

CIO Office Morning Notes

4 March 2026

The conflict in the Middle East continues to intensify as attacks spread across the region and retaliation expands beyond initial strike targets. Iran stepped up missile strikes across GCC states hosting US bases and continues to threaten disruption to the Strait of Hormuz, keeping shipping routes and energy flows under strain as the conflict broadens across the region. Global markets reacted with a decisive selloff. Equities declined broadly with MSCI ACWI down 1.9%, developed markets falling 1.7% and emerging markets dropping a steeper 3.7%. Brent crude rose another 4.7% to \$81.4 per barrel after jumping more than 7% earlier in the week, underpinning concerns that the conflict could feed into inflation through higher fuel costs. The dollar strengthened 0.6% while the yield on the US 10-year Treasury climbed three basis points to 4.06%. Within the US session, markets initially reacted sharply before recovering after policy reassurance from Washington. The S&P 500 dropped more than 2% at the lows during the day and the Dow Jones Industrial Average briefly fell nearly 1,300 points before paring losses. Later in the session President Trump said the United States would provide insurance guarantees and naval escorts for commercial vessels and oil tankers moving through the Gulf in an effort to restore confidence in shipping lanes. The announcement helped pull equities off their worst levels, with the S&P 500 ultimately closing down 0.9%, the Nasdaq about 1% lower and the Dow off roughly 0.8%. Volatility spiked during the session with the VIX jumping more than 30% intraday before easing back toward the mid-20s.

Disruptions to energy logistics across the region is significant. Saudi Aramco is exploring rerouting more crude exports through the Red Sea port of Yanbu rather than Gulf terminals as vessels continue to cluster near the Strait of Hormuz. The kingdom can move oil through its East-West pipeline linking eastern oil fields to the Red Sea with capacity of roughly 5 million barrels per day, although that infrastructure cannot fully replace exports normally shipped through the Gulf. Saudi Arabia produces about 10 million barrels per day and exported roughly 7.2 million barrels per day last month, highlighting the scale of the logistical challenge if maritime disruption persists.

Europe absorbed a much heavier reaction to the energy shock. The MSCI Europe index fell 3.0% as higher fuel costs and supply uncertainty weighed heavily on industrial and transportation stocks. European gas prices have now surged more than 70% since Friday following the shutdown of Qatar's Ras Laffan LNG facility, while Norway has indicated its gas producers are already operating close to full capacity with little room to increase supply further. For a region heavily dependent on imported energy, sustained disruption to Gulf flows quickly feeds into inflation and growth expectations. Regional equities in Asia extended their decline with the MSCI Asia Pacific index dropping around 3%, marking the worst two-day stretch in nearly a year. South Korea's Kospi plunged more than 7%, its largest fall since August 2024, while Japanese and Taiwanese equities also declined as technology and export-oriented sectors led the selloff.

The ripple effects are also beginning to show up in industrial supply chains. Aluminum prices surged toward \$3,315 per ton on the London Metal Exchange, near the highest level since the 2022 energy crisis, after Qatar halted production at the Qatalum smelter due to natural gas shortages. Middle Eastern smelters play a significant role in global aluminum exports, and traders warn that prolonged disruption could tighten supply quickly for manufacturers in Europe, Asia and the United States.

Across the Middle East, Saudi Arabia's Tadawul index rose 0.7%, largely supported by gains in Saudi Aramco, which accounts for roughly 16% of the index and is up about 7% so far this week as crude prices climbed. Qatar's benchmark, by contrast, slipped 0.7% amid continued uncertainty around LNG production and the broader regional escalation. UAE markets reopen today after the earlier closure and are expected to face severe selling pressure at the open as local equities catch up with the broader global risk-off move.

Markets this morning:

Today morning, the selloff has extended into Asian markets with the MSCI Asia Pacific index falling as much as 4.3%, its sharpest decline in nearly a year. South Korea led the losses with the Kospi plunging about 7% (14% in total past two days), while Japanese equities fell around 4% and Hong Kong slipped roughly 3%. US and European futures also moved lower, pointing to further weakness ahead. Oil edged higher with Brent hovering near \$82 per barrel after rallying sharply earlier this week, while the dollar remained firm and US 10-year Treasury yields held near 4.06%. What markets are increasingly focused on now is not only the escalation itself but how long disruptions to shipping routes, energy flows and commodity supply chains last. The longer those constraints remain in place, the more the story shifts from a geopolitical shock toward a broader inflation and growth challenge for the global economy.

Upcoming key events/data:

Looking ahead, Wednesday's key data and events include China's Two Sessions that kicks off, alongside US ADP employment, ISM services and the Fed's Beige Book. Thursday includes the formal opening of China's National People's Congress, US jobless claims, import prices and ECB communications including the release of meeting accounts. The week ends with the US February jobs report, eurozone GDP and German factory orders.

Have a good day and stay safe.

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