CONFLICTS IN THE MIDDLE EAST

WHAT IMPACT ON THE MARKETS?

Interview with François Collet

CIO AND PORTFOLIO MANAGER. INTERVIEW CONDUCTED ON MARCH 19, 2026.



François Collet

The situation in the Middle East is evolving rapidly, and its outcome remains uncertain. While some effects on the global economy are already visible, others are likely to emerge progressively. In this interview, François Collet, CIO of DNCA Finance and portfolio manager of the DNCA Invest Alpha Bonds strategy, shares his analysis of the evolving macroeconomic environment and bond markets, as well as his view on the potential longer-term implications.

HAS THE CONFLICT IN THE MIDDLE EAST CHANGED YOUR FORECASTS FOR INFLATION AND GROWTH?

François Collet (FC): It's difficult to say at this stage. In my view, this is a temporary inflationary shock. Before the conflict, the market was anticipating that inflation in Europe would hit 2%; we are now anticipating that it will exceed 3%.

The impact on inflation in the United States will be smaller, at around 50 basis points. This is partly because we are starting from a higher level, at 2.7%. We can expect inflation in a year's time to be around 3.25%.

The impact on GDP growth, on the other hand, cannot be gauged from market prices. Economists generally predict a reduction in growth of 10 to 30 basis points. I find that view rather optimistic. I believe the conflict's impact on growth will be greater. I think we could see a more significant slowdown, particularly in the United States, while in Europe, the scale of the slowdown is likely to be cushioned by Germany's fiscal stimulus package. Given the global geopolitical situation, I believe defence spending is unlikely to slow down and, in fact, could increase.

WHAT IMPACT MIGHT THE CONFLICT HAVE ON MONETARY POLICY?

FC: Before the conflict, we had anticipated that the ECB[1]'s monetary policy would remain unchanged until mid-2027. Today, our bias is rather hawkish. If there are rate hikes, we believe they will come in pairs. As a result, the probability of a key interest rate of 2.50% within the next 12 months has increased significantly, but we still believe there is a possibility that the status quo will remain.

In the US, I don't think we'll see any rate rises. I think it will remain unchanged until the end of Jerome Powell's term as Federal Reserve chair, and I can't see a scenario where Kevin Warsh, who has only just been appointed by Donald Trump, increases interest rates.

In summary, in our view, the bias for the Fed is towards lower rates, while that for the ECB is potentially towards higher rates. However, it is entirely possible that by the end of the year, the Fed's and the ECB's key interest rates will still stand at 3.60% and 2% respectively.

MANY GEOPOLITICAL EVENTS HAVE NO IMPACT ON THE MARKETS (THE 12-DAY WAR OF JUNE 2025, THE ISRAELI-PALESTINIAN CONFLICT, THE ANNEXATION OF CRIMEA IN 2014). IS THE CONFLICT IN THE MIDDLE EAST DIFFERENT, AND COULD IT HAVE A LASTING IMPACT ON THE MARKETS?

FC: This event is already having an impact on the markets because of the Strait of Hormuz. The strait was not blocked during the Twelve-Day War. The Israeli-Palestinian conflict had no effect on oil prices.

[1]European Central Bank.

The market is now concerned about the global oil supply. If the Americans secure the Strait of Hormuz in the coming weeks or days, this would limit the duration of the impact on oil and the economy. On the other hand, if the Americans were to withdraw from the conflict without first securing the Strait of Hormuz, even if they achieve other military objectives, it would send a message of defeat to the whole world. One would conclude that the closure of the Strait of Hormuz by the Iranians – their economic 'nuclear weapon' – and the resulting rise in the price of oil could force the Americans to back down at any moment should the conflict resume. At the moment, I think both scenarios are equally likely.

HOW DOES THIS EVENT DIFFER FROM THE ENERGY CRISIS OF 2022 FOLLOWING RUSSIA'S INVASION OF UKRAINE?

FC: The impacts, as well as the similarities and differences, vary greatly from one region to another.

There is very little difference for the United States. Ultimately, it is a minor energy shock because the United States is energy self-sufficient. In Europe, the impact on gas and electricity prices is much smaller than it was in 2022, although the impact on oil prices is greater. The impact is far greater for Asia because it imports its hydrocarbons mainly from the Middle East.

IN TIMES OF UNCERTAINTY, INVESTORS SEEK SAFE-HAVEN ASSETS, SUCH AS GOLD, THE DOLLAR, TREASURY BONDS[2] AND THE SWISS FRANC. WHICH OF THESE HAVE PERFORMED WELL SINCE THE START OF THE CONFLICT IN IRAN?

FC: The dollar has fulfilled its role as a safe haven, but for the wrong reason. At the start of the year, the market had a short position on the US dollar. Everyone expected the dollar [in the euro/dollar exchange rate] to breach the 1.20 mark.

The dollar could emerge stronger from this crisis if the Americans manage to secure the Strait of Hormuz and truly win this war. Conversely, the dollar could be structurally weakened if the Americans withdraw from the conflict without having secured traffic through the Strait of Hormuz. I think many of the Gulf petro-monarchies[3] would then turn to China. This would contribute to the dollar losing its status as the leading global currency to the yuan.

The 1950s saw the conclusion of the long handover from the pound sterling [as the world's leading currency] to the dollar. This process lasted several decades, began after the First World War and came to an end after the Second World War.

The Suez Canal crisis [nationalised by the Egyptians in 1956] cemented the weakening of the pound.

The same could happen to the Americans with the Strait of Hormuz. If the Americans fail to maintain control over the Strait of Hormuz, I believe the dollar is destined to weaken structurally.

AND WHAT ABOUT THE SWISS FRANC?

FC: The Swiss franc is the only currency that has consistently acted as a safe-haven asset in recent years. The dollar did not fulfil that role last year. The yen no longer really does either. The Swiss franc's scope for further appreciation remains limited because the Swiss National Bank (SNB) is constrained by its strength. Inflation levels in Switzerland are extremely low. The SNB wants to avoid slipping into deflation[4].

The Norwegian krone has behaved differently from previous crises. The currency's movements depend on two factors: the price of commodities, of which Norway is an exporter, and the global economy. The higher commodity prices are, the more the Norwegian krone is expected to appreciate. And when the global economy slows down, the currency generally depreciates. The Norwegian krone has appreciated very significantly during this crisis, which was not the case in 2022.

I think the Greenland episode at the start of the year undoubtedly prompted many sovereign wealth funds to seek to reduce their exposure to the dollar. For example, the Norwegian sovereign wealth fund – which is enormous and heavily invested in dollars – has made something of a U-turn. Is a 40% or 50% exposure to the US dollar desirable if the Americans invade Greenland?

AS A BOND INVESTOR, WHAT IS THE BIGGEST RISK FOR 2026?

FC: The biggest risk is the price of oil reaching an unsustainable level, like $200 a barrel. A very high oil price would put certain companies and manufacturers in a difficult position, potentially causing a significant widening of credit spreads[5] and a slowdown in growth.

A very high oil price would put certain companies and manufacturers in a difficult position, potentially causing a significant widening of credit spreads and a slowdown in growth. It has been a very long time since we have seen such stagflation[6] scenarios and unfortunately, there is no right answer in this scenario.

From my perspective, the key to avoiding this worst-case scenario lies in the Americans securing the Strait of Hormuz.

[2]Short-term debt securities issued by the U.S. government to finance its spending.
[3]Monarchies whose economies are heavily dependent on oil revenues.
[4]A general and sustained decline in the price level in an economy.
[5]The difference in yield between a corporate bond and a government bond considered to be risk-free.
[6]An economic situation in which high inflation and economic stagnation coexist.

WHICH BOND SEGMENT OR REGION DO YOU FAVOUR?

FC: At around 1%, real rates in the Eurozone are compelling. I still find it very hard to imagine that the ECB could raise its interest rates 1% above the inflation rate.

Let's assume inflation hovers around 3% and stays there. It seems unlikely to me that the ECB would raise rates higher than 4%.

We also believe that inflation expectations are too low in the United States. We are currently seeing a level of inflation that is higher than what the CPI[7] is indicating. We believe consumer price inflation prints have been distorted since November 2025.

From April onwards, we expect to see a return to more normal methods of calculation. We will then realise that the narrative of disinflation[8] in the US, which many believed in, is less clear-cut than we think and, in fact, certain inflationary pressures are actually returning.

In terms of geographical exposure, there are certain regions where we believe we are very well rewarded for taking on risk, such as the United Kingdom or New Zealand.

Interview conducted on 19 March 2026.

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[7]Consumer Price Index : an indicator that measures the average change in prices of a basket of goods and services consumed by households.
[8]A slowdown in the rate of price increases in an economy.

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INVESTING IN THE FINANCIAL MARKETS INVOLVES RISKS, AND IN PARTICULAR THE FOLLOWING:

- Risk of **capital** loss**,**
- **Equity risk: if equity markets fall, the value of a financial instrument may fall,**
- **Interest rate risk: interest rate risk results in a fall in the value of the financial instrument in the event of a change in interest rates,**
- **Credit risk: credit risk corresponds to the risk that the issuer will be unable to meet its obligations,**
- **Currency risk: this relates** to exposure to a currency other than the reference currency of the financial instrument.