بنك الإمارات دبي الوطني
Emirates NBD

Maximum pressure, shorter conflict?

- **Without de-escalation, disruptions from the war are threats to both growth and inflation**
- **Last week was negative for all major asset classes, except for oil prices and the dollar**
- **We trimmed down risk in our multi asset strategies, cutting gold and EM stocks from overweight to neutral**

At day 17 of the war, it's already too late to call it a short-one. Oil prices continued to rise despite the release of strategic reserves from G7 countries, and the Strait of Hormuz remains factually closed. Put together, this is a threat to both growth and inflation, which was reflected by holistically negative returns last week across asset classes. Our returns, always expressed in US dollars, were also affected by the strength of US currency against trade weighted counterparts.

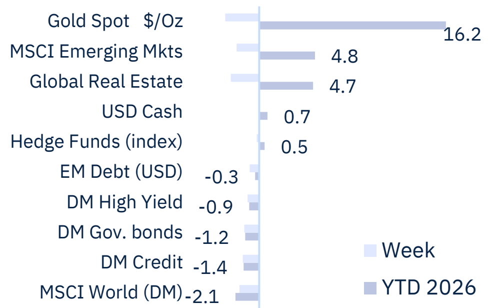
Markets didn't pay too much attention to economic data but it's worth noting that US growth was disappointing in Q4 but that we had no positive surprise on inflation. The Fed would have already been in a delicate situation even before the war. It's even more complicated now for them and for the 6 other central banks which will hold their policy meeting this week. We thus expect more communication than action from them.

Our scenario remains for a short conflict (60% probability) and to some extent, the intensification of pressure from markets, economic risks, diplomacy and electoral consequences for the US administration only reinforce this view. Having said that, a short conflict can either be achieved by declaring victory and leave, or by seeking decisive victory through escalation of military action. Again, we lean towards the first option. The recent call from President Trump for international support to keep the Strait of Hormuz opened would probably not be compatible with an intensification of the war.

Our investment committee decided last Tuesday to trim down risk in our multi asset strategies by taking profit on our two successful overweights of gold and stocks from emerging markets, both down to neutral with proceeds kept in cash. We are now overweight cash, neutral fixed income (close to neutral on segments with caution on duration), underweight DM stocks and hedge funds, and also neutral gold.

Geopolitical developments are all that matter in the short term, and volatility will remain extreme.

Asset Classes USD % total. Return, week and YTD 2026



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Cross-asset Update

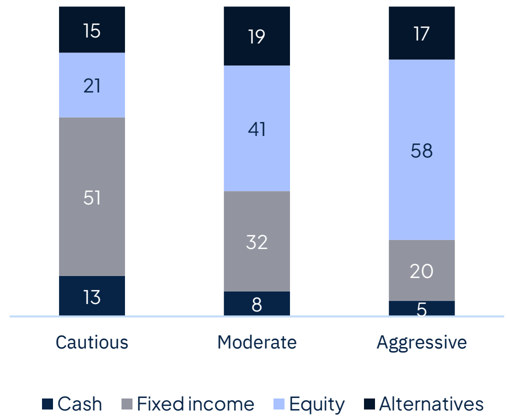
It is day 17 of conflict and we are still in the escalation phase, with no escalation climax in sight. Until that happens, markets have no marginal good news to discount.

An oil supply shock configures a stagflationary scenario, with surging oil prices hitting corporate margins and driving bond yields higher. This crisis is serious: as per the International Energy Agency, the conflict is affecting 7.5% of global oil supply and an even bigger share of exports. As much as the China's admission to the WTO unleashed a secular bull market in commodities, this conflict is pushing hard assets again in the driving seat. Supply constraints are felt from crude, natural gas, aluminum, fertilizers, to chips manufacturing. Lacking de-escalation, market participants will continue to focus on chokepoints or unresolved issues: blocked Strait of Hormuz, so higher crude prices, potential for inflationary pressures, so higher yields, tighter financial conditions, so falling equities and rising dollar, disrupted transportation and damaged crude infrastructure, so higher risk premia across the GCC countries. It is also not clear what kind of off-ramp the fighting parties might be able to find and when, given the opposite interests at stake. Still, significant constraints will keep on pressuring the Washington Administration, from higher Treasury yields to rising inflationary pressures. That is why, under the assumption of no miscalculation on either side, we still uphold our view of a time-limited conflict.

Until good news hit the tape, dollar-centric-assets should be in the limelight again. Since February 28 US large caps have lost less than 4%, while other markets, be it DM or EM, more than twice as much. Likewise, the US dollar has been rising against al peers. The US economy is relatively more insulated against oil shocks, the US stock market perceived as more resilient, while the dollar has benefitted from the tightening of global financial conditions. This represents a temporary reversal of the flows from US to ex-US assets that started in early 2025. Our equity team has been overweight US equities since before the start of the conflict and continues to hold the position.

It may come as a surprise that gold is underperforming expectations of a strong rally driven by heightened geopolitical risks. Yet, both extreme bullish positioning and rising yields are net negatives for the yellow metal. We must tactically wait that financial conditions become much tighter and prices oversold at least on the shorter time frames for a buying opportunity to show up again.

Tactical Asset Allocation: Simplified Positioning



TAA – Relative Positioning – Moderate Profile

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash			>>>
DM Gov.		=	
DM Credit	<		
DM H. Yield		=	
EM Debt			>
DM Equity	<		
EM Equity		=	
Gold		=	
Hedge Funds	<<		
Real Estate		=	

Fixed Income Update

Market sentiment remained weak last week as the conflict in the Middle East continued and the Strait of Hormuz remained closed. Oil prices stayed elevated, with Brent rising again and trading above USD100/bbl, raising concerns about inflation and tighter financial conditions. This was reflected in the US Treasury market, where the yield curve shifted higher across maturities. Short and long-term yields both moved up, with the 10-year yield rising to around 4.3% and the 2-year approaching 3.7%, as markets priced higher inflation risks and fewer Fed rate cuts. US economic data also pointed to a slowing economy, with Q4 2025 GDP growth at 0.7% while inflation measures remained stable but still above target. As a result, futures now price only about one 23bps Fed cut by the end of 2026.

Credit markets weakened during the week as rising Treasury yields and geopolitical uncertainty weighed on investor sentiment. Spreads widened across both investment grade and high yield bonds as investors demanded higher compensation for risk. US high yield spreads widened by around 13bps, while investment grade spreads moved about 6bps wider over the week. The combination of higher risk-free yields and wider spreads led to negative total returns across most fixed income segments, as markets remained cautious amid geopolitical risks and tighter financial conditions

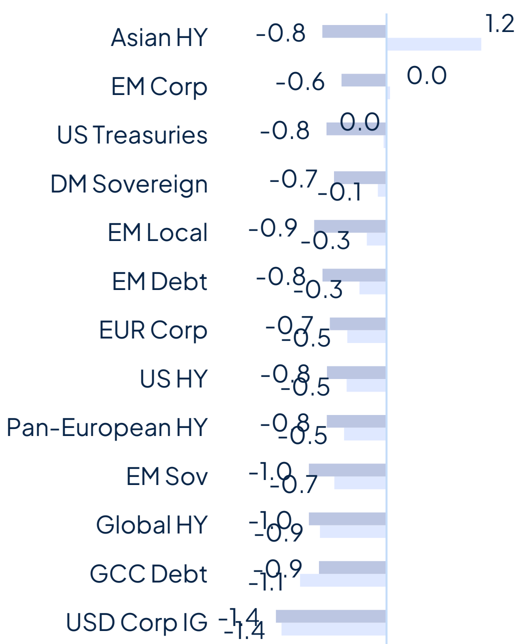
Emerging market bonds were weaker last week as the US dollar strengthened by about 1.4% and US Treasury yields moved higher. A stronger dollar and higher US yields usually put pressure on emerging market debt and reduce investor demand. Volatility in EM bonds also increased as investors monitored the impact of higher energy prices and geopolitical risks on global growth. In the GCC, markets were affected by the tensions in the region and the disruption to shipping through the Strait of Hormuz. However, higher oil prices continue to support GCC economies and credit quality, which helped limit the negative impact on the region.

Real estate bonds such as Omniyat, Sobha and Arada recorded some of the largest price moves last week, with declines in the range of around 3–5%, reflecting higher volatility in the sector. Bahrain sovereign bonds also weakened, with prices falling by around 2–3% as risk sentiment remained cautious. Longer-duration bonds across the region generated negative returns due to the rise in US Treasury yields, with declines generally in the range of 1–4%. In contrast, bonds from the financial sector remained relatively resilient, with smaller price declines of around 0–2%, supported by strong banking fundamentals in the region. Overall, market moves were mainly driven by higher global yields and risk sentiment rather than changes in GCC credit fundamentals.

Fixed Income Key Convictions

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Neutral EM Debt
Favor quality and selectivity
Including in GCC

Fixed Income Sub Asset Class Returns (US$ TR, week, YTD 2026)



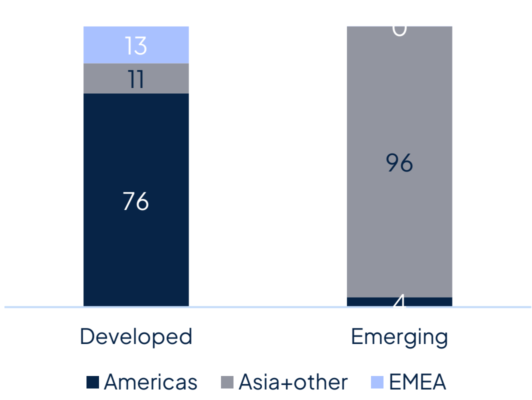
Equity Update

Markets remained under pressure over the week as the war in the Middle East continued to reshape global equity performance through energy, transport, and supply-chain channels. The MSCI ACWI fell 1.7%, with developed markets down 1.7% and emerging markets down 2.0%, but the move was far from uniform. In the US, the S&P 500 fell 1.6% as equities were repeatedly whipsawed by oil. Sessions were driven less by domestic macro and more by whether crude was pushing higher toward fresh highs or easing on hopes of diplomacy. Financials also came under pressure after renewed concerns around private credit, particularly following restrictions on withdrawals at a BlackRock private-credit fund earlier in the period, which kept liquidity risk in focus and weighed on broader sentiment toward lenders and credit-sensitive parts of the market. Even so, the US continued to hold up better than most regions, helped by the same pattern we highlighted earlier in the conflict: technology still proved relatively resilient and energy remained a key source of support.

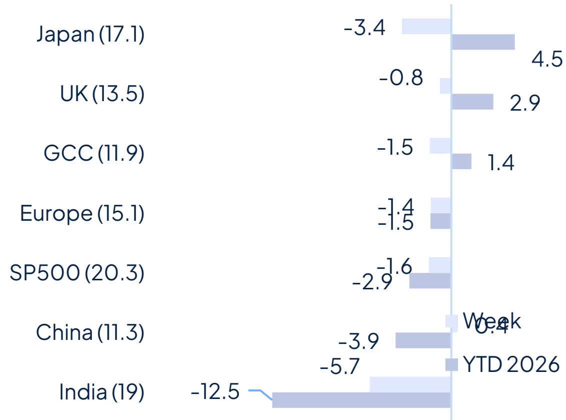
Across Europe, the headline move looked mild with MSCI Europe down only 0.2%, but the week itself was far more volatile than that number suggests. European markets repeatedly sold off when oil jumped and then clawed back losses when crude pulled back, leaving the index roughly flat by the close of some sessions but with heavy underlying churn. The reason was straightforward: Europe remains the developed market most directly exposed to a prolonged external energy shock. Energy stocks outperformed, but travel, cyclicals, and parts of industry stayed under pressure as fuel costs and margin concerns returned to the forefront. In Asia, the stress showed up most clearly in semiconductors and export-linked names. One interesting pocket of strength was nuclear-related stocks in parts of Asia, which gained on the view that governments may need to accelerate energy security plans if the conflict keeps crude and LNG markets unstable. China, however, again stood out as a relative haven. The MSCI China index rose 0.5% over the week, and reports increasingly framed Chinese equities as one of the more insulated corners of Asia during this conflict. The logic is that China is less directly exposed through tourism and portfolio flows than regional peers, has stronger domestic policy support, and benefits from a more stable investor base in onshore markets.

In the Gulf, the divergence became even clearer. Dubai's DFM index fell 8.2% over the week, making it one of the weakest markets globally, because it remains the most cyclical market in the region. Real estate, banks, tourism, and confidence-sensitive flows all come under pressure quickly when regional tensions rise, and that is exactly what we saw. Abu Dhabi's ADX fell 3.6%, a much smaller decline, because the market is more defensive with heavier weightings in energy and state-linked companies. Saudi Arabia held up better still. The Saudi market was supported by higher crude prices, and that support is meaningful because Saudi Aramco alone carries a heavy weight in the index. Reports through the week highlighted that Saudi stocks were effectively defying broader Gulf turmoil for that reason: oil support was strong enough to offset some of the regional risk premium. The broader takeaway from the week is not simply that equities were weak, but that markets are now differentiating much more aggressively between exporters and importers, between cyclical and defensive regional exposures, and between sectors that suffer from an energy shock and those that benefit from it.

Equity Recommended Regional Positioning

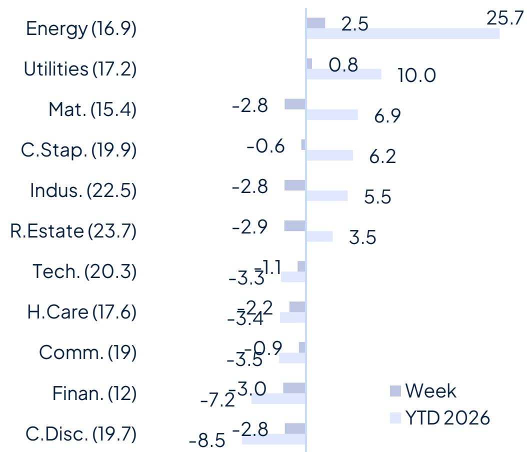


Major Indices Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

Global Sector Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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