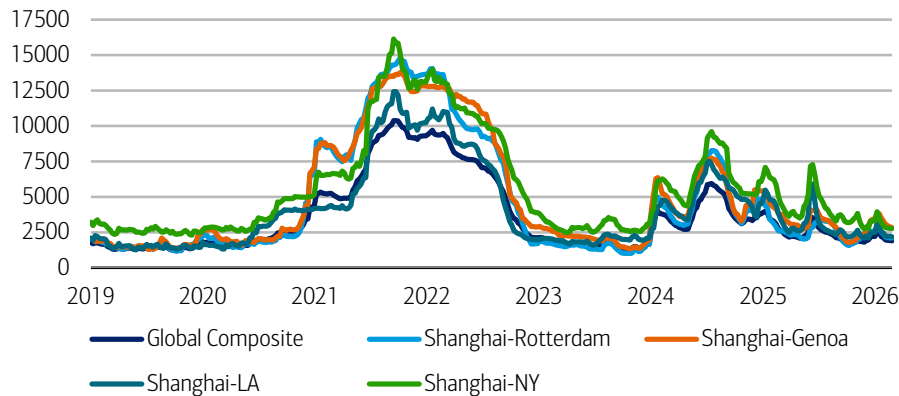
Besides oil, we think shipping prices could spike again in the short term and remain at a more elevated level depending on the evolution of the conflict (Exhibit 2). As with the conflict in the Red Sea, this may most significantly impact Asia-Europe routes but could have broad-ranging impacts. For the US, it could compound with still ongoing tariff passthrough and deliver an extra boost to already elevated core goods inflation. But outside of worst-case scenarios, we think the shock will not materially impact Fed policy.

For growth, focus on ToT, beware wealth effects in US

The impact on growth across countries depends directly on the terms of trade, but we think it should be a modest negative for the global economy in central scenarios. For the US, which has become a net energy exporter, we see the shock to growth from oil prices as muted, but we should watch shipping prices and most importantly any potential negative wealth effects from an eventual stock market correction.

Exhibit 2: Shipping prices could spike to further complicate matters

Drewry World Container Indexes (benchmark rate per 40 foot box)



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH



The direct impact of military conflicts is obviously negative for the geographies where the conflict takes place. For the broader Middle East, the conflict could be harmful to the extent the region was emerging as an alternative hub for new business, but risk premium could significantly rise amid retaliatory attacks from Iran on US allies in the region.

Elsewhere, it depends on a combination of terms of trade, fiscal, and monetary policy. In the US, fiscal policy typically becomes expansionary, and the composition of growth shifts away from private consumption and investment. But for a conflict that is not very protracted, the negative shock to US growth and its composition would be modest.

However, in a context of a K-shaped economy with elevated stock market valuations, we should closely watch for any wealth effects emanating from a market correction. This argument is likely most relevant for the US, but applies more broadly, as stock indexes across the world are generally near record levels.

Diverse implications for central banks

While this is a supply shock, we believe some central banks may be more cautious than others to prevent inflation from getting entrenched, especially those in EM that are witnessing some renewed inflationary pressures. We think the shock is unlikely to move Fed policy barring worst-case scenarios, but the ECB could be compelled to cut, and the BoJ could consider frontloading hikes if JPY depreciates materially.



US: Macro impact likely contained, with a few qualifiers

Aditya Bhawe

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Geopolitical shocks, including those that involve US military action, don't typically have a major impact on the US economy. The biggest effect is via oil prices. And even this channel has become less salient because the US is now a net exporter of oil and gas. Any headwind to consumers from higher energy prices should be partially offset by a windfall for energy producers.

Energy goods and services account for less than 4% of US consumer spending. About half of that is gasoline. Accounting for the pass-through from crude oil to energy and other inflation components, the Federal Reserve Board estimates that a 10% increase in crude oil prices would raise PCE inflation by nearly 10bp in the near term. This effect would fade over the course of a year, as higher oil prices would weigh on demand for other goods and services. We estimate that the headwind to consumer spending would be similar to the upside to inflation.

What about other components of GDP? The BEA estimates that petroleum and coal products make up about 1% of total value added across industries. Putting everything together, we estimate that a 10% increase in energy prices would weigh on US GDP by no more than 10bp.

The Fed would likely look through this increase in inflation because it is supply-driven. And we don't think activity would be disrupted enough to meaningfully change the trajectory of the labor market. So we don't expect the events in the Middle East to affect the trajectory of Fed policy.

There are a few caveats to this relatively sanguine view. First, a large and sustained shock to energy prices might have non-linear effects on the economy. For example, a long-lasting 50% increase in crude oil prices might lower US growth by more than 50bp. Such a shock could also raise inflation expectations, which are typically sensitive to oil prices. This would make it harder for Warsh to push for cuts later this year.

Second, meaningful tightening in financial conditions could exacerbate the shock. The economy is probably more sensitive than usual to markets. That's because spending growth is being driven by higher-income households, who have benefited from a near-doubling in stocks over the last three years. A large and sustained equity downturn could weigh substantially on higher-income spending.

Third, lower-income households are more exposed to oil price shocks, because energy makes up a larger share of their spending. These households are already struggling, so further erosion of their real spending power could cause another leg up in delinquencies (particularly credit cards and autos). In turn, this could have a lasting impact on their ability to spend, if it constrains their access to credit.

Last, shipping disruptions from extended closer of the Strait of Hormuz might exacerbate any negative supply shock (i.e., higher inflation and weaker activity) from higher oil prices. In summary, while our base case is that the impact of the ongoing conflict on the US economy will be mild, there are meaningful risks of a bigger drag, particularly because inflation is already elevated and the saving rate is already low by historical standards.



Euro area: It matters more

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For the region, being a net importer of oil, a sustained move higher in oil prices would lead to less growth and more inflation. How much would depend on the size and persistence of the shock. Also, initial conditions matter, we keep getting new shocks and this one would particularly hit the weakest spot (esp in Germany) and would add to already elevated uncertainty levels.

We estimate a \$10 permanent move in the price of oil could easily remove 20-30bp of cumulative growth in 2026-2027. Inflation could easily move 40-60bp cumulative, on average, over the same period, pushing near term inflation not far from 2.5%

If the move were to be temporary, let's say for a quarter and unwound quickly right after, we think the impact would be more modest. Indeed, we would see "only" 20bp of higher average inflation in 2026, with a similar move, lower, in 2027. Growth would easily be 10-20 bp lower in the short term while it should recover, at least partially, throughout 2027.

How would the ECB react to this? Not all energy price shocks are alike and hence we should not always expect the same response from the ECB. Energy price shocks have a direct effect (the cost on consumers' energy consumption), an indirect effect (i.e. through an increase in input prices for everything else, which gets to final consumer prices with a lag), and second-round effects (that work through expectations and wage formation). Indirect and second-round effects were negligible in the 2010s, with margins being the main variable of shock absorption. This was not the case throughout 2022 and 2023. In this particular case we would expect the ECB to look through only small and not very persistent oil price shocks.

Indeed, with inflation expected to be below target for the next two years a small and not too persistent oil price shock would not substantially change this outlook, since the slightly higher inflation in the near term would be compensated by the deteriorated growth outlook in the medium term. And, if the growth impact was felt quickly, we could even see cuts already from the ECB in 2H26, earlier than expect, potentially even to a lower terminal rate.

A permanent or large shock could be different though. The ECB could easily worry about sizeable indirect effects and second round effects. The shock could easily lead to later cuts than we expect (1H27). And under some scenarios we could even see a small number of hikes to make sure expectations remain well behaved. Both cases would likely be followed by deeper cuts than we expect right now.



Canada benefits, but rate cuts become harder

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The impact on Canada from the Iran conflict would come primarily through higher oil prices. As a net oil exporter, Canada stands to gain: a sustained 10% rise in oil prices would add roughly 30bp to GDP growth over the following year, a support for an economy that has been weak for several quarters. The gains would be uneven, however. Oil-producing regions such as Alberta would benefit significantly, while high-consumption regions like Ontario would see lower disposable income due to more expensive gasoline. Inflation would also push higher. We estimate a persistent 10% oil increase adds about 40bp to headline inflation over the next year, though the effect on core is much smaller. Stronger growth and higher inflation make it harder for the BoC to cut rates as we previously expected. While the CAD now responds less to oil prices than it once did, any currency appreciation would help offset inflation pressures and keeps the risk of BoC rate hikes relatively low.

Asia: Main shock through oil and trade

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Main shock through oil and trade

The impact on Asia should be mostly felt through the disruptions of oil and trade channels with heterogeneous impact across different countries, in addition to risks from financial condition tightening and remittance declines.

If oil prices remain elevated for a sustained period of time, Asia as a whole (as an oil importer) will likely witness downward pressure on growth and balance of payments. In particular, countries with more than 50% import oil supplying coming from the Middle East, such as Thailand, Philippines, India, Korea, Japan, and China, should be the first ones to feel the brunt. While we expect the inflation impact to be partially cushioned in countries with fuel-price smoothing mechanism, it will unlikely be fully offset. If the oil shock is substantial in magnitude and long-lasting in duration, the risks of CPI inflation being pushed up to levels that exceed central bank targets would rise, with additional risk of fiscal squeeze through fuel subsidies.

Secondly, the choking point of Hormuz Strait shipment will also threaten to disrupt trade, push up shipping costs and insurance premium, as well as to test the supply chain of LNG and chemicals. The temporary closure of the strait not only leaves a gap of tens of millions barrels of oil supply for Asia, but also to extend general trade shipment with Middle East and Europe by more than 10 – 12 days at much higher shipping costs. With the conflict zone sitting in the middle of important flight routes, we also expect Asian airlines to suffer from detours and higher costs.

Last but not least, Asian economies with modest to solid financial market gains year-to-date will likely be tested amid global financial condition tightening and potential risk-off sentiment. Meanwhile, those with large size of migrant workers working in West Asian countries may also see potential risks of remittance drop, weighing on their current accounts.



Japan: High vulnerability, further inflation ahead

Japan relies on imports for nearly 100% of its crude oil, and roughly 90% of those imports come from the Middle East, leaving the country highly vulnerable to any deterioration in Middle Eastern geopolitical conditions. Japan's export exposure to the region is limited, so the primary transmission channels would be supply chain disruptions related to crude oil imports and higher crude oil prices.

Japan's oil reserves reached the equivalent of 254 days of domestic consumption as of the end of last year, suggesting that unless instability in the Middle East persists for about a year or longer, the risk of a significant disruption to domestic economic activity remains limited. On the other hand, higher crude oil prices would generate inflationary pressures not only through higher energy prices but also across a wide range of goods and services for both firms and households. Moreover, if concerns about a deterioration in the trade balance—driven by higher import costs—lead to yen depreciation, additional inflationary pressures could emerge through the FX channel.

The Bank of Japan (BoJ) would likely look through short term increases in energy prices, but if the yen were to weaken further, it would probably respond with early rate hikes to address the risk of future inflation overshooting. On the fiscal side, the government would likely reinstate fuel cost subsidy measures to cushion the impact of rising energy prices. Over the medium to long term, these developments would further reinforce the Takaichi administration's push to strengthen Japan's energy and national security policies.

Australia: Oil importer, LNG exporter

Australia is a net importer of oil and refined fuels, but large exporter of LNG and bulk commodities. An oil price and trade flow shock would weigh on external demand and export volumes, but a lower AUD (common in a risk-off environment) and spillovers to other commodity prices (eg LNG) may cushion the hit to exporter incomes and domestic growth. Higher petrol prices would squeeze disposable incomes and weigh on household discretionary consumption, while firm margins and investment may also be adversely affected.

On inflation, auto fuel accounts for 3.4% of the CPI and any oil price spike would feed through relatively quickly to headline inflation, but the RBA would largely look through this with limited implications for underlying measures. Although a sustained rise in oil prices would be more problematic, especially as inflation is currently rising and above target. On balance, unless oil prices remain persistently elevated, the domestic growth drag and underlying inflation implications would likely be modest and reinforce a cautious approach from the RBA rather than a material shift in the near-term policy outlook.

Korea: risk for inflation and subsidies

Similar to that of Japan, Korea relies heavily on crude oil imports from the Middle East (about 70% of the oil imports), of which over 95% volume transited the strait. About 20% of LNG imports also come from the region. A prolonged closure could disrupt domestic energy supply and shipping schedules, and to notably lifting domestic logistics, raw materials, electricity, gasoline, and diesel prices in Korea. That said, other than the higher energy prices, the near-term direct impact could be containable. The current oil reserves from both government and private sectors still at around 7-months of stockpiles, preventing any major supply issues in the short-term. In addition, other than energy sector, we also see relatively contained export exposure to the region.

In terms of inflationary pressures, we expect Korea to face stronger cost push inflation in the coming months, driven not only by elevated oil prices but also by rising memory chip prices that are feeding into higher consumer electronics costs. Given these pressures, we see a strong likelihood that the government will continue deploying targeted energy subsidies to help contain near term inflationary momentum, and to help maintain inflation at close to the target level (2.0%). Regarding the FX implications, the



BoK has already been highly vigilant toward currency volatility in recent months, and additional measures may be taken should the KRW face further weakening amid heightened geopolitical risks.

India and Asean

In South and South East Asia, the biggest exposure to higher energy prices and the west Asian region is highest for Thailand, while being the lowest for Malaysia. Singapore too has a relatively high exposure, but that partly also reflects its position as a refining hub. India is the other large economy in the region which has a diversified but meaningful exposure to higher energy prices and any sustained disruption will also impact remittances as India has almost 10mn people working or living in West Asia. Philippines is the other economy which could see its remittances being impacted given that a lot of overseas workers are in the region.

See our report: [India Watch: India's exposure to West Asia in the spotlight 01 March 2026](#)

From a growth standpoint, the region appears somewhat insulated given the starting of lower energy prices, and has historically only seen growth being impact if the price rise is sustained and closer to the price levels persisting in 2022 when Russia invaded Ukraine. We see Thailand, Philippines and India being most vulnerable to higher energy prices if persistent. Indonesia and Singapore are relatively more insulated, while Malaysia could even be a net beneficiary if supply shocks intensify.

On inflation, given the persistence of very low prices so far, some price hikes could be expected in Singapore, Philippines and Thailand which typically run free pricing of petroleum products, while Malaysia, India and Indonesia do not adjust fuel prices quickly. The region also is a major supplier of natural gas to ASEAN, which has a reasonably large LNG based electricity generation infra, but the price shocks will take time to feed through the economy.

EEMEA: In the eye of the storm

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Türkiye: Reserve and fiscal buffers to alleviate pressures

The ongoing Middle East tensions weigh on Türkiye's economy through multiple channels. Higher oil prices feed directly into inflation and the current account deficit: according to the Central Bank of the Republic of Türkiye (CBRT), a 10% oil price shock raises headline inflation by 1.1pp (50 bps in the first quarter and 80 bps within a year). With a 2025 energy deficit of roughly US\$50bn, a sustained 10% rise in oil and related energy prices could widen the current account deficit by about US\$5bn (0.3% of GDP). Iran supplied 7.53% of Türkiye's natural gas imports in 2025, and shifting to alternative suppliers could incrementally add to cost pressures.

If the conflict persists, tourism is another vulnerability. Türkiye hosted 52.8 million foreign visitors in 2025, generating IS\$60 billion in revenue. If higher oil prices coincide with rising gold prices, net gold imports—around US\$20bn in 2025—would also increase. However, higher gold prices partially offset external pressures by boosting reserve valuations: gold accounts for about 64% of CBRT's gross reserves (US\$132bn out of US\$206bn as of 20 February), so a 10% increase in gold prices would raise gross reserves by approximately US\$13bn.



Beyond commodity channels, Türkiye's 534 km border with Iran elevates risk premia especially in the event of prolonged instability in the region; potential refugee inflows and domestic uncertainty could trigger portfolio outflows and increase FX demand from Turkish households and corporates.

Even so, the CBRT has the policy space—rates, liquidity management, and macroprudential measures—alongside substantial reserves to smooth FX volatility and maintain a gradual TRY depreciation path. The current account deficit, at around 1.6% of GDP, remains below the long-term average of 3%, and external financing of a wider deficit could likely be manageable under the current policy framework. Heightened geopolitical risks increase the likelihood that the Monetary Policy Committee (MPC) pauses its rate cut cycle until inflation and reserve dynamics stabilize.

Overall, these channels imply downside risks to 2026 growth, likely pushing activity below potential. Still, fiscal buffers—reflected in a 12-month trailing primary surplus of 0.7% of GDP and a headline deficit of 2.9%—together with low public debt, support resilience and provide room to mitigate oil price pass through and to extend targeted support to the sectors most affected.

Central and Eastern Europe (CEE): higher oil and risk off to challenge rate cuts

If higher energy prices are prolonged, the opportunity for regional central banks to cut rates will be delayed (Hungary, Romania) or diminished (Czechia, Poland). CEE countries are net importers of energy, and higher oil will be reflected in pump prices relatively quickly. Gas developments will also be key to be watched – though impact will be lagged – for inflation (Czechia and Poland) and/or the budget (Hungary and Romania). Every 10% increase in oil in local currency terms could increase headline inflation via fuel prices by 0.1-0.25pp, with Czechia at the low end, Hungary and Poland in the middle, and Romania at the higher end. The impact on Hungary's monetary policy is exacerbated during this risk-off period given the heavy Hungarian Forint (HUF) long positioning and high caution by the central bank pre-elections. The 24 March rate decision may see an on-hold decision, but we still see decent room to cut rates after 12 April elections towards 5% by 2027. Elsewhere, we see upside risks to our YE2026 policy rate forecasts, currently at 3.0% in Czechia, 3.0% in Poland, and 5.25% in Romania.

Balance of payments/fiscal risks could likely be limited as long as there is no major and prolonged spillover to gas. We estimate that every US\$10/bbl increase in crude prices, all else equal, could raise CEE's oil import bill by c.0.1-0.15% of GDP, with Hungary and Poland slightly more sensitive than peers.

Commonwealth of Independent States (CIS): commodities help

Macro stories of key CIS countries will likely be well protected from Iran geopolitics by their high commodity exposures. Thus, main energy exporters like Kazakhstan and Azerbaijan may get material boost from much higher oil prices. Oil and gas (O&G) account for close to 90% of Azerbaijan, which suggests a relatively higher benefits from higher prices. However, high oil may compound positive impact of fiscal consolidation in Kazakhstan. In Uzbekistan, current account and fiscal balances may get a similar boost from the likely further increase in gold prices. However, higher oil prices will likely support inflationary pressures, which may further delay any expected monetary easing.

South Asia: most impacted

Pakistan economy will likely be most negatively impacted by the potential jump in oil prices. The country's total energy imports bill is close to US\$15-16bn or 4% of GDP, so any major price jump in prices may inflate fiscal costs, weaken current account further delaying lagging recovery. We also note that most of the energy is imported from the Gulf nations, which may add security concerns to the energy supplies. Sri Lanka's exposure to energy imports is similar to Pakistan with about US\$4-4.5bn or 4.5% of GDP a year, so we may expect a similar negative impact of an energy price shock. High energy costs will also likely support inflationary pressures. This may further reduce the



scope for monetary easing in both and could even support renewed tightening, depending on the scale of a shock and the potential revival of current account/FX reserves pressures.

Western Balkans: energy in focus

Energy prices will likely be the key transmission mechanism of the crisis onto Western Balkans macro. Thus, Serbia total energy imports bill is around US\$2.5-3bn or close to 3% of GDP. Therefore, much higher oil prices may add pressures on current account and fiscal balances as well as support inflation. This may further reduce scope for rate cuts, which we still expect in 2H26 and slow growth on the margin. However, apart from that the impact on the region should be relatively limited to global EM sentiment changes, given weak links to the region in conflict.

South Africa and Sub-Saharan Africa (SSA): between oil and gold

For South Africa, the direct transmission could be through higher energy prices, higher gold prices and risk off sentiment leading to weaker Rand (ZAR). That could mean near-term inflation pressures and interest rate cut pauses. South Africa is both an oil importer and gold exporter. A spike in international oil prices could result in rising domestic fuel prices and overall production costs that could lead to higher inflation. In an uncertain geopolitical environment, the South African Reserve Bank (SARB) prefers to be cautious and may hold off an interest rate cut that we have penciled in for March. A risk-off environment can also lead to higher gold prices which could help current account receipts and moderate the outflows from higher cost of oil imports and portfolio outflows.

In broader SSA markets, we assume that the conflict might lead to a risk-off environment, higher oil, potentially higher gold. We see this geopolitical event affecting SSA countries depending on three conditions: a) importer or exporter of oil; b) share of foreign-currency denominated debt; and, c) credit rating quality. We anticipate this event to be positive on current account and fiscal receipts for oil exporters like Angola and Nigeria. However, on the fiscal side, the effect is partially offset in countries with higher fuel subsidies like Angola or Senegal. In the commodity space, flight to quality might mean stronger gold prices so positive factor for Ghana and to a lesser extent Côte d'Ivoire or Sénégal. We see Ghana and Ivory Coast as potentially benefitting the most given their commodity mix and credit quality. They export oil and gold and have strong fiscal fundamentals. Stress on international markets is less likely to affect them given that they have either issued, already issued or do not plan to do so soon.

We expect Nigeria to be resilient. Nigeria should benefit from higher oil prices through higher oil revenues and exports. However, given the heavy positioning in carry trades, a stronger dollar could generate foreign portfolio outflows. Nevertheless, Nigeria has large FX reserves and could intervene to supply FX and moderate naira weakness. The Central Bank of Nigeria (CBN) cautious stance does provide some support, although its tight stance means forecasted rate cuts might be delayed later into the year. Most affected SSA names could include Kenya and Zambia. Both are oil importers, central banks were on a rate-cutting cycle, and have a high share of debt denominated in US dollars.

Middle East – North Africa (MENA): no more red lines

The United States (US) and Israeli pronouncements suggest potentially more extensive military operations than the 12-day June 2025 war. The current situation also carries much greater risk of disruption to global markets than last year's, in our view. If the global costs escalate rapidly, we would not exclude a more rapid-than-anticipated closure of this round.

See our report: [Iran Watch: No more red lines 01 March 2026](#)

Iranian retaliation is likely to depend on the level of the existential threat perceived by the regime. In the worst-case scenario, this could affect regional oil supplies and shipping lines, likely leading to a more lasting oil price spike. Iran pronouncements



suggest a likely strategy to make the conflict costly and lengthy to change the US calculus. The measured supply hike decision by the Organization of the Petroleum Exporting Countries (OPEC+) Group of Eight (monthly increments of 206kbpd instead of 137kbpd) may suggest lingering risks of Iran retaliation. The Iranian regime is portraying institutional continuity for now.

An oil price spike could support oil exporters in the Gulf region, assuming no disruptions to flows. Aramco stocks held outside the Middle East could smooth the impact of any short-lived disruption. Most vulnerable to supply lines disruptions are Iraq, Bahrain, Kuwait, and Qatar, although the latter two are more insulated due to their accumulated foreign assets. UAE has partial export ability outside the Hormuz Strait. Saudi Arabia's East-West pipeline provides it with flexibility, unless the Houthis resume disruptions in the Red Sea.

Egypt is vulnerable due to crowded positioning and oil exposure but Gulf support over the summer could provide a buffer. The external financing picture remains tight and the International Monetary Fund (IMF) fifth review has faced delays. The currency could weaken with outflows but real rates are likely to remain high. We estimate a US\$10/bbl increase in oil prices on an annual basis widens the current account deficit by US\$1.0bn (0.3% of GDP) and widens the fiscal deficit by 0.1% of GDP on net.

A weaker Iran may mean Lebanon's economic reform program, donor support and political reforms have greater chances of success, which could be accompanied by a delay to planned parliamentary elections on the back of the regional backdrop.

LatAm: Uneven exposure

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Natacha Perez
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Merrill Lynch (Brazil)

LatAm uneven exposure

The impact on LatAm from the attack on Iran would run mainly through oil prices, global financial conditions, and geopolitics. A sustained rise in oil prices is mildly supportive for regional growth but pushes inflation higher. Oil exporters such as Argentina, Brazil, Colombia, Ecuador and Venezuela would benefit from improved terms of trade, while Mexico remains broadly neutral given its offsetting gasoline imports. Oil importers Chile, Peru, and Central America face weaker growth and more inflation pressure. For Brazil and Mexico, where fuel weights in CPI exceed 5%, higher energy prices could slow or delay the easing cycles. In many countries such as in Mexico, the inflation impact ultimately depends on the government's fuel subsidy strategy. For oil importers, FX depreciation is likely to amplify passthrough, raising the risk of policy tightening if inflation expectations shift, which puts risks on Chile.

A second channel is tighter global financial conditions. Higher risk premiums are likely to weaken FX and raise funding costs across the region, with the largest impact on sovereigns with high external financing needs or already-wide spreads. For oil exporters with fiscal weakness such as Brazil and Colombia, this could offset part of the terms-of-trade benefit. In countries with stronger external positions, including Peru and the Dominican Republic, higher oil prices may help cushion the tightening, though only partially.



The geopolitical channel adds a more structural dimension. If the broader US strategy is to create choke point to China, several LatAm economies may face renewed US pressure to pull back from China. This poses challenges for countries highly integrated with China such as Brazil, Peru, and parts of Central America, though Brazil's scale and commodity mix give it greater room to resist. Others may be forced into costlier realignments.

Overall, Brazil appears best positioned, benefiting from higher oil prices and maintaining space to navigate between the US and China (see report), though a sharp tightening in global conditions remains a risk for the FX. Argentina, Colombia, Ecuador and Venezuela may also gain, but Colombia's fiscal fragility and electoral uncertainty could limit the upside. We think the shock is broadly neutral for Mexico, though markets appear to welcome signs of a more pragmatic US-aligned stance under Sheinbaum. Peru and Central America seem the most exposed given their oil-importing status and limited geopolitical flexibility.



Commodities: Oil slides into Pandora's box

Francisco Blanch
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Regional, extended strikes are worst case scenario for oil

See our complete report: [Global Energy Weekly: Oil slides into Pandora's box 01 March 2026](#)

We discussed a series of scenarios for Iran in a piece last week (see report, [Macro Risk Digest: You're hired](#)), arguing that each possibility had different implications for global energy markets. Following this weekend's actions, we are now looking at our worst case scenario for oil markets of the unfolding Iran crisis. It is not a deal, it is not a limited strike, but rather the US and Israel have embarked on a large-scale attack on Iran with the stated aim of bringing about regime change. While we acknowledge that the strikes could possibly end in days, as President Trump has suggested, the near and longer-term implications of the recent events for energy markets are vast. In this note, we will focus on the implications for oil prices over the next one to three months.

Question for oil now is how long does the war go on for

The most vexing question for energy markets is, of course, how long does the conflict last for. We consider three political scenarios for oil prices: "regime alteration", "regime transition" and "regime hard-lining". The most likely scenario, in our view, is that the new government attempts a replay of the events of June 2025 for self-preservation purposes. But if the new leadership in Iran takes a harder line and can embark on large scale retaliation that is successful, Hormuz will likely see few ships passing by for several weeks, regional energy infrastructure could be targeted, and Iran's oil production could go down. This likely combination of stressors could substantially tighten oil and gas markets globally, pushing Brent above \$100/bbl and TTF above €60/MWh.

Table 1: While risks of a chaotic regime transition or a hard-line regime may push Brent up by \$5 to \$10/bbl near-term, oil prices could fall after a few weeks to \$60-\$70/bbl if strikes end
Possible scenarios for Iran

	Regime paths	Reference	Oil implications	Likelihood
1	Regime alteration	A repeat of June 2025 scenario, under the new Iran leadership	Bearish for oil prices, with oil possibly going down to \$60-70/bbl after a while	most likely
2	Regime transition	A commitment to a peaceful change (Venezuela scenario)	Most bearish backdrop for oil prices with oil likely falling to a \$50-60/bbl range	not likely
		A chaotic unraveling of the Iran government (Libya scenario)	Bullish for oil, with prices likely stuck in a \$70-90/bbl range	less likely
3	Regime hard lining	An extended regional war that broadly targets energy assets	most bullish for oil prices with oil ranging \$80-\$100+/bbl	likely

Source: BofA Global Research

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An Iran retrenchment could prove bearish for oil prices...

While the strikes have been much more significant than those seen in June 2025 and this time Israel has killed the Supreme Leader, we cannot rule out the possibility that the new leadership takes a pragmatic approach and once more softens its stance to avoid further US involvement and help preserve the Islamic Republic. Put differently, a repeat of June 2025 where both parts end hostilities quickly is still possible regardless of the ongoing rhetoric: if both the Iranian leadership and President Trump opt to take this path over the coming days. In fact, the most likely political outcome could well be "regime continuity" or a political repeat of the June 2025 war where President Trump declares victory, Iran claims it has conducted extensive retaliation, and the ME emerges



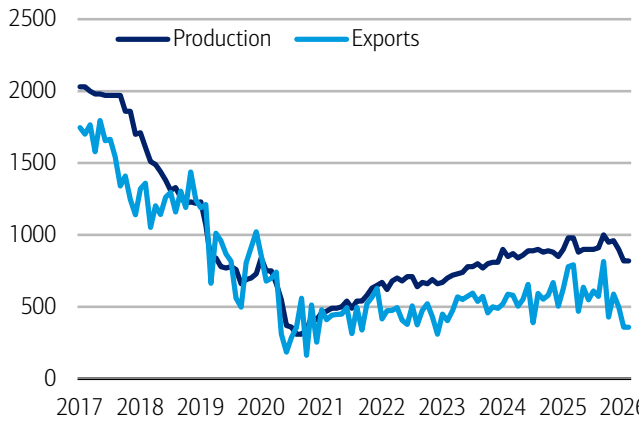
with some limited damage to regional energy infrastructure. In this scenario, Hormuz would see slow traffic for a bit and even Iran oil production may just see limited damage. In this case, Brent could spike by \$5 to \$10/bbl, stays high and volatile for a few weeks, and eventually roll down to \$60-\$70/bbl sometime in late March, with TTF reverting back to a €30-40/MWh range.

...while a “peaceful transition” would be very bearish

On the other hand, if the events this weekend trigger a Venezuela-style “peaceful transition” scenario, Brent crude oil prices could come down very quickly into the \$50-\$60/bbl range. After all, the oil embargo imposed on Venezuela in recent months has only had a limited negative impact on domestic production (Exhibit 3), and the US government is now handling oil payments. While we assign this scenario a low probability, it is always possible that the new Iran government opts to re-enter diplomatic negotiations with the US and agrees to “transition” towards a more domestically plural and less internationally hostile regime towards the West. In this scenario, even sanctions relief would be on the table, possibly releasing up to 100mn barrels of oil tied up in the shadow market in transit today (Exhibit 4).

Exhibit 3: The oil embargo imposed on Venezuela in recent months has had a relatively limited negative impact on domestic production

Venezuelan production and exports, k b/d

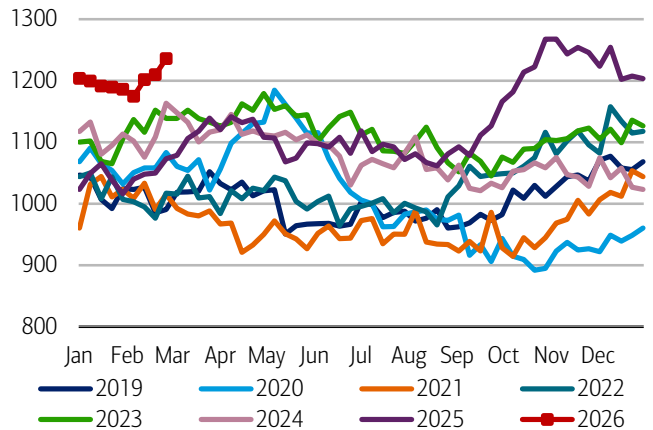


Source: Bloomberg

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Exhibit 4: Sanctions relief on Iran could release up to 100mn bbls of oil tied up in transit, helping push down prices

Global oil-in-transit, mn bbl



Source: Vortexa, BofA Global Research

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“Chaotic transition” or “Regime hard-lining”: oil bullish

If the transition becomes chaotic somewhere along the way, perhaps because an insurgency mounts or because the Iranian military splits, we cannot rule out the falling into domestic chaos with different factions emerging “à la Libya”. This situation would also be pretty bullish for oil prices, as it would deprive the global oil market from some or much of Iranian oil supplies for as long as the internal rife goes on, with oil prices possibly spiking into a sustained \$70-90/bbl range for the rest of the year. The most bullish and probably second most likely scenario for oil prices would be “regime hard-lining” in Iran, where an extended regional war pushes oil prices into a sustained range of \$75-\$100+/bbl.

Past regime change attempts did not end well for oil output

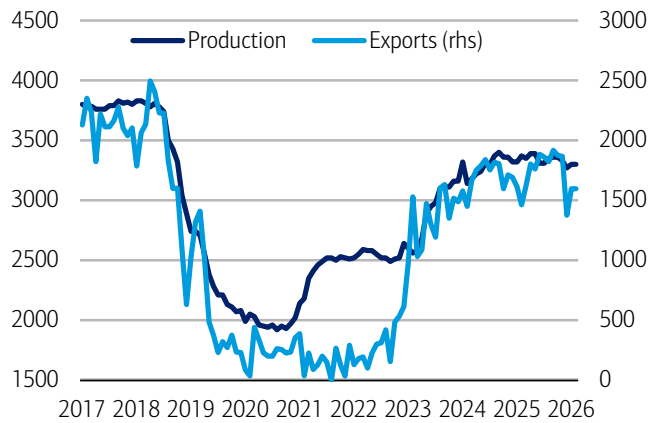
Let’s start with the question on Iran’s 3.45mn b/d of oil production, which translates into about equal amounts of crude and condensate exports (Exhibit 5). About 90% of these barrels go to China, specifically to teapot refiners in Shangdong province (Exhibit 6). Iran oil makes up about 13% of China’s 12mn b/d of crude oil imports. So if these barrels disappear, Chinese importers will have to find an alternative source of supply. Having said that, we have recently noted (see report, [Fill me once, shame on you](#)) that China has built up a phenomenal war chest of strategic oil reserves, providing a temporary buffer.



Still, the impact on oil prices would be substantial. How likely is it that Iran’s oil production and exports will crater?

Exhibit 5: Iran’s production is currently roughly 3.45mn b/d

Iranian crude production and exports, k b/d

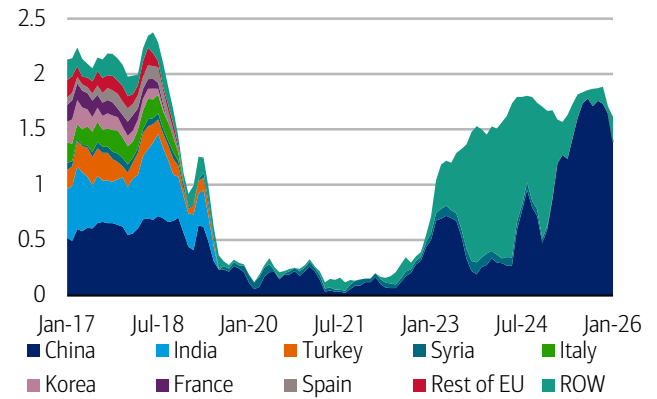


Source: Bloomberg

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Exhibit 6: About 90% of these barrels go to China, specifically to teapot refineries in Shangdong province

Rolling 3 month Iranian crude exports, mn b/d



Source: Bloomberg

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Neither Libyan nor Syrian crude oil output has fully recovered...

While history suggests that it is not uncommon for external military pressure to trigger domestic leadership changes, the path is never easy. A few historical examples of foreign power strikes on energy producing countries include Libya (2011), Syria (2014-2021), or Iraq (2003). In the case of Libya, well organized rebels and foreign support eventually contributed to the overthrow of Muammar Al Gaddafi, but crude oil production never fully recovered amid years of internal struggles. Output was averaging 1.7mn b/d in the five years prior to the intervention, then collapsed to just 40k b/d, then quickly collapsed again to never recover to the levels of the 2000s. In Syria, a country that boasts oil reserves of ~2.5bn barrels and once produced 600k b/d of oil in the early 2000s, has gone through multiple periods of internal conflict, and never quite managed to bring production back on line.

...while it took an occupation and years for Iraq output to grow

In the case of Iraq, where air strikes were followed by an extensive land invasion and years of occupation, foreign intervention in 2003 led to the overthrow of the Saddam Hussein government. Iraqi oil production crumbled from 2.5mn b/d in the months before the invasion to 140k b/d by April 2003. Crude output then started recovering by 2004 and reached pre-invasion levels by the end of the decade. Today, Iraq has successfully grown output past 4mn b/d on a sustained basis. In short, “shock and awe” strikes can result in internal struggles or even sometimes lead to prolonged, chaotic insurgencies. But quick uprisings that quickly restore a country’s energy output to or above pre-intervention levels are rare.

Iran response suggests regional energy infrastructure is at risk

Since the US and Israel struck Iran, there have been plenty of reports discussing strikes on political and military targets across the region. There have also been reports of attacks on commercial airports and container ports, but there have so far been very limited reports of attacks on energy infrastructure in the region. True, there have been reports of a blast on Iran’s Kharg Island oil export terminal, and its status remains uncertain. Plus Oman reported a tanker being struck near the Strait of Hormuz. But for the time being there are no signs of a major, large scale attack on Middle East energy infrastructure. If political tensions ease and no more attacks on energy infrastructure occur, Brent crude oil prices could go down by \$5 to \$10/bbl over the coming weeks.



Limited strikes on energy infra may push prices up by \$3-\$8/bbl

Still, further escalation is possible and here we would differentiate between limited and extended energy attacks on infrastructure. While we believe a limited set of strikes on smaller energy facilities could push oil higher by \$3-\$8/bbl, a more extended range of attacks on energy infrastructure or simply the targeting of a very large facility in the region that renders it inoperative could cause oil to rise between \$10 to \$50/bbl. As a reminder, there is a long list of facilities at risk that could eventually be targeted in the region. Some are exceptionally large and have been attacked before, while others are more modest in nature. There is also plenty of oil and gas fields, as well as pipelines, that could be targeted.

Oil could rise by \$10 to \$50/bbl if energy infra attacks broaden

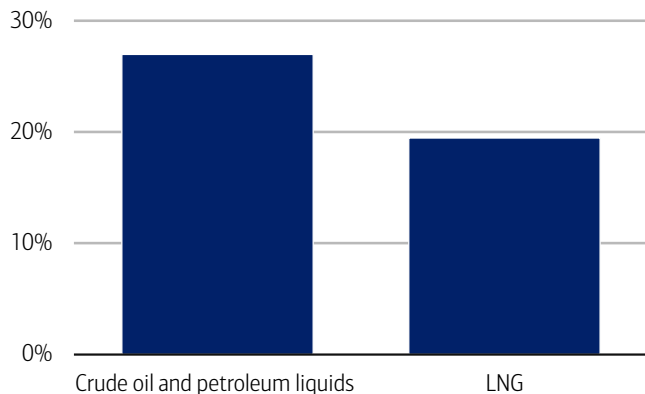
Notably, crude stabilization and separation facilities such as previously-attacked Abqaiq in Saudi Arabia (7mn b/d), Khurais also in Saudi (1.5mn b/d) or Rumaila in Iraq (1.5mn b/d) create concentrated risk for the oil market. Also, as the Russia-Ukraine war has shown, refineries can also become military targets and here we would note that the largest ones include Ruwais in the UAE (922k b/d), Al Zour in Kuwait (615kbd), Jubail II in Saudi (460kbd) or Abadan in Iran (400kbd). And then there are the critical LNG liquefaction operations in the North Field, including the East, South, and West terminals, which combined make up 20% of world supplies. From a port infrastructure perspective, the largest in the region include Ras Tanura in Saudi (9mn b/d), Mina Al-Ahmadi in Kuwait, Kharg Island in Iran, or Ras Laffan in Qatar.

Hormuz closure is manageable for a week, not three months

Although its foreign minister insisted that it has no intention of doing so, Iran has long threatened to shut down the Strait of Hormuz. While Iran’s main commercial partner China would be most negatively impacted by this action, we believe the threat deserves a separate discussion relative to specific infrastructure targets because of its sheer size and scale. Over 20% of the world’s oil and nearly 20% of liquid natural gas (Exhibit 7) exports flow through the Strait every day, mostly eastward. For now, while only one vessel has been reportedly struck, little energy is reportedly flowing through this narrow water channel at the moment. We would expect this situation to continue for at least a few days. After all, missiles and trade don’t mix well, and no shipping company wants to put their crew in harm’s way. But a sustained closure of the Strait has never actually happened and would require an exceptional effort by the Iran Navy. It would also likely face strong resistance from the US Navy.

Exhibit 7: Over 20% of the world’s oil and nearly 20% of liquid natural gas

Daily maritime trade that passes through Strait of Hormuz



Source: EIA, S&P Global

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Month’s long Hormuz shutdown could push oil up \$40-\$80/bbl

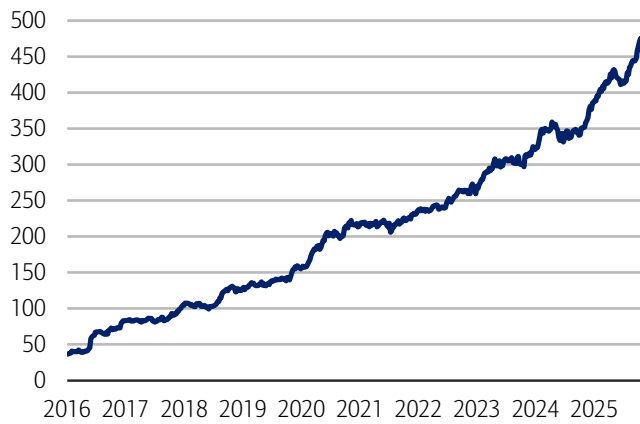
Thus, we offer three scenarios for Hormuz in the weeks ahead. In a first scenario where hostilities end quickly, resumption of energy flows could quickly bring Brent oil prices down by \$10/bbl. In a second scenario where Iran continues to retaliate for a few days but eventually stops or is forced to stop, slow traffic in Hormuz for 1 to 2 weeks would mean oil prices jump by \$5 to \$10/bbl. In a third and more volatile situation, we believe an extended closure of Hormuz could push oil up by \$40 to \$80/bbl depending on the scope and duration of this event. However, retaliatory attacks from the Houthis in Yemen present an additional risk for Saudi and UEA exporters than can partly circumvent Hormuz by rerouting exports via pipeline outside the Persian Gulf. In that regard, Red Sea navigation could again become problematic, as could the waters south of the Arabian Peninsula.

Strategic stocks offer temporary relief, particularly to China

As discussed before, a “regime hard-lining” or a “chaotic regime transition” in Iran could have major bullish implications for Brent crude oil prices. In that regard, we see essentially see two major forces that could help offset a major oil supply disruption scenario in the weeks and months ahead. First and foremost, the OECD and China hold strategic petroleum reserves that are meant to be used in supply disruption scenarios. As we noted above, China has built on shore above ground crude oil inventories without pause for several years now, hitting a high point of ~465mn strategic barrels in recent days (Exhibit 8). Meanwhile, strategic petroleum inventories across the OECD are much lower, as the US released a vast amount of stocks when Russia invaded Ukraine in 2022-23 (Exhibit 9).

Exhibit 8: China has built on shore above ground crude oil inventories, hitting a high point of ~465mn strategic barrels in recent days

China strategic stock builds, mn bbls

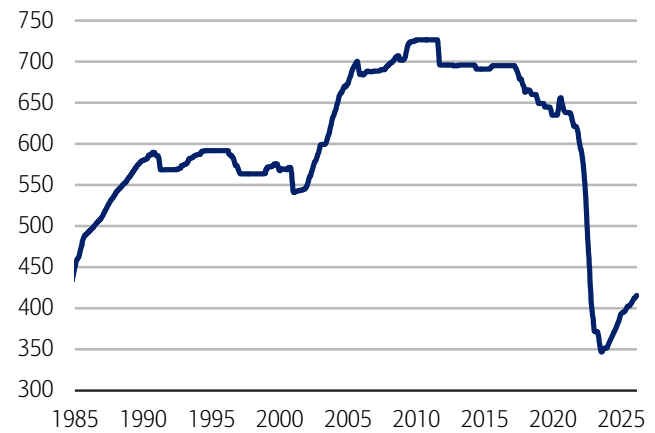


Source: Kayrros, BofA Global Research

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Exhibit 9: the US released a vast amount of stocks when Russia invaded Ukraine in 2022-23

US SPR, mn bbls



Source: Bloomberg

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OPEC+ agreed to increase production in April, but limits apply

A second offsetting force to curb the damage from major production losses across the Middle East would be OPEC+, although the organization may face two key limitations this time. First, if energy infrastructure is attacked in the region or if the Strait of Hormuz is shut, the ability of OPEC+ to fulfil any client orders would be limited. Second, OPEC+ spare capacity has come down very substantially as Saudi and the UEA ramped up supplies in the past year. Still, the Group of 8 cautiously agreed today to resume production increases by 206k b/d (or 150% of the agreed monthly pace), a modest ramp up that is unlikely to anger Iran’s hard liners any further but will also likely only have a modest effect tempering the likely uplift in oil prices that will occur over the coming days.



Equities: History says buy the dip on geopolitics, but with what?

Savita Subramanian

BofAS

History says buy the dip on geopolitics, but with what?

Geopolitical events with limited fundamental implications have historically offered buying opportunities. The S&P 500 historically sold off by 5% to 10% peak to trough but more than fully recovered within three months – history suggests that geopolitical dips should be bought, not sold (see Exhibit 10). But cash balances of institutional investors are at 5-year lows and dry powder across most investor types is limited. The scale of attack especially in regions where the US has explored co-investment opportunities, is also surprising.

S&P 500 more vulnerable

Deficit risks, protectionist policy and periodic global buyers' strikes in US assets have driven up the risk premium for other US assets, and heightened policy impacts may not be reflected in the S&P 500's equity risk premium which is sitting at multi-decade lows. Supply-driven oil shocks have been inversely correlated with S&P 500 returns outside of energy stocks, and our BofA US energy analyst Jean-Ann Salisbury highlights that the "oiliest" of US energy stocks have led in recent weeks partially on geopolitical concerns.

US consumer puts and takes

Within the US consumer spectrum, post-COVID consumer resilience masked a struggling low- and mid-income consumer with persistent inflation, increasing job insecurity in white collar services and higher borrow costs key contributors. If inflation across the "needs" spectrum worsens (gas, food, utilities) – Staples (overweight) are likely to continue to outperform Discretionary (underweight). Higher tax receipts may provide a reprieve now, and the US may be more insulated than Europe given US energy security. But sustained higher oil prices generally have non-linear, negative impacts on consumption (especially big ticket spend) and overall growth.

Good news: advisors prepped, limited Fed impact

In our latest 2026 GWM survey, the top risk cited by our advisors was Geopolitics (see Exhibit 11). In flight to quality markets, gold and US mega caps tend to lead – here investors are generally well positioned. Our BofA economists highlight that the Fed would probably look through supply-driven inflation, and Middle East events would likely not meaningfully change the trajectory of the labor market.

From affordability to stagflation: energy, defense & SMID*

Faunting expectations that the US administration will focus on affordability and domestic policy (lower inflation, new household formation etc.) the scale of recent developments, if protracted, could drive a return to the stagflation playbook. Here, Energy, Staples and Health Care are the most attractive sectors as well as Defense within Industrials, whereas cyclical Tech and Discretionary tend to lag. Large Cap Value and small caps with inflation exposure should also fare well – Russell 1000 Value and the Russell 2000 were the best performers during 70s/80s stagflation.

Geopolitical shocks: typically a buying opportunity

Geopolitical events with limited fundamental implications have historically offered buying opportunities. Stocks more than fully recovered within three months – history suggests that geopolitical dips should be bought, not sold.



Exhibit 10: S&P 500 peak-to-trough declines have been 8% on average during major macro shocks/geopolitical events, but more than fully recovered after three months

S&P 500 price changes around historical macro shocks and geopolitical events since 2010

Date	Events	-1 month	-1 day	+1 day	+1 month	+3 month	Peak to trough	Trough to +3m after event	Trough days after (before) event
4/27/10	S&P downgrades Greek Sovereign Debt to junk/1st Greek Bailout	3.9%	-0.4%	-2.3%	-9.0%	-8.1%	-16.0%	9.0%	66
12/18/10	Arab Spring: "Beginning", Tunisian Revolution begins	3.9%	0.1%	0.3%	4.1%	2.8%	-1.6%	13.8%	-18
3/15/11	Arab Spring: Syrian/Libyan civil war begins	-2.4%	-0.6%	-1.1%	1.8%	-2.4%	-6.4%	8.5%	1
8/5/11	S&P downgrades US debt	-10.3%	-4.8%	-0.1%	-2.2%	4.4%	-18.8%	16.9%	59
10/1/13	US government shuts down	3.0%	-0.6%	0.8%	4.8%	9.9%	-5.4%	13.2%	7
11/1/13	Scotland passes referendum to vote on independence (voting date was 9/18/14)	3.6%	-0.4%	0.3%	2.8%	1.5%	-2.3%	11.7%	-24
3/18/14	Russia annexes Crimea	1.0%	1.0%	0.7%	0.3%	5.3%	-4.0%	7.8%	24
1/15/15	Swiss abandons cap on Franc vs. Euro FX rate	1.1%	-0.6%	-0.9%	4.3%	4.7%	-0.8%	7.3%	-30
7/1/15	Greece: misses debt payment to IMF	-2.3%	0.3%	0.7%	2.0%	-6.8%	-12.2%	6.8%	55
8/11/15	China: Devalues yuan	1.3%	1.3%	-1.0%	-6.8%	-1.4%	-12.2%	13.0%	14
9/16/15	S&P downgrades Japan credit rating	-5.4%	1.3%	0.9%	2.8%	4.8%	-11.2%	13.0%	-22
11/24/15	Türkiye shoots down Russian plane for violating Turkish airspace	0.6%	-0.1%	0.1%	-1.2%	-7.5%	-13.3%	6.4%	79
12/16/15	Fed - 1st rate hike - increase interest rate 25bps	-0.5%	1.1%	1.5%	-8.0%	-0.8%	-13.0%	10.8%	57
4/18/16	Brazil: House votes to begin President impeachment trial	1.5%	-0.1%	0.7%	-1.6%	4.1%	-5.6%	8.3%	70
6/23/16	Brexit: UK votes to leave the EU	3.2%	1.3%	-3.6%	2.9%	2.4%	-5.6%	9.5%	4
4/6/17	Trump orders 59 Tomahawk cruise missiles to be fired at the Shayrat airbase in Syria	-0.9%	-0.3%	0.2%	2.0%	2.4%	-2.4%	5.3%	7
5/9/17	Trump fires FBI director James Comey	1.9%	0.0%	-0.1%	1.3%	3.1%	-1.2%	6.5%	-26
9/2/17	North Korea detonates a hydrogen bomb -its most powerful nuclear test ever	0.0%	0.2%	0.0%	2.1%	6.7%	-2.2%	9.2%	-15
10/1/17	Catalonia votes for independence from Spain	1.7%	0.4%	0.4%	2.4%	6.1%	-0.8%	9.5%	-26
2/16/18	The US announces imports of steel and aluminum threaten national security Under Section 232	-1.6%	1.2%	0.0%	0.8%	-0.3%	-10.2%	8.0%	-8
4/3/18	Trump administration releases initial list of Chinese products worth \$50bn that are under consideration for tariffs	-4.1%	-2.2%	1.3%	1.9%	5.1%	-7.3%	7.9%	-1
5/17/18	Italian bond yields spike on budget concerns	0.6%	0.4%	-0.1%	2.1%	4.7%	-2.9%	8.7%	-14
5/21/18	Collapse in Argentina and Türkiye's currency ignites concerns of emerging market currency crisis	1.6%	-0.3%	0.7%	1.4%	5.5%	-1.5%	8.9%	-18
7/10/18	US releases list of \$200bn Chinese goods subject to tariffs	0.2%	0.9%	0.3%	1.8%	0.1%	-3.1%	8.6%	-13
10/3/18	Powell says we're "a long way" from neutral on interest rates	0.8%	0.0%	0.1%	-6.9%	-16.3%	-19.8%	6.8%	82
12/22/18	US government shuts down	-8.8%	-2.1%	-2.7%	8.9%	15.9%	-15.7%	21.4%	2
8/5/19	US Treasury designates China as a currency manipulator	-2.0%	-0.7%	-3.0%	1.5%	4.9%	-6.1%	8.4%	9
9/16/19	Drones were used to attack the state-owned Saudi Aramco oil processing facilities	4.1%	-0.1%	-0.3%	-0.6%	6.1%	-2.6%	12.1%	-24
1/2/20	Top Iranian military official killed by US airstrike	3.8%	0.0%	0.8%	-0.2%	-21.8%	-1.0%	17.6%	81
1/23/20	China puts Wuhan City, the center of the COVID-19 outbreak, on lockdown	3.0%	0.0%	0.1%	0.5%	-15.8%	-33.9%	28.5%	60
2/24/22	Russia invades Ukraine	-4.2%	-1.8%	1.5%	7.0%	-6.7%	-15.8%	1.9%	84
10/7/23	Israel-Hamas war	-3.2%	1.2%	0.6%	1.6%	9.0%	-8.6%	16.2%	20
Average		-0.2%	-0.1%	-0.1%	0.8%	0.7%	-8.2%	10.7%	17
Median		0.7%	0.0%	0.2%	1.7%	3.0%	-5.9%	9.0%	6
Min		-10.3%	-4.8%	-3.6%	-9.0%	-21.8%	-33.9%	1.9%	
Max		4.1%	1.3%	1.5%	8.9%	15.9%	-0.8%	28.5%	
Average non-US % positive		0.7%	0.1%	-0.1%	0.9%	-0.2%	-7.4%	10.6%	
% positive		59%	47%	63%	72%	66%			

Source: BofA US Equity & Quant Strategy, FactSet, S&P

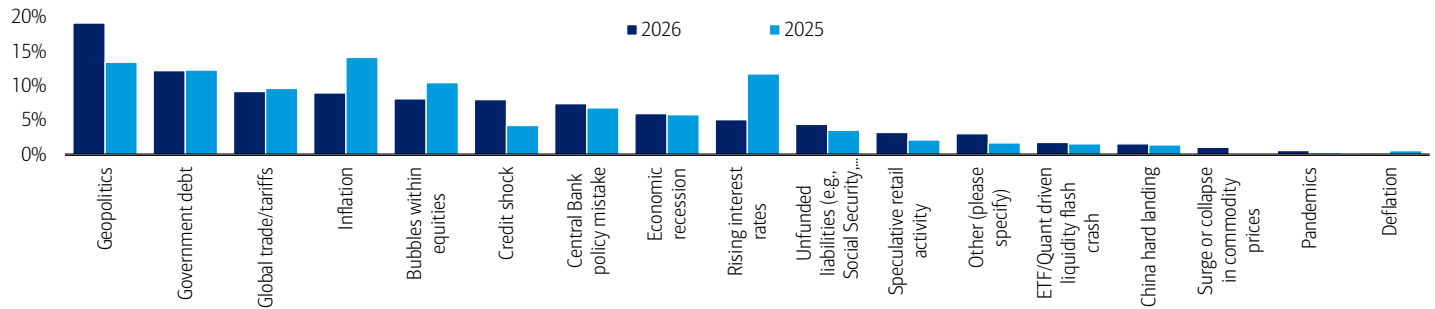
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2026 Merrill Financial Advisor survey: Geopolitics seen as biggest risk to stocks

19% of respondents cited geopolitics as the biggest risk to equities this year (vs. 13% last year), followed by government debt (12%).

Exhibit 11: Financial advisors see geopolitics as the biggest risks to equities

2026 Merrill Financial Advisor survey: Which of the following do you view as the biggest risk to U.S. equities? (Select up to three)



Source: Wealth Management Marketing Research, BofA US Equity & US Quant Strategy

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G10 Rates & FX: USD up, rates up

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Oil prices determine rates and FX market reaction

We closed Friday evening with US 10y yields at the lows of the past year (3.94%), DXY up 1.45% from the January lows and EURUSD risk reversals below its 12m average. The rally in rates contrasts with US economic surprise indices near the highs. We would argue that both FX and rates reflected a safe-haven element going into this weekend.

We expect USD strength to extend against a backdrop of higher oil prices and lower equities, the expected market reaction to the pricing in on a negative supply shock. For rates, the oil price move likely dominates, creating upside risks over coming weeks.

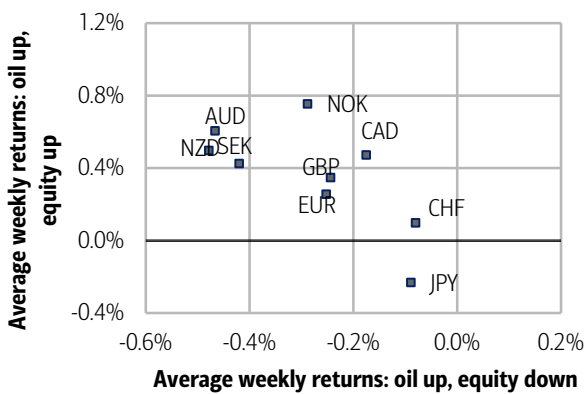
For USD what matters is the pricing in of a negative supply shock

Exhibit 12 shows that what matters for USD is the co-movement of oil and the equity market. Pricing in a negative supply shock (oil up, equities down) leads to a stronger USD across G10 (see also [Global FX Weekly 20 Feb 26](#)), especially vs NZD, AUD, and SEK.

AUD may initially weaken the most because of positioning. NZD has greater balance of payments vulnerability. JPY is likely to strengthen vs. non-USD crosses – but the implications for USDJPY are less clear, as Japan is a large energy importer and yen’s beta to risk has declined on reduced repatriation flow. NOK has benefited from higher oil prices but it is middle-of-pack under risk-off scenarios. Long NOK is unlikely to be an efficient hedge for a prolonged disruption. We prefer short NZDUSD for this purpose.

Exhibit 12: G10 FX average weekly returns (vs USD) on higher oil prices during risk on/risk off periods

Oil supply shocks (typically associated with higher oil prices and lower equities) is broadly positive for USD

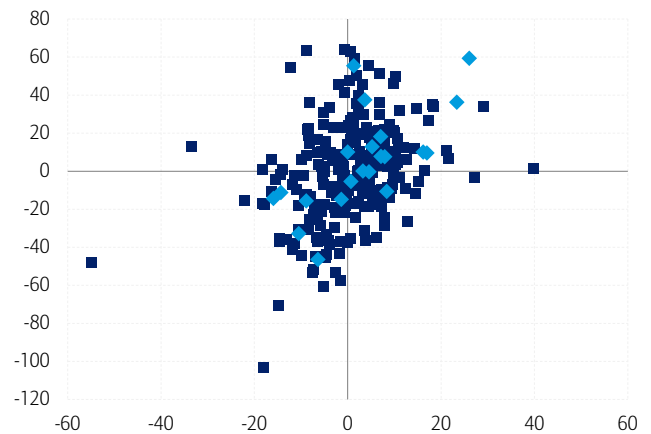


Source: Bloomberg: Note Average weekly returns vs USD since 2015 based on MSCI World and Brent Crude

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Exhibit 13: 1m oil change (% , x-axis) vs 1m 10y change (BPS, y-axis)

Bright blue = geopol events; beta to oil of 10y nom rates higher for geopol events vs full history



Source: BofA Global Research, Bloomberg

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For rates, the oil price move dominates

A study of geopolitical risk events over the last few decades clearly shows that what matters most to rate markets is the oil price move (see report, [Liquid Insight 7 Jan 26](#)). US rates tend to rise, when oil prices go up, and the sensitivity to oil prices is higher during geopolitical risk events (Exhibit 13). This is likely to be particularly true in our economists’ base case, where the downside risks to US growth remain limited and the risk of non-linear responses of the consumer to either higher oil prices (bottom of the



income distribution) or lower equity markets (top of the income distribution) is low. An added challenge for the US rate market is that not only are US rates at their recent lows, but so are breakeven inflation rates.

For rate markets to perform beyond another knee-jerk safe-haven bid, we would therefore need to see a much more material equity market correction than our strategy colleagues expect. Note that a break below 3.93% in UST 10y technically opens the door to an extension of the cyclical bull market in rates (see report, [Technical Advantage 18 Feb 26](#)). An oil price spike and a return of long-dated US Treasury safe-haven flows can support flattening pressure on the UST curve.

We are long breakevens, believe the breakeven curve is too steep and stay constructive belly real yields as a hedge against a more non-linear response of the US economy. We previously believed the US inflation market underpriced near term inflation risks and this weekend's events reinforce that view

Downside risks to the outlook increase outside of the US

The downside risks to economic activity from an energy price shock are more pronounced outside the US. The Euro Area and Japan are energy importers and vulnerable to supply disruptions not just for oil, but also LNG. We would therefore expect US rates to underperform in a sell-off in line with historical directionality. Part of this move would also be driven by an outperformance of German swap spreads vs the US, as is typically the case in risk-off scenarios.

EM: big speed bump, or even a roadblock?

David Hauner, CFA >>
MLI (UK)

Bigger than consensus

The size of the Iran operation so far is likely to catch the consensus by surprise. Indeed risk premium ahead of the weekend remained very low outside of crude oil. In our conversations during recent weeks, many investors were asking about scenarios and hedges but did not want to depart from the bullish core views in EM. Any hedges in EM seem to have been concentrated on the GCC, particularly CDS, while investors we spoke with did not want to sell EMFX. The strong consensus was that an operation, if any, would be relatively quick and thus didn't warrant a change in the baseline.

Max long EM

Indeed positioning ahead of the event was exceptionally bullish on EM FX and equities, according to our two monthly surveys and our aggregate EMFX sentiment indicator which had triggered a contrarian sell signal several weeks ago, for the first time since 2022. Nevertheless, inflows in EM in recent weeks continued to be very strong. Cross-over investors into EM assets also became very bullish early this year.

Big speed bump at least

Given this setup before the strikes, the initial market reaction is likely to be pronounced. A combination of risk-off with USD and energy price spikes is the worst case for EM and indeed the likely near-term outcome, in our view. In the short term we expect most pressure on EM markets which are crowded and vulnerable to higher oil prices. In local markets these include CNH, KRW, BRL (rates vulnerable but FX should hold up better given positive oil beta), CLP, MXN, HUF, ZAR, TRY and EGP.

EXD fallout less sharp

The GCC credits will be in focus, but they mostly also benefit from strong balance sheets - with the exception of Bahrain. Egypt is fundamentally exposed and crowded. Ukraine positioning is heavy and at risk from global geopolitical tensions. Argentina is also



crowded though further removed from the action. Angola, Colombia or Nigeria may seem to benefit as oil exporters, but risk-off will affect them as well.

Can Iran become a roadblock for EM?

Whether these events become a danger to the structural long EM trade hinges on how inflationary the energy implications will be, which depends on the length of the operation and the ability of Iran to disrupt regional supplies. The Iran events of 2025 trained markets not to sell EM on headlines as energy prices came back quickly. But then there was also the 2022 case of protracted high inflation which was very bad for EM through tighter financial conditions, lower growth and balance sheet pressures. Particularly at risk would be markets with major exposure to oil prices and tourism (eg Egypt, Türkiye) or fiscal sustainability issues (eg Brazil).



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