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US-Iran Deal: Markets Price Peace, Economies Still Pay for War

In Summary

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- **Markets have celebrated the end of the Strait of Hormuz conflict. The economy has not yet earned that relief - and for most households, corporates, and governments, things may get worse before they get better. The physical reopening is a multi-month process, not a switch.** The US-Iran MoU and 60-day ceasefire mark a meaningful turning point, but they are a de-escalation framework, not a final settlement. Normalization will be slow, frictional, and reversible, and markets have frontloaded the good news before the transmission lags have even peaked. Mine-clearing alone takes 30 to 50 days. After that, commercial traffic returns only as fast as shipowner confidence allows - the 1988 Iran-Iraq precedent shows normal conditions took more than three months to restore even with US naval escorts. Our base case restores 65% of the disrupted 4-5 mb/d within three months and 80% within four, with full normalization by year-end. The corridor reopens under managed, not free, navigation. Any stumble in nuclear negotiations or ceasefire adherence on Lebanon restarts the clock.

- **Energy prices ease, but inflation peaks later than markets think.** Brent stabilizes around USD 80/bbl in Q3 before easing to USD 75/bbl in Q4 and USD 67/bbl by end-2027. Past energy increases are still passing through supply chains, utility bills, and rents. US headline CPI averages 3.3% in 2026 and core CPI peaks at 3.1% in Q4; Eurozone inflation peaks around 3.4% in Q4 before averaging 3.1% in 2026. Real wage growth turns positive only in Q1 2027. Markets pricing disinflation from today are running at least two quarters ahead of the data.

- **The shock hits every balance sheet - but Europe bears the deepest scar.** The US absorbs the blow with structural advantages: a net energy exporter, it captures a terms-of-trade windfall through higher mining revenues and fiscal receipts, while tax rebates cushion households and AI-driven investment sustains corporate capex. Europe has no such offset. Governments across the Eurozone have deployed just EUR12bn YTD - 0.1% of GDP - with Germany's defense and infrastructure stimulus the sole demand anchor. Households face a sharper and more persistent squeeze: energy bills represent a larger share of disposable income than in the US, floating-rate mortgage exposure is higher across the UK and Netherlands, consumer confidence has not recovered to pre-war levels, and real purchasing power will remain compressed through most of 2026. For corporates, the energy cost relief, most visible in transport and petrochemicals where fuel runs 25-40% of operating costs, runs directly into this demand void. Pricing power is the dividing line: airlines and branded pharma can defend margins through surcharges; automotive OEMs and generic drugmakers cannot. Input costs are easing but wage bills remain elevated into 2027, and listed-company cash has already fallen 3% to EUR 36.7trn. Any ceasefire relapse would recouple all three pressures simultaneously - reigniting input costs while households are still digesting the first wave and fiscal space is exhausted - with Europe more exposed throughout given higher energy intensity, greater trade openness, and no room left for transfers.

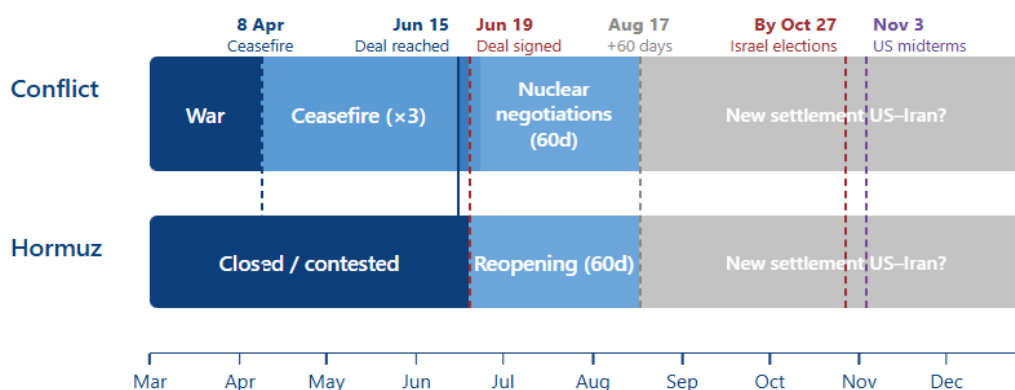
- **For central banks, the risk of a policy mistake is the highest since 2022.** Both the Fed and ECB are expected to deliver one further hike in H2 - the Fed likely in September as core CPI ticks above 3%, the ECB before year-end - before disinflation opens the door to cuts in H2 2027. Both face a time consistency problem as inflation pressure will fade quickly while their data-dependency on backward-looking measures continues to justify tightening well into Q4. Overtightening into an already-fragile household and corporate backdrop remains a plausible - and underpriced - scenario for both banks. But the US retains more growth momentum to digest further tightening, while the Eurozone's growth is already fragile.

- **For capital markets, the signal is rotation and carry, not re-rating.** Equities never priced the conflict as a systemic shock - MSCI US up 8%, MSCI Europe +5% YTD - so there is little upside to unlock on good news but significant room to gap lower on bad. Valuations sit in the 85th percentile with earnings in the 92nd percentile (MSCI World, 20-year history); a 5-10% pullback through summer is plausible. A tilt toward Europe, cyclicals, and energy-sensitive sectors is warranted over a broad melt-up. On credit, EUR IG at 77bps and US IG at 72bps are near all-time tights; the deal protects the carry trade rather than opening new compression. In rates, the short end and belly of European curves offer the most compelling outperformance (35bps front, 20bps belly), while long ends remain vulnerable to fiscal supply - bull steepening, not a parallel rally. In private markets, gains show up in activity - firmer exits, smoother refinancings - not in marks.
- **Relief is the call. It is not the all-clear.** Markets have frontloaded the peace dividend; the economic data has not confirmed it. Inflation will get worse before it gets better. Household and fiscal stress will persist well into 2026. And the deal remains conditional on nuclear negotiations and a multi-front ceasefire with a poor track record. The asymmetry is uncomfortable: upside on good news is modest; downside on bad is fast, disorderly, and correlated. The cost of being slow to react would far exceed the cost of staying cautious.

How does the deal impact our economic outlook?

The US and Iran have reached an interim agreement, due to be signed on 19 June, establishing a 60-day ceasefire and paving the way for the reopening of the Strait of Hormuz. After four months of disruption that rattled energy markets and prompted central banks to resume monetary tightening, the announcement marks a significant turning point, reducing upside risks to energy prices and inflation. The agreement is best understood as a sequenced de-escalation framework rather than a final settlement. It establishes a 60-day ceasefire across multiple regional fronts, creating a window for negotiations on Iran's nuclear program and broader geopolitical arrangements. A key provision is the granting of a temporary waiver allowing Iran to sell oil freely during this period, implying a potentially rapid increase in exports relative to current constrained levels, even in the absence of a full sanctions rollback. The deal also envisages a phased approach to sanctions relief, conditional on compliance and progress in negotiations. While the exact sequencing remains unclear, the US position appears to tie any permanent lifting of sanctions to verifiable commitments regarding Iran's nuclear activities. This conditionality introduces a significant implementation risk, as delays or setbacks in negotiations could quickly derail the process. At the same time, the agreement formally incorporates de-escalation across all active fronts, including Lebanon, although participants themselves have identified this dimension as one of the most fragile elements of the arrangement. From an energy-market perspective, the agreement contains several important provisions. The Strait of Hormuz is expected to reopen from 19 June following mine-clearance operations, while in the first hours of the deal announcement President Trump indicated traffic would return "free-of-charge", Iran later signaled it intended to charge "fees for services" for vessels transiting the waterway leaving Tehran with some influence still on the Strait. It is yet unclear what form will these fees take but environmental charges have been floated.

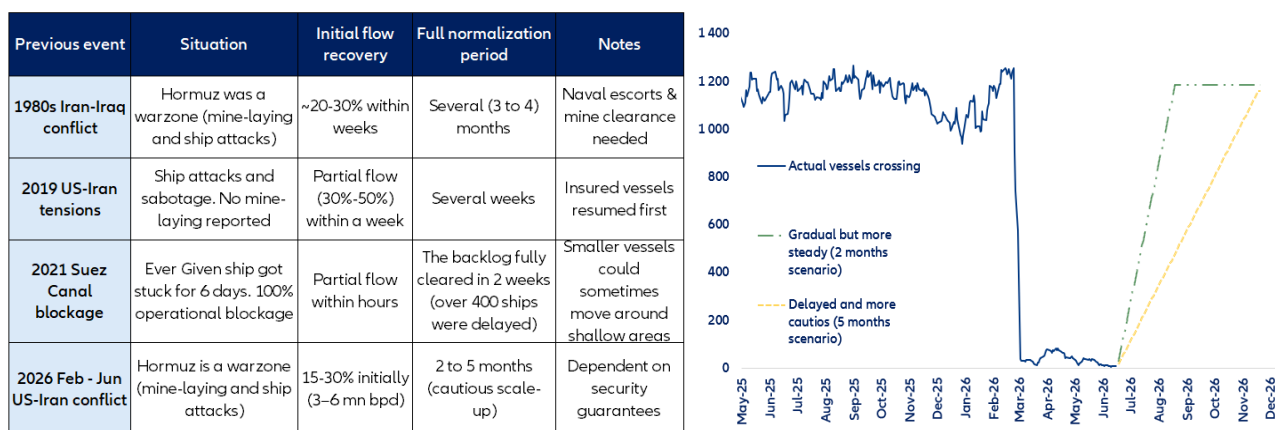
Figure 1: Potential timeline of events until year-end



Source: Allianz Research

What needs to be watched for the deal to be sustainable? The sustainability of the agreement will depend on its implementation during the first 60 days. Four indicators will be particularly important to monitor. First, progress on maritime security, notably the pace of mine-clearing operations, which could take from 30 to 50 days to be completed before shipping lanes are deemed fully operational. Second, the speed at which commercial traffic resumes through the Strait of Hormuz (ships in and out), which ultimately depends on the level of confidence in the sector and the security guarantees provided to shipowners. Third, the evolution of war-risk insurance premiums and freight rates, which will provide an early indication of whether shipowners and charterers view the security environment as sufficiently stable to resume regular operations. Finally, progress in negotiations over Iran's nuclear program and the maintenance of ceasefires across other regional fronts, including Lebanon, as these remain the key political conditions underpinning the agreement. Historical experience suggests that confidence is restored more slowly than physical access. Following the 1988 Iran-Iraq ceasefire, commercial traffic required several weeks to start recovering despite the deployment of US naval escorts, while a return to normal operating conditions took more than three months (see Figure 2A). This implies that even under a favorable scenario, the Strait may not return to pre-crisis throughput before Q4 (Figure 2B). Periods of relative calm are therefore likely to be punctuated by short-lived kinetic incidents, with the key test being whether such episodes remain contained. Ultimately, the durability of the agreement will be measured not by the absence of security incidents, but by the ability of the parties to prevent isolated disruptions from escalating into a renewed closure of a maritime corridor that handles roughly one-fifth of global oil demand.

Figure 2A and 2B: Historical benchmarks for maritime traffic recovery in the Middle East; and scenarios for vessel traffic* recovery through the Strait of Hormuz



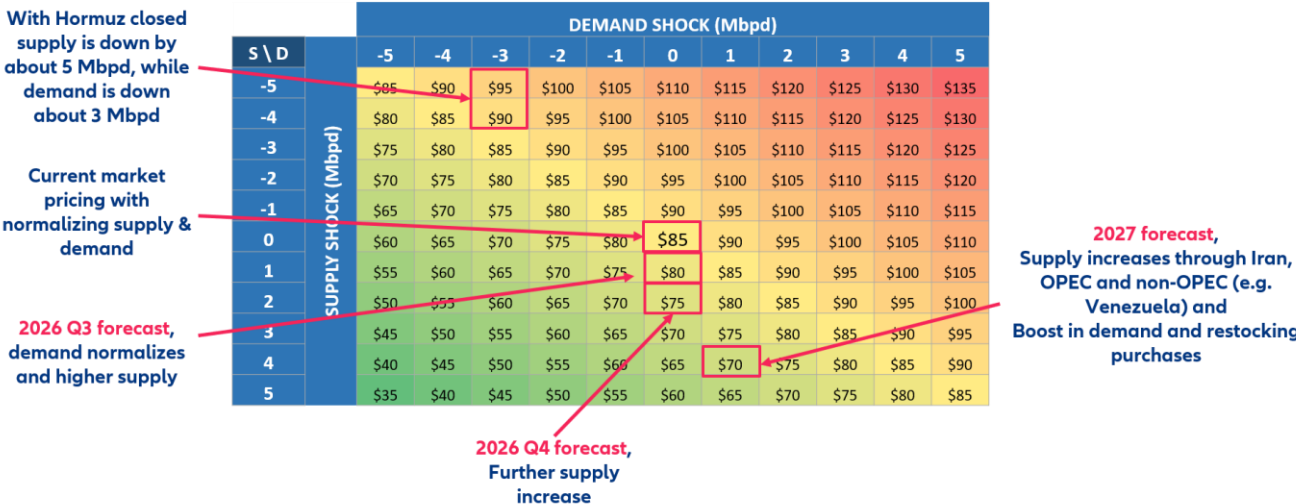
Source: Bloomberg, Allianz Research. *Traffic: number of vessels crossing the Hormuz Strait (7 day rolling total)

Going forward we see a progressive normalization of oil and gas trade flows through year-end rather than an immediate return to pre-conflict conditions. This reflects both existing inventory constraints and the time required to fully restart Gulf production and shipping logistics. In the meantime, partial rerouting of flows, higher exports from the US, Canada, Russia and Latin America, together with strategic reserve releases and moderate demand destruction, would continue to offset a large share of the supply disruption. Most of the effective supply gap would close within three to four months, with roughly 65% of missing supply restored within three months and close to 80% within four months. Crucially, the absence of direct destruction to oil and gas infrastructure prevents the disruption from evolving into a prolonged structural supply shock. We now expect Brent to average 80 USD/bbl in Q3 2026 as the initial supply shock partially unwinds. Currently, the market is absorbing a net disruption of roughly 4-5 mb/d on the supply side while demand destruction of approximately 2-3 mb/d persists, particularly across Asian economies that were hardest hit by the supply shortage and elevated prices. These two forces offset one another in Q3: recovering supply is bearish, but the concurrent demand recovery limits the downside. The net effect is prices stabilizing around 80 USD/bbl as market recalibrate to a world in which the risk of a prolonged Hormuz closure has been removed – for now. By Q4 2026, oil prices should soften further to 75 USD/bbl as supply normalization overshoots the demand recovery. Persian Gulf producers, eager to recapture market share and revenue after months of shut-ins, are assumed to restore output at a pace slightly ahead of consumption's rebound, tilting the quarterly balance into mild surplus. Natural gas market conditions are also expected to ease for European and

Asian buyers and we expect prices to average 43 EUR/MWh in 2026. We also revise our 2027 annual average oil price forecast to 70 USD/bbl - reflecting a structurally more supplied market. Approximately 4 mbpd of incremental production could hit the market : a blend of Iranian output returning to near high levels, OPEC unwinding residual voluntary cuts as the supply emergency passes, and non-OPEC growth from the US and Venezuela. On the demand side, 1 mb/d of incremental consumption offsets part of the supply surge: global activity recovers, Asian industrial demand rebounds, and, critically, large-scale inventory restocking by refiners and strategic reserve managers provides durable support to physical demand. The result is a well-supplied but not a “super glut”, anchoring Brent in the high-60s to mid-70s range, with the key risk being larger-than-expected supply increases.

By the time the transportation in the strait of Hormuz (in and out) and resumption of the oil and gas production is full (year-end), mitigating factors will continue to be at play, i.e. demand destruction helping to slow the depletion of global reserves, while fiscal support measures would aim to cushion the inflationary shock. Demand destruction is progressively helping rebalance markets. At present, oil demand destruction is running at around 2.5mbpd, though this largely reflects the immediate disruption effects following the escalation in the Middle East conflict. Assuming a gradual reopening starting in June and normalization of trade flows in the next four months, average demand destruction would moderate to around 0.4mbpd for 2026 as a whole, remaining broadly consistent with a global slowdown rather than a recession scenario.

Figure 3: Brent price forecast based demand and supply shocks



Source: Allianz Research

The good news is that the transmission of the energy shock would not be full which contains the stagflationary flavor of this crisis. The fastest pass-through typically occurs through manufacturing and services input prices as well as energy-related producer prices, with effects peaking within roughly two to six months after the initial shock. Over the following six to twelve months, inflationary pressures progressively broaden as firms pass higher energy and transport costs through supply chains, pushing up intermediate and consumer-goods producer prices as well as industrial and retail selling prices. The most persistent effects are likely to be avoided, i.e. rise of core inflation, consumer-goods prices, inflation expectations and negotiated wages.

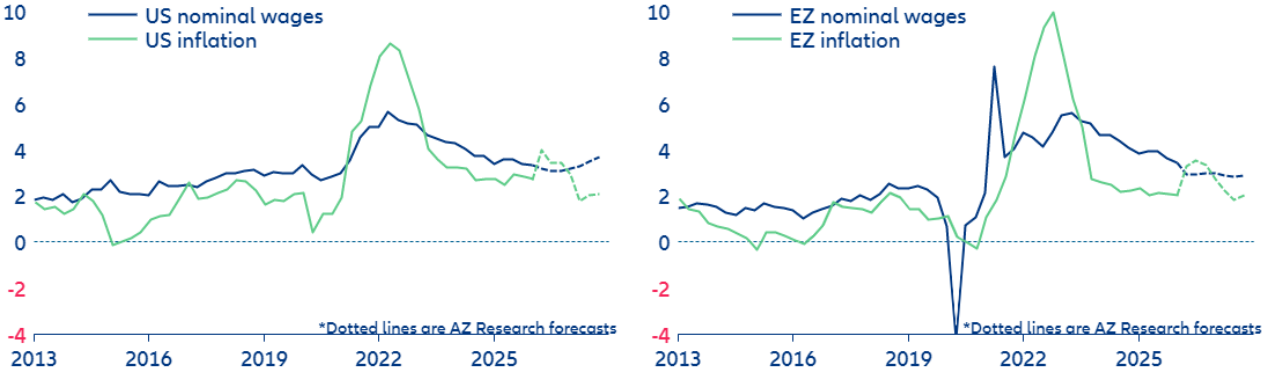
In the US, we continue to expect GDP growth to hold up (+2.0%) thanks to supportive fiscal policy, strong AI-related investment and positive wealth effects. The US being a net energy exporter, its economy benefits from a positive terms of trade shock supporting aggregate income, with the income gains in the mining sector accruing to some households and the government through higher receipts. Nevertheless, the rise in inflation is a net negative for US household, whose aggregate real disposable income has declined in Q2, but fiscal policy is supportive, with tax rebates in H1 2026 providing some partial offset. Furthermore, strong equity valuations encourage households to save less to smoothen their spending on non-energy items. Meanwhile, on the corporate side, capex intentions remain solid amid strong demand for AI-related business equipment and software. The AI buildout and manufacturing output are relatively immune to high global energy prices thanks to abundant gas supply and low

industrial electricity prices, though supply-chain bottlenecks in the global electronics sector is a concern. Recent business surveys indicate that the expansion of the US manufacturing sector is likely to continue in coming months. On the inflation front, we expect headline CPI at +3.3% in 2026. Energy inflation is expected to decline from June. However, higher energy prices relative to their pre-Middle East crisis level, and only a gradual reduction of global supply chains strains should push up core prices. We expect core CPI inflation to tick up above +3% by October, from +2.8% in May. In this environment of increasing core inflation, we expect the Fed to re-affirm its anti-inflation credentials by increasing interest rates by 25bps, in September.

Europe has borne the brunt of the Hormuz shock, with weaker growth and rising inflation as the price to pay for being a net energy importer. Unlike the US and Asia, the Eurozone cannot offset the drag through an AI-driven investment boom - the region simply lacks the large-cap tech champions that are currently powering capital expenditure elsewhere. The energy shock has hit European industry disproportionately hard, feeding into input costs and squeezing margins, as confirmed by the further deterioration in the Eurozone Composite PMI to 47.5 in May, with the services sector - more exposed to confidence effects from the Iran conflict - contracting sharply. Price pressures are building on both input and output sides, reinforcing the case for a more restrictive monetary stance even as growth falters. Germany is a partial exception: fiscal stimulus channeled into defense and infrastructure is providing some near-term support, with Q1 GDP expanding +0.3% q/q (excluding Ireland) on the back of strong exports and higher government spending, and the German Composite PMI holding broadly stable. France, by contrast, saw its Composite PMI collapse to 43.5 in May, its lowest since November 2020.

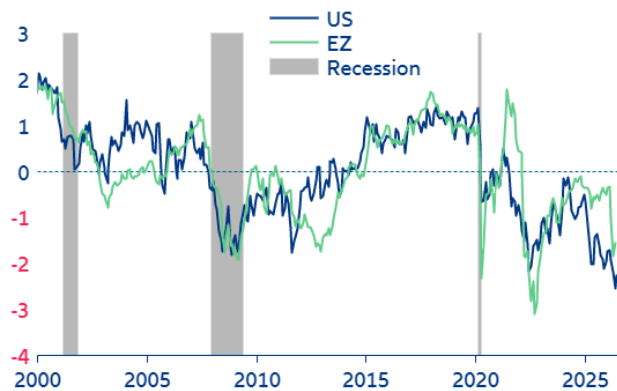
In China, we continue to expect a resilient economy, driven primarily by exports and high-tech manufacturing while domestic demand remains weak amid persistent property-sector stress and subdued consumer confidence. We forecast growth at 4.7% in 2026 and 4.4% in 2027 and maintain our inflation forecast at 1% in 2026 and 1.2% in 2027. As the US-Iran deal will provide a gradual return of oil supply to Asian markets, near-term headwinds to our inflation forecast appear to have eased. However, as conditions normalize, we continue to expect modest inflationary pressure to persist in the near term. We expect the People’s Bank of China to remain on hold through 2026 as inflation remain below the 2% policy threshold. While the US-Iran deal will ease inflationary pressures on input prices, the inflationary impact of the return of positive Chinese PPI growth will continue to materialize over the coming quarters. The typical transmission lag between producer and export prices means some modest pass-through remains likely. As a result, we continue to expect Chinese exporters' price competitiveness to slightly erode, while destination markets could see some contained inflationary spillovers. As a leading exporter of manufactured goods, China continues to benefit from strong global demand for clean-energy equipment and AI hardware. However, trade headwinds remain a source of uncertainty. The US has signaled a potential 12.5% tariff under Section 301 targeting forced labor practices to be implemented late July while several additional investigations remain open. Combined with continued RMB appreciation and rising geopolitical tensions, tariff uncertainty could challenge Chinese exporters momentum.

Figure 4: Inflation has surpassed wages leading to a temporary loss in purchasing power



Source: LSEG Datastream, Allianz Research

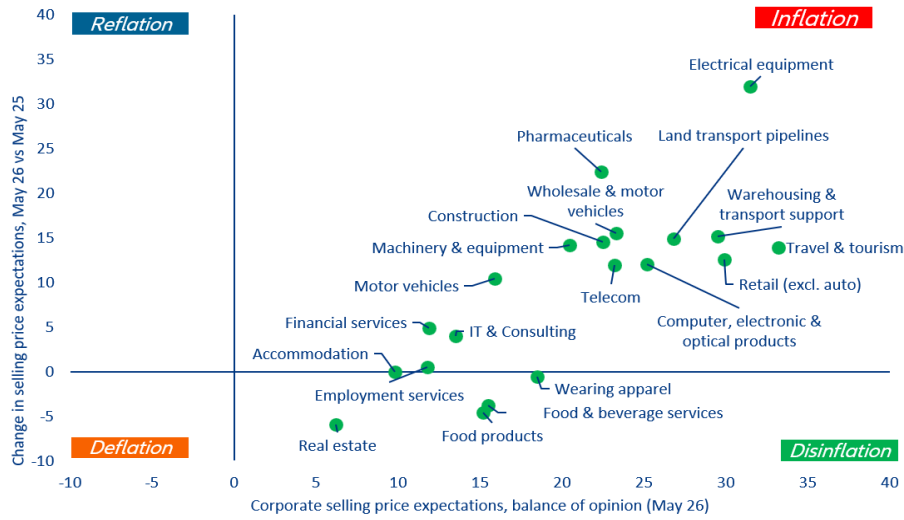
Figure 5: Consumer sentiment has dropped significantly in Europe and the US



Source: LSEG Datastream, Allianz Research

At the corporate level, a gradual reopening is a genuine relief, but pricing power remains the dividing line that a deal break would expose again. The easing in energy prices loosens the squeeze that had reached balance sheets through four channels, namely higher energy costs, logistics disruption, input-cost inflation and weaker demand, with the sectors hit first, transport and petrochemicals where fuel runs 25-40% of operating expenses, the ones that benefit most as crude normalizes. The relief is uneven, set by pass-through capacity: airlines (fuel surcharges and ancillary fees), fertilizer producers and branded pharma can hold price, and semis are cushioned by AI demand, whereas automotive OEMs, computer hardware and generic-drug makers have effectively no pricing power and gain the least margin headroom from cheaper energy. Cash buffers remain solid in aggregate, with listed-company cash falling -3% to EUR36.7trn in 2025 and non-financials more resilient at -1%, though liquidity is concentrating in AI-infrastructure and defense/energy-security names while energy, healthcare and real estate erode. The corporate relief on costs, however, runs into some headwinds on the revenue side: household real purchasing power could remain compressed through most of 2026, and that compression is itself a direct drag on top-line growth and thus on the margin expansion that cheaper energy would otherwise permit. CPI in both the euro area and the US expected to peak around Q4 2026 as energy pass-through is still working its way through utility bills and supply chains. Households are still in a defensive posture: savings rates have edged up, credit-card delinquencies are rising at the margin in the US and eurozone consumer confidence has not recovered to pre-war levels. The practical consequence for corporates is a squeeze on volumes even where pricing power nominally exists. The margin arithmetic therefore looks less clean than the energy line alone implies: input costs are easing but wage bills could remain elevated into 2027, meaning the Q4 2026 peak in CPI marks an inflection point rather than an immediate relief of the operating-cost structure. Again the European exposure is the sharper one: household energy bills carry a larger share of disposable income than in the US, mortgage re-pricing is more immediate in markets such as the UK and the Netherlands where floating-rate structures dominate, and fiscal space to cushion the squeeze through transfers is more constrained after the 2022-23 spending. The caution, consistent with the rest of this note, is that the relief is reversible: should the ceasefire fail and the closure run beyond six months, input-cost inflation that is now only spreading into cyclicals such as pulp and paper and auto-parts would re-intensify, pricing power itself would begin to erode, turning a margin squeeze back into revenue contraction, and Europe would be more exposed than the US throughout given higher energy intensity, greater trade openness and less fiscal room.

Figure 6: Selling price expectations for corporates in the Eurozone, May vs Feb 2026



Sources: Eurostat, Allianz Research

Figure 7 - Short-term pricing power assessment of sectors

Sector	United States	Eurozone
Transport		
Airlines	✓	✓
Shipping	✓	✓
Road	✓	✓
Transport Equipment		
Aviation & Space	✓	✓
Trucks	✓	✓
Shipbuilding	✓	✓
Chemicals		
Petrochemicals	✗	✗
Basic inorganics (fertilizers)	✓	✓
Polymers (plastics)	✓	✓
Specialty chemicals	✓	✓
Pharmaceuticals		
Big Pharma (branded)	✓	✓
Generics	✗	✗
Pulp & Paper		
Graphic paper	✗	✗
Paper packaging & board	✓	✓
Tissue & Hygiene	✓	✓
Machinery & Equipment		
Industrial & robotics	✓	✓
Construction machinery	✓	✓
Agricultural machinery	✓	✓
Construction		
Infrastructure / Civil Engineering	✓	✓
Residential	✗	✗
Automotive		
Vehicles	✗	✗
Parts & accessories	✓	✗
Tires	✗	✗
Electronics & telecom hardware		
Semiconductor	✓	✓
Computer: High/Low-end machine	✓ ✗	✓ ✗
Smartphone: High/Low-end machine	✓ ✗	✓ ✗
Household equipment		
Household appliances	✓	✓
Furniture	✗	✗
Textile		
Apparel - luxury/non-luxury	✓ ✓	✓ ✓
Footwear	✓	✓
Accessories	✓	✓
Retail		
Food	✓	✓
Non-food	✓	✓

✗	No pricing power
✓	Mild pricing power
✓	Strong pricing power

Source: Allianz Research

What is the impact for capital markets?

Middle East de-escalation creates room for outperformance in rates. The short-end and the belly of the curve stand out as the most compelling areas, with the case for steepening and duration strongest there. The repricing of rates was driven by different forces on either side of the Atlantic, which shapes where the most compelling opportunities lie.

In Europe, the repricing was inflation-driven, meaning that a de-escalation scenario and lower energy prices will hit the root cause directly. After last week's ECB hike market still prices one more move into year-end. A durable peace deal plus a lower oil price could give the ECB confidence to stay on hold instead. For now our base case stays one more hike, broadly in line with the market. But the upside is real with ~35bp at the front and up to 20bp vs forwards at the curve belly over the next one to two years

The US offers a more mixed picture. The repricing is only partially inflation-driven, it also reflects renewed US strength and the return of US exceptionalism, which a durable deal could amplify rather than unwind. Front-end holds some outperformance potential of ~25bps as de-escalation may keep the Fed on hold against one hike priced over 12m by markets, especially if AI-driven productivity disinflation starts to show through. Our base case still pencils in one hike in 2026, but risk is tilted to pricing it out again. Belly outperformance on the USD curve is less clear than for the EUR curve, since the growth and exceptionalism legs won't reverse mechanically on lower energy. A significant near-term uncertainty is the Fed's upcoming meeting under incoming Chair Warsh, which could overshadow or offset any peace-deal reaction. Both the ECB and the Fed remain explicitly data-dependent, and inflationary repercussions of the energy price shock are already visible — including early evidence that reflation is broadening beyond energy. That context means neither central bank is likely to move ahead of the data, whatever the geopolitical backdrop. The risk bias deviates however, with the ECB risking a lagged error of commission (hiking too much on stale data), while the Fed risks a deliberate policy shift under new leadership regardless of geopolitics. The fault line is the long end: even on a deal, structural US inflation and fiscal supply leave long-end yields vulnerable, so a curve steepening rather than a parallel rally is the more likely path and the part that could disappoint. Nevertheless, US TIPS look more attractive than EUR linkers, and caution on long-end rates globally remains warranted — even in a scenario of normalizing energy flows — given structural inflation dynamics and elevated upside risks in US and global rates.

In the case of equities de-escalation is helpful, but it is unlikely to create a large new rally because at less than -10% maximum drawdown, equities never priced the conflict as a systemic shock. The June 14 US-Iran deal reduces one of the obvious downside tails, but this is still a partial and fragile geopolitical reversal not a full peace settlement. That distinction matters because the market starting point is already fairly strong (as of June 12 MSCI US was up around 8% since the start of the Iran war, MSCI EM is up around 6.5%, and the MSCI Europe, despite being the relative laggard, is still +5%ytd). In other words, equities have looked through the conflict because earnings, AI leadership and risk appetite have mattered more than geopolitics. The benefit here is relief and not re-rating. Our oil baseline of 80 USD/bbl in Q3, declining to 75 USD/bbl in Q4 and 70 USD/bbl on average in 2027, reflects a gradual supply normalization that removes the inflation and rates scare scenario rather than creating a positive impulse. This should support Europe, cyclicals, transport, airlines and energy-intensive sectors that were carrying a modest war discount, and it lowers the probability of a policy accident. However, at this stage the market is not reversing a war discount, it is simply taking out part of a tail risk that had mostly remained in commodities. On a confirmed deal we would expect consolidation rather than a broad melt-up, with the relief accruing to Europe, cyclicals and the energy-sensitive sectors that carried the discount rather than to the index as a whole. The fault line cuts the other way: because the conflict was never priced as a systemic shock, there is little discount to unwind on good news but plenty of room to gap lower on bad news, leaving the tape asymmetric and headline-driven if the ceasefire frays. This comes against the backdrop of already ambitious market pricing, with valuations in the 85th percentile and earnings growth in the 92nd percentile (MSCI World, 20-year history), leaving little room for upside surprises. In this situation holding exposure, adding strategic risk only very gradually or opportunistically and focusing on rolling hedges at moderate cost offers continues to offer the best risk-reward. From a positioning perspective, the key risk for broader risk assets (including credit) is not just a potential breakdown of the deal, but the second-round effects of earlier shocks on growth, inflation expectations, and rates. Notable downwards revisions could turn earnings revision momentum and pull equities by 5-10% easily through summer. With AI-led

enthusiasm driving equities to new highs, the focus shifts to delivery: any disappointment on monetisation or the burden of sustained capex could trigger renewed volatility. Last weeks' 30% swing in Oracle offered a high-velocity glimpse of how markets can behave on such news — albeit for the market overall it would be far more muted form, as we might see toward end-2025.

For credit the news protects the carry trade, rather than opening a major new spread tightening phase. Credit has been even clearer than equities in saying that this was not priced as a funding shock. EUR IG remains around 77 bps and US IG around 72 bps, both already close to all time tights. Similarly, Euro HY (BB/B) is around 213 bps and has tightened roughly 19 bps since the start of the war. That is not the footprint of a market worried about a major geopolitical credit event. It is the footprint of strong demand for carry, resilient earnings and still open refinancing markets. De-escalation is therefore constructive because it reduces the risk of an oil spike, renewed rate volatility and a confidence shock. But at these spread levels, the most realistic impact is spread support rather than strong compression. On a final resolution we would therefore expect only limited further tightening from already-tight levels, with spreads holding firm rather than compressing meaningfully. The fault line is precisely those tight levels: with spreads close to all-time tights there is almost no cushion, so the risk is heavily skewed to widening if macro or rate concerns return, and HY would feel it first. Inside High Yield, discrimination between more B- and BB-ratings remains at decade highs (2.1x ratio) and indicates some caution in run for carry. IG should remain well bid as macro volatility falls and HY should continue to benefit more from risk appetite and higher rates, but will remain vulnerable as the margin for error if the ceasefire fails or oil risk reappears is low. In this situation we remain cognizant of downside risks but gradually and also selectively embrace opportunities for carry where meeting portfolios have been awaiting more clarity for implementation needs. Carry remains preferred to price appreciation assets in this fragile and again time-consuming outlook. For credit specifically, in a demand led market, the focus is less on fundamentals—which remain broadly average—and more on technicals. Strong inflows continue to anchor spreads at low levels but also increase the risk of a more abrupt reversal than would typically be implied by fundamentals in a normal cycle. Areas we watch are any further divergences within the ratings spectrum, with B/BB segments reaching new highs (<2.5x), as well as emerging signs of fatigue in technology issuance, where bid-cover ratios falling below 3x, new-issue concessions below 20bps and attrition rising above 1/3 could indicate normalization to start.

Lastly, for private markets the interim agreement is likely to improve liquidity and transaction confidence, but it is not a valuation reset. The relevant anchor is that public equities and liquid credit recovered most war-related losses, so they do not have a large visible war discount to reverse, the move is therefore one of mechanics rather than marks. The impact is instead practical and routes through three channels. First, firmer and re-rated public comparables, particularly in energy infrastructure and grid/electrical contracting, where listed names trade at historic EV/EBITDA premiums and a consolidation wave is still building, give Private Equity a clearer exit and valuation reference points, easing exit and IPO discussions that had stalled while sponsors sit on a record backlog of unsold companies and high dry powder. Second, resilient credit markets and the receding oil and rate volatility tail support refinancings, letting sponsors clear debt raises and recaps that were on hold. Third, lower energy tail risk improves the margin outlook for industrials, logistics, consumer services and transport-linked assets, where fuel had run 25-40% of operating costs at the peak. Along these lunes, Private Credit will also benefit from a lower default tail risk but lender spreads, as is the case for liquid credit, are already compressed, with median direct lending spreads having fallen from roughly 700 bps in early 2023 to around 500 bps, so the return impact is likely to be modest. Infrastructure and real estate are likely to get a mixed but generally stabilizing impulse with lower energy volatility helping utilities, tenants and transport assets, and a lower oil inflation path reopens room for the rate cuts that rate-sensitive real estate and residential construction depend on, while some of the energy-security and defense-adjacent premia that re-rated during the conflict may soften at the margin, even as the structural, data center- and electrification-driven grid buildout continues regardless. In practice we would expect the move to show up in activity rather than marks, with deal flow, exits and refinancings picking up gradually rather than valuations re-rating higher.

Pressure points to watch. Every constructive call above is conditional, and the conditionality is the message, this is a half-baked reopening, not a settled peace, and the relief rests on a peace deal, that remains anchored on unresolved negotiations over Iran's nuclear program and a ceasefire on all fronts, including Lebanon, and the track

record of failed de-escalation attempts suggests it can unravel quickly. Because markets never fully priced the war, the move on good news is modest while the room to reverse on bad news is large, so the risk profile is asymmetric and the reaction to any setback would likely be fast and disorderly rather than gradual. In this context, a failure to adhere to the deal, a renewed closure of the Strait, a loss of central bank look-through or a tightening in dollar funding would not arrive in isolation, but would recouple oil, rates, credit and equities at once and turn an orderly normalization into a sharp, correlated drawdown. We therefore treat the base case as constructive but provisional as it warrants close and continuous monitoring of the early warning signals around oil, volatility, credit spreads and long end rates. In short, relief is the call, but it is not the all clear, and the cost of being slow to react would be far greater than the cost of staying cautious.

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