



Letter n°147

Impact of the war in Iran on financial markets.

When Trump sees himself as Alexander the Great.

In 333 BC, the Macedonians led by Alexander the Great achieved a brilliant victory over the Persians at the famous Battle of Issus. It was a shock to the Persians, and the prestige of Darius III was tarnished.

Before Alexander captured Tyre (in present-day Lebanon), Darius III offered to cede lands up to the Euphrates and pay a ransom for the release of his royal family. *Parmenion, a close confidant of Alexander, then said, "If I were Alexander, I would accept it." But Alexander replied that "So should I, if I were Parmenion,"* and he refused Darius's offer. He then continued his advance successfully toward Egypt, beginning with the capture of Gaza.

More than 2,300 years later, Trump, confronting the Persians, seeks to present himself as a great war leader. He hesitates between limited incursions and full invasion, but the path to any potential victory is fraught with obstacles. Economic growth is at risk in many regions around the world, and financial markets are experiencing significant volatility.

Countries most affected:

Asian countries:

If, according to the IMF, a 10% increase in oil prices results in a -0.15-percentage point impact on global growth and a +0.4-percentage point increase in inflation, studies indicate a slowdown that is twice as severe for Asian countries.

- China's dependence:

China is concerned because it imports three-quarters of its oil needs and is the world's largest importer. The Middle East plays a key role, as it supplies China with 55% of its oil and one-third of its liquefied natural gas.

In this region, Iran is a privileged partner because, under U.S. sanctions for years, the country has signed a long-term agreement with China providing for the delivery of oil at low prices.

The implicit cause of the war led by Trump is yet another episode in the hydrocarbons versus rare earths standoff between the United States and China. As described in Letter 143, China controls 80% of the rare earths essential to the U.S. tech sector. The leverage over supply deliveries frustrates Trump, who, to counterbalance, intends to use America's hydrocarbon wealth and its ability to exert pressure on countries supplying China. After Venezuela, which accounts for 4% of China's needs, this is another major blow for China, as Iran supplied 14% of its needs before the conflict.

China can take pride in its long-term strategy of promoting renewable energy as a guarantee of future independence, but it is forced to draw on its reserves, estimated at 100 days.

- Japan and South Korea:

The situation is worse, as both countries import 95% of their needs, mainly through Hormuz. Although South Korea may seem protected with 200 days of reserves, its stock market, one of the best in the world in 2025

and early 2026, is being shaken. The South Korean stock market is one of the most affected by the conflict with Iran, down 10%.

The same applies to Japan, which is already grappling with weak economic growth of 0.3% in the fourth quarter of 2025.

- ***India and poorer Asian countries:***

India will lose significant foreign currency inflows, as 9 out of the 15 million Indians employed abroad are in Gulf countries. They sent back \$45 billion in 2024, and many are likely to lose their jobs.

Moreover, 80% of India's LNG needs come from the Gulf. India imports 90% of its oil needs, 55% of which comes from the Middle East, and it is vulnerable as it has only around 25 days of reserves.

The worst impact concerns poorer Asian countries such as Bangladesh, the Philippines, Vietnam... as they often depend almost exclusively on the Middle East and frequently lack the means to cushion the effects of the crisis on their populations.

Middle Eastern countries:

The war highlights the dual dependence of Gulf countries: on the one hand, on hydrocarbons – production, refining, petrochemicals – which account for two-thirds of their fiscal revenues and nearly one-third of their GDP; and on the other hand, on tourism, which has now come to a halt.

These countries can endure, as their sovereign wealth funds manage approximately \$5 trillion and their public debt represents slightly less than one-third of GDP. They will find it more difficult to attract foreign capital to finance their ambitious projects, but they will also have less money to invest abroad. It is likely that the impressive investment commitments to the United States will not be fulfilled.

Egypt, dependent on Gulf countries for its finances and oil supply, is being hit hard by this crisis: its currency is depreciating again, imports are becoming more expensive, tourism revenues are collapsing, and the Suez Canal is being avoided by major shipping companies.

Western countries:

The United States, a net exporter of gas since 2017 and oil since 2020 – currently nearly 4 Mb/d – is, in principle, benefiting from rising prices. However, American consumers are facing an increase in gasoline prices from \$2.80 to nearly \$4 per gallon. This is far from Trump's campaign objective of a \$50 per barrel oil price and a fight against inflation.

The sensitivity of the U.S. stock market to events in the Middle East is moderate and likely to be temporary: the Six-Day War in 1967, Iraq's invasion of Kuwait in 1990, the Iraq War in 2003, and the July 2025 offensive all had limited impact on the U.S. market. Only the 1974 oil shock had a lasting effect.

In Europe, industry will continue to lose competitiveness due to rising gas prices. Even before this war, between the start of Russia's invasion of Ukraine and the end of 2025, industrial production had fallen by 3%, while it increased by 17% in China, 5% in South Korea, and 1% in the United States.

A short-term winner:

Russia, first and foremost, as it had budgeted for a \$59 per barrel oil price for 2026. In 2025, average prices were around \$50 per barrel for Urals crude; today, they are approaching or exceeding \$100 per barrel. Crude exports had declined in January to 3.4 Mb/d from 3.8 Mb/d in December, but they could rise again. Trump had banned India from purchasing Russian oil; he has just authorised it for one month, and some believe he could ease sanctions on Russia.

Other winners include major exporters such as Canada and Norway.

Disrupted markets:

Commodities:

The price of crude remains below the \$130/b reached during the invasion of Ukraine in 2022, and the price of gas in Europe remains far from the €340/MWh level reached then. But many are worried. Certainly, stocks in phantom fleet are very high (58 million barrels in January compared to 6 million barrels in 2025, according to Kepler, and are mainly Iranian or Russian crude), but the Gulf produces 30% of the world's oil and ¼ of LNG.

The IEA estimates a shortfall of 10 Mb/d. It has put 1/3 of its stocks on the market, or 400 Mb. This covers 40 days of blockade, and if necessary, it could put more stocks on the market.

This year, prices rose from \$60/b for Brent at the beginning of the year to over \$115/b on Monday, before falling back. Gas prices in Europe reached €51/MWh, an increase of almost 100% since the start of the year.

Metals, for example copper, are declining as global economic growth forecasts are revised downward.

Interest rates:

Fears of a cost-push inflation resurgence due to oil and gas are causing tensions in interest rates, averaging 30 to 40 basis points, but significantly more in the United Kingdom and Italy, which are more vulnerable to the energy shock.

In the United States, the 10-year rate reached a high of 4.39% since July, compared to 3.95% at the end of February. Rate cuts, eagerly awaited by Donald Trump, now seem postponed indefinitely. More than a quarter of investors fear that the FED will hike rates by the end of the year, and as a good indicator of this trend, the 2-year rate has risen to 3.88%.

In Germany and France, long-term rates are respectively 2.94% and 3.6%, up 40 basis points since the start of the conflict.

In the United Kingdom, the 10-year rate hit 5.05% versus 4.2% before the conflict, and the 2-year rate 4.6%, as traders now anticipate four 0.25% hikes this year instead of two cuts. This is a problem in a country paying £100 billion per year in interest on public debt exceeding 100% of GDP. Before the conflict, inflation at 3% was much higher than the rest of the Eurozone at 1.9%, but inflation expectations have risen more sharply than elsewhere by 1.8 points.

Italy, heavily exposed to Qatari gas, is one of the most affected countries, with a 10-year rate at 4.11%, the highest since 2024.

Everywhere, tensions in rates are increasing the cost of credit and public debt and, in the long term, slowing real estate and economic activity, creating a risk of stagflation. This is the case in Europe, but even more so in the United States, as core inflation, at 2.5% in February versus 1.9% in the Eurozone, is not yet under control.

Alongside these rate increases, there have been outflows from junk bond funds, nearly \$4 billion last week.

Currencies:

The \$ has strengthened, as is typical during conflicts. The Swiss Franc, a traditional safe haven, reached a new high, prompting the central bank to intervene. The Canadian dollar and Australian dollar benefit from rising oil prices. In contrast, the South African Rand has depreciated the most, just ahead of the Swedish Krona and the South Korean Won.

Gold, curiously, does not seem to serve as a safe haven, even though the UAE, the world's second-largest gold exporter, has halted its sales. It is worth recalling gold's exceptional appreciation over the past three years: 14% in 2023, 27% in 2024, 65% in 2025. Also, gold was \$200/ounce in 2000, \$900/ounce in 2009 after the financial crisis, and then rose substantially to its recent peak at \$5,400/ounce before falling back to the level seen at the start of the year. Gold is suffering from fears of a resurgence in inflation and concerns that rate cuts may stop. Silver, platinum, and palladium are also declining. Undoubtedly, much of the recent rise in gold

involved buyers who had borrowed to purchase and have now had to unwind their positions. As a consequence of this decline, mining stocks have fallen sharply, for example, Newmont -23%.

Stock markets:

During World War I, markets fell 31%; in 1929, -65%; during World War II, -12%; during the first oil shock, -47%; in the early 2000s, the dot-com bubble, -44%; and in 2008, -59%.

To date, the U.S. market has held up better than others, down 5% versus an average of -10%. Emerging markets are the most affected, as they face both a stronger dollar and higher oil prices.

Across all markets, only one sector is up: energy. Curiously, defensive sectors such as healthcare (Essilor -18%, Merck -17%, Roche -16%, Sandoz -15%, Eli Lilly -11%), utilities (Next Energy -16%, Vistra Corp -14%, Constellation -10% in the U.S., Veolia, Engie -11% in Europe), or consumer goods (Nike -17%, Pepsico -10%, Colgate and Procter & Gamble -12%, Philip Morris -13%, and in Europe, Adidas, Carlsberg, and Henkel -19%, Beiersdorf -30%) are hardly benefiting from the context.

- Some particularly affected sectors:

Today, the first sectors affected by rising hydrocarbon prices are petrochemicals, plastics, steel (Arcelor -20%), aluminium, chemicals, plastics, transport, and materials (Saint-Gobain -20%).

Another affected sector is food because of fertilisers. Fertilisers are impacted because one-third come from the Middle East, and the price of urea, 50% of which comes from the Middle East and is important for cereal crops, has increased by a third. Prices for Nutrien (+10% over one month) and CF Industries (+33%) in the U.S. benefit from this. Grain prices are rising as markets anticipate lower harvests due to fertiliser shortages. The price of a ton of urea has risen from \$470 to \$665. Nitrogen production requires a lot of gas, and Qatar, Saudi Arabia, and Iran are major exporters of nitrogen and fertilisers through the Strait of Hormuz.

Another problem is sulfur supply, as 45% of global production comes from the Middle East... Sulfur is used not only for fertilisers but also for sulfuric acid, essential for semiconductor manufacturers, who also need helium. Qatar produces 35% of the world's helium, ranking second after the United States, a gas essential for the semiconductor industry, and exports are currently blocked. Samsung and SK Hynix, after +50% at the start of the year, would have everything to lose from a prolonged war.

Among refined products, the most sensitive price increase is that of diesel, which penalises road transport and farmers.

Transport times are lengthened by 8 to 10 days due to the blockage of the Strait of Hormuz. Insurance costs have skyrocketed. Maritime insurance rates increased tenfold during the first five days of the conflict.

There is also a sharp decline in sectors related to transport (Royal Caribbean -13%) and tourism, including airlines and hotel chains. The same applies to luxury goods, with Hermès -19% and LVMH -16%.

The countries most dependent on gas for their industry are Germany and Italy. In 2025, the EU imported 140 billion m³ of LNG, 13% of it from Russia.

Aluminium prices could rise, as the UAE and Bahrain are among the world's top 10 exporters.

Tech companies, which are heavy energy consumers, face the risk of a sustained price increase.

Financial stocks suffer from the threat of stagflation due to a reduction in credit and an increase in non-performing loans. In the U.S., BlackRock is down another 11%, in Europe, Barclays and Deutsche Bank -20%, Unicredit and HSBC -17%.

- Defence stocks benefit little from this war:

Since the beginning of the conflict, major U.S. defence companies, RTX, General Dynamics, Lockheed Martin, Northrop Grumman, Boeing, have not appreciated. However, Lockheed Martin and Northrop Grumman are

still up 25% this year. There had been many expectations, as the rise since mid-2024 approaches 50%, and P/E ratios are above 25x, even over 40x for the large U.S. groups.

In Europe, Thales has declined, despite reporting better-than-expected results, and announcing an expected organic growth of 6 to 7 points in 2026 and an increase in operating margin of 0.2 to 0.4 points.

Similarly, Rheinmetall saw its stock fall despite reporting a 29% increase in revenue in 2025, a 33% rise in operating profit, and a 36% increase in its order book.

In fact, it should also be noted the remarkable appreciation of these stocks in recent years, their high valuation levels, and, even more, the misalignment of large defence companies' production with today's war conducted using efficient drones.

- *Some sectors benefit from rising hydrocarbon prices:*

Gas: The shutdown of Qatari facilities removes 12 billion m³ of gas, nearly 1/5 of global LNG supply, a figure to compare with the 10 billion m³ of Russian gas withdrawn in 2022. This benefits U.S. companies such as Cheniere, Sempra, and Venture Global. U.S. LNG exports increased from 10 billion m³ in 2022 to 15 billion m³ in 2025.

Oil ETFs have attracted, according to FactSet, more than \$7 billion this year. Among individual stocks, in the U.S., Occidental Petroleum leads the gains with +17%, and in Europe, Equinor +36%, ahead of Neste Oil +32% and Repsol. Curiously, oil service companies are declining: Schlumberger -4%, Baker Hughes -3.7%.

Coal: In Rotterdam, the price of thermal coal exceeds \$130 per ton, an increase of over 25% since the beginning of the war in Iran. This remains far from \$400 per ton during the invasion of Ukraine in 2022. Coal producers, for example in Australia, Whitehaven, are appreciating in the stock market. Several countries, heavily affected by rising gas prices, are turning more to coal as an alternative to gas, such as the Philippines, Thailand, and probably Vietnam and India.

Sectors related to the energy transition: Companies specialising in the energy transition, often Chinese – battery manufacturers like CATL, solar panel producers, or electric car makers like BYD – are seeing their stock prices rise. The surge in oil prices favours the competitiveness of electric vehicles. Before the conflict, half of the cars sold in China and 22% in the U.S. in 2025 were electric or hybrid, and this percentage is expected to increase.

The price of aluminium has gained more than 10% since the start of the conflict, as the Middle East represents 10% of global production, deliveries are halted at a time when global stocks are low, and restarting factories could take several months after the conflict ends. In contrast, Freeport in copper and Anglo American in metals are down 19%.

Conclusion: *“What fate made me be born precisely in this time! Before my eyes lies the ruin of my country, and I see no other way out than to go into exile, to abandon my home and go wherever fate will carry my steps.”* Letter from La Boétie to Montaigne, 1560.

This letter from La Boétie dates back to the religious wars in France, but it finds an echo today in the Gulf monarchies, deserted by their foreign residents.

- *From a macroeconomic perspective, the worst-case scenario:*

It would be persistently high oil and gas prices. However, while European countries since 1974 have strongly reduced the energy intensity of their growth and their dependence on hydrocarbons, emerging countries would be more severely affected.

In the United States, according to Krugman, energy intensity has fallen by 70% since the first oil shock, but dependence on oil remains much higher than in Europe.

In 1974, oil represented 56% of the global energy balance; today, less than 30%, compared to 17% for natural gas, 40% for nuclear and renewables.

Also, Western countries' dependence on Gulf countries is lower. Since 2010, U.S. production (+8 Mb/d) has increased more than the total of all Middle Eastern countries (+6.7 Mb/d). Other countries, Canada +2.8 Mb/d, Brazil +2 Mb/d, Guyana +1 Mb/d, have significantly increased their production.

Finally, precautionary stocks are high.

- ***From a consumption perspective, the scenario to avoid:***

It would be subsidising pump prices in consumer countries. Many countries are too indebted to afford this, and subsidies would hinder the energy transition and remove incentives to reduce consumption. On the contrary, the transition must be accelerated to reduce dependence on imported energy.

- ***From a stock market perspective, markets are volatile but not collapsing:***

One reason is that current oil prices are far from the levels reached during previous catastrophes. In 1979, during the Iranian Revolution and the second oil shock, inflation-adjusted Brent prices were \$180/barrel; in 2011, during the Arab Spring, \$180/b.

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Bruno Desgardins

Bruno Desgardins
CIO
Switzerland



SingAlliance Pte Ltd

16 Raffles Quay, #12-01 Hong Leong Building,
Singapore 048581
T: +65 6303 5050
E: info@singalliance.com

SingAlliance (Hong Kong) Ltd

Unit 904-907, 9/F Dah Sing Financial Centre,
248 Queen's Road East, Wanchai, Hong Kong
T: +852 2639 3659
E: info.hongkong@singalliance.com

SingAlliance (Switzerland) SA | Genève

Rue du Mont-de-Sion 6,
1206 Genève, Switzerland
T: +41 22 518 85 85
E: info.switzerland@singalliance.com

SingAlliance (Switzerland) SA | Zürich

Bahnhofstrasse 37,
8001 Zürich, Switzerland
T: +41 76 628 12 36
E: info.switzerland@singalliance.com



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