

Flash

Answers to more client questions following the recent ceasefire

Key Messages

1. The United States and Iran have agreed on a two-week ceasefire to allow time to begin peace talks. This agreement includes the reopening of the Strait of Hormuz. Even though these announcements bring short-term relief, uncertainty is set to remain high over the coming weeks.
2. Despite the announcements, spot Brent crude oil prices remain elevated, with six-month prices settling just above USD 80, which would imply a sustained de-escalation in the short term and a rapid recovery in oil exports from the Gulf. This might prove a little optimistic,
3. Investors need to diversify beyond just stocks and bonds in liquid investment portfolios. We would add exposure to gold and other commodities, infrastructure and hedge funds.
4. We expect today's elevated energy prices to reinforce the energy security theme in Europe and Asia, driving demand for renewable and nuclear power generation and battery storage.
5. We continue to see a modestly weaker US dollar in 12 months, targeting USD 1.20 per euro.

1. Do oil markets underestimate longer-term effects of supply disruption?

The current pricing of Brent crude oil futures suggests a sharp fall in oil prices expected between June (USD 111/barrel) and December (USD 82). This is presumably on expectations of a de-escalation of the current Iran conflict and on the resumption of marine traffic via the Strait of Hormuz.

However, we should not assume that, even under such optimistic assumptions, oil and gas supply disruptions will disappear. It will take months (if not a year) or more for pre-conflict exports of oil and natural gas from the Gulf to be achieved.

The risk then is that spot oil prices may decline but that longer-term oil prices find a new balance far above pre-conflict levels, say at USD 80+. For now, the oil market seems to be pricing a relatively optimistic scenario in Iran. The conflict may drag on for longer, and that oil futures for December and beyond are insufficiently pricing this alternate scenario.

2. As stock and bond markets look to be increasingly positively correlated during crises, should we think beyond a traditional 60:40 stock: bond asset allocation?

In a word, yes. The 60:40 stock/bond asset allocation paradigm has worked very well since the late 1990s. It is based on the premise that when stock markets fall during times of crises and of economic recessions, bond prices typically rise and thus cushion the effects of falling stock prices.

However, this negative correlation between stocks and bonds only holds true when inflation remains around the 2% target of central banks. This was largely the case for major advanced economies from 1994 until 2021. On the basis that we expect oil and gas prices to remain well above pre-conflict levels in the medium term, there is also the risk that overall inflation rates remain closer to 3% than 2% over the same timespan.

At 3% inflation, the correlation between global stocks and bonds moves from negative to positive. In a more inflationary environment such as 2022, bond yields tend to go up (and bond prices down), pressuring stock prices at the same time via lower fair valuations. We should expect more periods like 2022 in the future given heightened geopolitical tensions and thus the risk of future supply disruptions.

This underlines the need to diversify investment portfolios well beyond just stocks and bonds. We recommend allocating to commodities (especially gold), infrastructure (listed or private) and hedge and alternative UCITS funds to improve portfolio diversification and robustness.

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3. Will current high oil & gas prices drive increased demand for renewable energy generation and storage solutions?

Yes! For energy-importing regions such as Asia and Europe, today’s environment of painfully high energy prices is sure to refocus efforts on improving national/regional energy security. This will better protect these regions from future fossil fuel supply disruption and inflationary price volatility. Interestingly even the US, today the largest producer of hydrocarbons in the world, is not immune to global energy price volatility. US retail gasoline and diesel prices have surged by 30%-40% since early March.

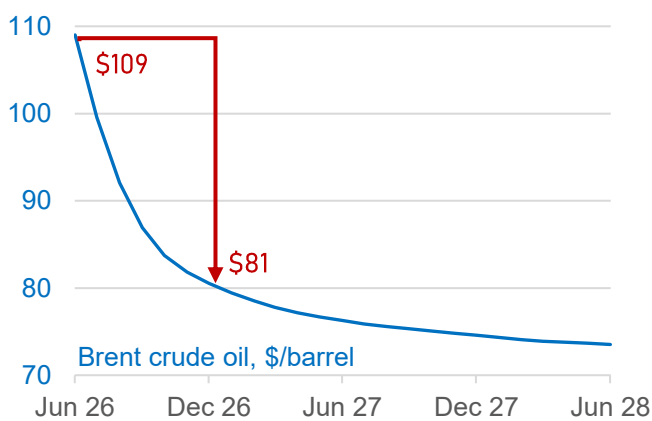
For Europe and Asia, we do expect greater investment in renewable and nuclear energy electricity generation as a result of the current Iran conflict. Equally, to improve the robustness of electricity grids, we also expect Europe to follow China in investing increasingly in battery electric storage systems (BESS) to sit alongside solar and wind power generation and smooth electricity output into national grids. Longer term, this could also spur a greater push towards alternatives to diesel fuel for shipping and road freight such as hydrogen-based fuel cells.

4. Is the current strength in the US dollar sustainable, or should we expect a weaker USD?

We should put the current “strength” of the US dollar into context. The Bloomberg US dollar index has rallied a mere 3% since the low in late January, of which 2% has occurred over March. According to this index, the USD is still over 8% weaker than at the beginning of 2025 and has essentially traded sideways since mid-2025. On this basis, the safe haven-related strengthening in the US dollar has not been all that pronounced.

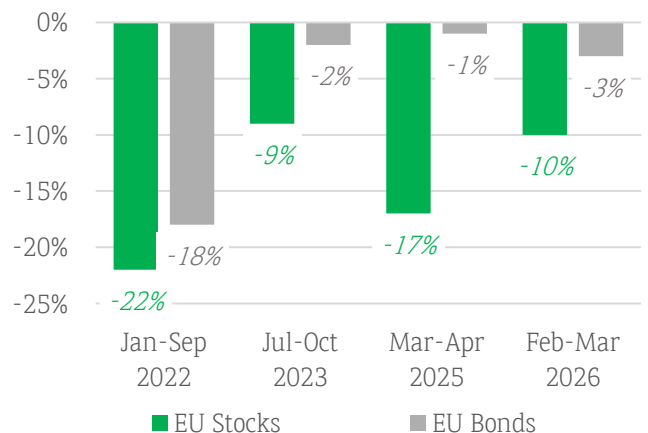
At the same time, we should remember that the US government is estimated to be spending USD 1-2 billion per day on this conflict (so USD 30-60 billion in March alone), and that the 2026 US federal budget deficit was forecast at over 6% of GDP excluding this additional spending. The combination of higher expected inflation and greater debt refinancing needs has pushed the 10-year US Treasury bond yield up to 4.3% from 3.9% at the end of February. We believe that lower reinvestment of Middle Eastern oil & gas revenues into US dollar assets in future, combined with greater near-term US federal debt refinancing needs, will ultimately push the US dollar lower against other major currencies. We maintain our USD 1.20 12-month EUR/USD target (value of 1 euro) versus USD 1.16 currently.

DECEMBER BRENT CRUDE OIL USD 28 BELOW JUNE DELIVERY



Source: Bloomberg

SINCE 2022, WHEN STOCKS HAVE DROPPED, BONDS HAVE NOT HELPED



Source: Bloomberg, BNP Paribas. Note: STOXX Europe 600 index, Bloomberg Euro Treasury Bond index returns

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