

Investment Strategy Note

Investment Strategy | March 02, 2026

Global Geopolitical Risk Scenarios and Economic Implications

Three geopolitical scenarios frame the potential economic and market implications of ongoing tensions in the Middle East: a base case, an adverse scenario, and a tail risk scenario, each associated with different probabilities and macroeconomic outcomes:

>> The base case scenario (60% subjective probability) assumes a short-lived geopolitical shock with limited fundamental impact on global economic activity.

>>> The adverse scenario (30%) involves a more prolonged disruption, including partial interruptions to oil flows and weaker economic activity across the Middle East.

>>> The tail risk scenario (10%) assumes a sustained shutdown of the Strait of Hormuz accompanied by broader regional escalation involving multiple actors and fronts.

The duration of the conflict remains the key determinant of economic outcomes. A short and contained conflict would likely have limited impact on global growth and inflation. However, a prolonged disruption would increase the probability of the tail risk scenario, potentially triggering stronger market reactions, higher inflation through energy price shocks, and downward revisions to global growth expectations.

Central Bank Policy Implications

In this environment, central banks are likely to adopt a cautious wait-and-see approach. Under the base and adverse scenarios, interest rate cuts may be delayed but are unlikely to be fully derailed. However, a more severe escalation under the tail risk scenario could lead to a repricing of interest rate expectations, particularly if energy-driven inflation pressures intensify, potentially forcing central banks to pause or postpone planned policy easing.

Regional Implications and US–China Dynamics

While GCC economies generally demonstrate resilience during periods of geopolitical stress, elevated tensions are expected to lead to a rise in business and investment risk premia, particularly under more severe escalation scenarios. At the same time, developments in US–China relations remain an important geopolitical signal to monitor, especially in areas such as technology competition and resource influence, which could further shape the global geopolitical landscape.

Portfolio Strategy Amid Geopolitical Uncertainty

In periods of geopolitical uncertainty, maintaining a diversified portfolio with a medium- to long-term investment horizon remains essential. Portfolio positioning coming into this week favored equities over bonds, complemented by gold as a strategic hedge. Given our base case that does not see material fundamental impact, we see limited reasons to change that view. Tactical adjustments may be implemented during periods of market dislocation, while overall portfolio construction should remain aligned with long-term strategic asset allocation and the investment objectives. In addition, private markets may play a role in mitigating portfolio volatility and enhancing diversification during periods of market stress.

Medium-Term Investment Themes and Sector Preferences

Several structural investment themes remain attractive over the medium to long term. Artificial intelligence, industrials, and financials stand out as key sectors supported by technological innovation, productivity gains, and economic expansion. Selective exposure to software companies within the technology sector remains attractive, while defense stocks may provide short-term tactical opportunities amid elevated geopolitical tensions. Additional tactical opportunities may also arise in gold mining equities and energy companies during periods of commodity price strength.

Asset Class Implications

Commodities: Oil and Gold

Oil prices are expected to react differently under each geopolitical scenario. Under the base case, prices may spike temporarily but should normalize as market disruptions ease. In the adverse scenario, oil prices could rise toward USD100/bbl and remain elevated for a prolonged period. Under the tail risk scenario, a sustained disruption to energy flows could push prices toward USD120/bbl with significant implications for global inflation and economic growth.

Gold remains a key hedge against geopolitical risk and inflation shocks and is considered a core strategic allocation within portfolios. Increasing gold exposure during price pullbacks may provide an attractive opportunity, with a suggested allocation of approximately 10% within the equity-bond portfolio, and a preference for gold over silver.

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Fixed Income and Credit Markets

In fixed income markets, there are upside risks to yields and wider credit spreads, particularly in emerging markets with weaker macroeconomic fundamentals. Credit spreads may widen in the near term due to heightened risk aversion but are likely to stabilize and attract buying interest under the base case scenario. However, credits with significant exposure to Iran may face more pronounced idiosyncratic risks.

Foreign Exchange and Emerging Markets

The US dollar is expected to strengthen in the near term, reflecting its safe-haven status during periods of geopolitical uncertainty. This could lead to weakness in emerging market currencies, particularly in oil-importing economies such as India, China, and Japan, which are more sensitive to rising energy prices.

Equity Markets and Sectoral Effects

Within global equity markets, energy companies and gold mining equities are expected to benefit from higher commodity prices. At the same time, heightened risk aversion may initially weigh on markets in oil-importing economies and certain cyclical sectors. Over the medium term, structural opportunities remain concentrated in AI, industrials, and financials, alongside selective exposure to software companies and defense stocks.

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