

MARKET NEWS

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MIDDLE EAST CONFLICT CURRENT SITUATION AND MARKET IMPACTS

KEY TAKEAWAYS:

- Renewed risk aversion and volatility following the offensive launched by the United States and Israel against Iran
- For financial markets, caution remains the order of the day while awaiting greater visibility on the intensity and duration of the conflict
- What are the impacts on our main strategies and allocations?

The United States and Israel have launched an offensive against Iran

The offensive launched this weekend by the United States and Israel has significantly heightened **risk aversion** at the start of this week. The last few hours have seen the conflict in the region continue, with Tehran adopting a firm stance, rejecting any return to the negotiating table with Washington for the time being and putting in place the succession of Supreme Leader Ali Khamenei. In the short term, this is causing increased **volatility for risky assets**, particularly European equity indices, which are more exposed to rising oil prices. Conversely, **gold continues to perform well** beyond short-term profit-taking to offset losses on other financial assets in recent days, while the **impact on sovereign rates should be more contained**, between **rising inflation expectations** on the one hand, which have driven sovereign rates since Sunday, and **fears about growth on the other**.

Source: Groupe La Française, data as of 03/03/2026. Past performance is not indicative of future results.

Given the subjective nature of some analyses, it is important to emphasize that certain forward-looking statements are prepared based on assumptions that may differ, either partially or entirely, from reality. All hypothetical estimates are inherently speculative, and it is possible that some, if not all, of the assumptions underlying these hypothetical projections may not materialize or may differ from current assessments.

The Middle East at a crossroads

Faced with the failure of diplomatic efforts to negotiate an agreement with Iran, Donald Trump decided to attack the country on Saturday, February 28, with Israel's support. While this offensive was not a surprise, **its scale and intensity were astonishing**, as was **Tehran's response, which sought to regionalize the conflict** (strikes in Saudi Arabia, Qatar, Kuwait, etc.) claiming to target US military sites, thereby increasing cost of the US campaign and try to disengage the oil monarchies, without success so far. At the same time, immediate retaliatory measures by Iran and its proxies (including Hezbollah) **have extended the conflict to many neighbour countries**, while paralyzing the Strait of Hormuz, through which one-fifth of the world's oil passes. At this stage, calm still seems a long way off, with Iran also attacking hydrocarbon production sites since Monday and Trump even going so far as to mention an offensive lasting four to five weeks, or even longer. An attempt to resume dialogue between the Iranian and American leaders has been mentioned by Trump, but has been denied by Iranian representatives for the time being.

In the short term, **the situation is uncertain**, but we believe that a total collapse of the current regime and the Islamic Revolutionary Guard Corps (nearly 200,000 men) is unlikely without a large-scale ground operation, which the United States does not seem ready to launch. It will therefore be necessary to monitor the ability of both sides to return to the negotiating table, a scenario whose timing remains difficult to predict.

The following factors will be key in the coming days and weeks: **1/** the ability to navigate the Strait of Hormuz; **2/** the willingness of the new Iranian provisional government to negotiate; **3/** the position of the Iranian people, who could seize the opportunity to regain control; **4/** the reaction of China, half of whose crude oil imports pass through the Strait of Hormuz; **5/** ultimately, the position of Donald Trump, who is also campaigning for the midterm elections and therefore wants to avoid a major and sustained surge in energy prices.

Financial markets: longer-term outlook and expectations

The economic implications of the conflict will be **highly dependent on oil prices**, themselves closely linked to the operability of the Strait of Hormuz. Between 10 and 15 mb/d of crude are at risk, even though short-term effects may be softened by alternative routes (Saudi East-West pipeline) and pre-positioned inventories. In this context, the **sensitivity of general inflation** in Europe is expected to rise by more than 1.0% for every \$10 increase in oil prices, while the impact on real GDP would be around -0.3%.

We believe that the **current situation does not call for a specific reaction from Central Banks** at this stage. They will nonetheless monitor conditions in the Strait, as well as the risk of Iranian strikes on strategic energy assets (pipelines, refineries, storage), which—if they caused major supply disruptions—could push the barrel above \$100/b.

In the short term, **caution remains recommended pending greater visibility regarding the intensity and duration of the conflict**. Over a longer horizon, we consider it unlikely that D. Trump will allow the United States to become bogged down in Iran—a conflict opposed by a majority of Americans ahead of the November mid-term elections—especially since rising oil prices undermine his fight against inflationary pressure and his support for household purchasing power. Meanwhile, **investors' capacity to regain risk appetite following prior shocks should not be underestimated**, often helping equity markets and risk assets rebound as soon as conditions stabilize.

Portfolios: current actions and positioning

i. Equity Management – Caroline LAMY & Jean-Louis DELHAY

The strikes against Iran led to a sharp decline in global markets on March 2, which intensified on March 3. Tensions around the Strait of Hormuz pushed Brent crude up to \$80, bolstering energy and defense stocks. Conversely, cyclical sectors—luxury goods, leisure, and airlines—fell, penalized by disruptions and the anticipated rise in fuel costs. Volatility rose sharply, directly reflecting uncertainty about the scale, duration, and implications of the conflict. The regional spread of tensions, combined with a generalised tendency of “un-risking”, also weighed on gold, despite its usual defensive status

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On the **international equity management** side, we have integrated these risks by reducing our exposure to the region concerned and to stocks most vulnerable to a sustained rise in oil prices. Furthermore, our portfolios have limited exposure to the Middle East (less than 4% of European companies' revenues). This selective reduction has been accompanied by a cautious strengthening of high-quality companies with solid balance sheets that have historically been more resilient in times of stress: healthcare, utilities, and defensive stocks in the broad sense.

In line with this approach, the impact of the conflict remains moderate within **CM-AM Global Innovation**, with exposure to defense likely to benefit from renewed tensions. The software sector, which has recently been buffeted, could play a safe-haven role due to its solid fundamentals. Asian players upstream in the data center chain, particularly semiconductor equipment suppliers, could offer new opportunities, supported by strong capex growth and demand that continues to exceed supply. Similarly, in **CM AM Global Leaders**, consumer discretionary (35% of the fund), a pillar of the "big brands" theme, could be affected by an extension of the conflict via inflation, while luxury goods and travel are already under short-term pressure. More broadly, both in Europe and globally, managers had anticipated these risks by reducing exposure in February to certain luxury goods companies sensitive to international tourist flows and by taking profits on financial stocks. Portfolio adjustments will remain tactical, with cash reserves maintained in order to seize entry points generated by volatility. Long-term trends, particularly the development of AI, electrification, and structural strengthening of defense budgets, remain intact and continue to be major areas of allocation.

Regarding the **CM-AM Convictions** range, the management team recently reduced its exposure to equities in favor of strengthening liquidity.

This change has resulted in a reduction in financial stocks, particularly banks and insurance companies, which are now slightly underweight, as well as a decrease in exposure to consumer discretionary companies.

Some industrial companies have also been reduced. Nevertheless, the team is maintaining its positions in structurally promising themes such as aerospace and defense, electrification, and the data center ecosystem.

At the same time, defensive sectors have been strengthened and/or overweighted, particularly telecommunications, utilities, and healthcare.

ii. Fixed Income Management – Jérémie BOUDINET

We recently downgraded our outlook on German and US interest rates **from positive to neutral**, due to the rally observed in February. The widening of interest rates since the beginning of the week has been considerable on both sides of the Atlantic, leading us to monitor potential entry points, but volatility and uncertainty remain too high to act.

Regarding corporate bonds, credit spreads are currently **following a classic volatility shock pattern**, such as that seen on Liberation Day, with a greater reaction from riskier assets (High Yield, Subordinated Debt). Apart from a few sectors and companies more exposed to geopolitical conflict, such as airlines, we are not seeing any significant impacts to report, nor any ramifications that would justify a decline in the credit quality of the issuers in our portfolios.

Liquidity in the corporate bond market remains very strong, according to our counterparties, **and we have no particular concerns that would justify adjusting portfolios at this stage in terms of exposures or cash positions.**

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The pull of higher yields to maturity, driven by both widening credit spreads and the interest rate base, is a strong argument for corporate bonds and could attract inflows into the asset class, which we believe should limit the extent of the current adverse movement over time. However, we do not see an entry point at this stage, given the relatively tight widening of credit spreads and the excessive volatility across all asset classes.

iii. **Alternative Management – Joffrey CZURDA**

In this environment of geopolitical tensions, the alternative strategies deployed by the Cigogne Management teams are playing their role of diversification and shock absorption to the full. This resilience can be explained by very low direct exposure to the Middle East, combined with a qualitative approach to portfolios (relative value strategies, low portfolio duration, and long volatility positions).

Differences in the speed of adjustment between financial instruments also enable us to implement new strategies and reinforce the opportunistic nature of our management. Recent volatility is likely to create technical dislocations that we exploit through our core arbitrage (bonds versus CDS) and volatility arbitrage strategies, while our positions in defensive segments, such as senior AAA tranches of European securitizations, remain attractive.

iv. **Diversified Management – Odile CAMBLAIN**

In our diversified funds, managers have chosen to **reduce overexposure** to equities, which has been particularly pronounced since the last allocation committee meeting. The objective is to return to a **more neutral position**, while rebuilding a **cash reserve** to be mobilized in the event of a more attractive entry point on the equity markets. The adjustments were initiated at **the end of last week** and continued on Monday, then marginally on Tuesday, March 3. At the same time, we **have taken profits** on positions related to the **gold mining** sector, given their recent performance. We are also considering **increasing sensitivity** to eurozone **sovereign debt**, in light of recent tensions on the bond markets.

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