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PERSPECTIVES

The Hormuz Shock: No Strait line for US exit

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Iran crisis: The shock reshaping global markets

The Iran-Hormuz crisis has become a defining macro shock, driving up geopolitical risk premia and reshaping cross-asset positioning. What began as targeted strikes has escalated into a multi-front confrontation involving the US, Israel, and Iranian-aligned groups, pushing markets into a regime where energy volatility and supply-chain fragility dominate risk assessment.

Disruptions around the Strait of Hormuz, including mine-laying attempts and naval skirmishes, have raised the global energy risk premium and compromised crude oil and LNG flows. Oil volatility, pressured Gulf assets, sharp swings in global equities, and FX now reflect shifting expectations around supply stress, inflation sensitivity, and escalation risks

The US is insulated from disruptions around the Strait on a relative basis to other regions (Europe & Asia), but it is not immune. Although the US is a net exporter of energy – unlike Europe & Asia – it is important to remember that "net exporter" does not mean "energy self-sufficient". At its core, the problem for the US is a crude quality mismatch rather than the volume issue that is weighing on both Asia and Europe. US dependence on Persian Gulf energy has declined significantly over the past three decades, falling from roughly 25% of total imports in the late 1990s to roughly 8% today, whereas the reliance on Canadian supply has quietly become far more pronounced. Canada now accounts for roughly 60% of US crude and oil product imports. This shift matters because US shale production is overwhelmingly light/sweet, whereas a large portion of US refining capacity was built to process heavier/sour grades. As a result, incremental US light crude is often exported, even as refiners continue to import foreign barrels – primarily from Canada – to operate. The US thus appears to be energy independent and a net exporter in aggregate terms, but remains structurally dependent on foreign oil when viewed through the lens of refinery feedstock quality rather than headline volumes. In a global market such as energy, a rising tide lifts all boats, though. With Gulf production impaired, foreign buyers will look to source crude from elsewhere, driving up g demand and ultimately raising prices globally. This in turn is driving inflation expectations higher and pressuring the price stability component of the Fed's dual mandate. This complicates the situation given that the maximum employment component of its mandate is simultaneously being called into question amid lower economic momentum.

Outside the US, spillovers are more acute. Asia faces the heaviest energy-security strain, while Europe navigates renewed fragility just as post-crisis inflation is normalising. Gulf governments must manage higher investment risk premiums alongside regional stability concerns. Meanwhile, uneven Western coordination, and more assertive Chinese and Russian positioning, adds further uncertainty to energy-market outcomes.

For investors, the crisis reinforces a tilt toward more defensive and selective allocation. It accelerates existing trends: greater emphasis on supply-chain resilience, a higher embedded geopolitical risk premium, and a portfolio environment where shocks are more frequent, more global, and less diversifiable.

As geopolitical risk premia reset, the focus is shifting toward how these pressures interact with the underlying trajectory of the US economy.

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US macro in focus

WTI Crude Oil hovering near USD100/bbl has firmed the inflation outlook and pushed markets to defer expectations for Fed easing, with rate cuts now largely priced only after the September FOMC. Energy-driven price pressures are emerging just as labour-market cooling remains gradual, complicating the Fed's dual mandate of price stability and maximum employment. Strategic Petroleum Reserve releases, including the IEA's coordinated 400 million barrels action, helped dampen volatility, but left the underlying risk premium intact, keeping crude elevated and inflation expectations sensitive to further Hormuz-related disruptions.

Status quo before the crisis

The US economy was slowing but still growing at the beginning of 2026. Real GDP for Q4 2025 was recently revised down to 0.7% from the initial reading of 1.4% QoQ on a seasonally adjusted annual rate (SAAR) basis. There were clearly government shutdown effects in Q4 at play here given that government spending reduced the headline figure by a full percentage point. Still, this was a sharp downtick from the third quarter's 4.4% reading. Tracking estimates for Q1 2026, using the Atlanta Fed's GDPNOW estimate, show a rebound in growth to 2.7% QoQ on a SAAR basis, i.e. still growing but more slowly. In the labour market, the "great resignation" continued its transition to "not hiring but not firing" as initial jobless claims remain rangebound in the 200-300k range with continuing jobless claims actually drifting lower at the start the year. However, recent weakness in nonfarm payrolls (with last month's -92k for instance) in addition to JOLTS rolling over has raised concerns about the health of the labour market. All of this echoes the same uniform message; the labour market is cooling, and cracks were beginning to emerge at the start of the year. This loss of momentum in the labour market and economic growth more broadly was reflected in the outlook for monetary policy with market pricing for some 2.4 cuts priced in for the Fed by the end of 2026 prior to the Iran conflict.

Current state of the conflict

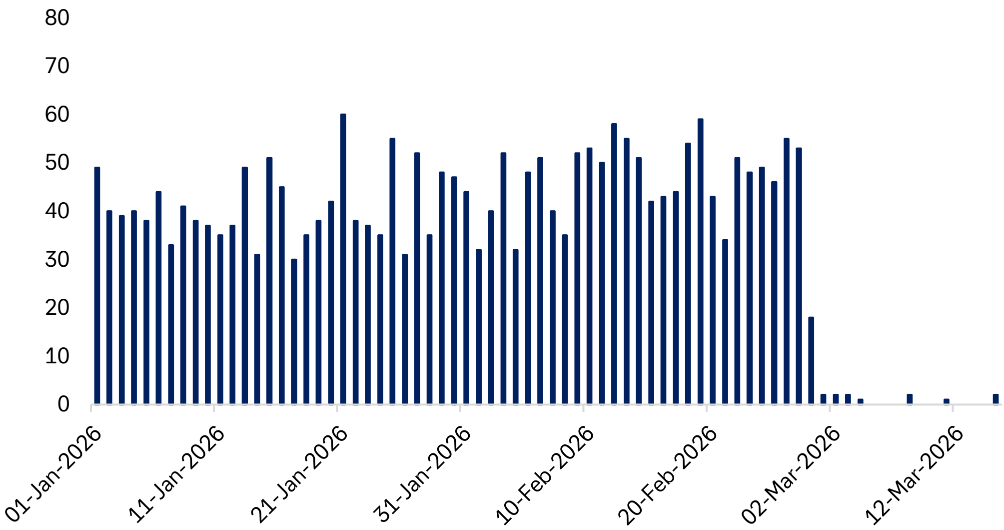
Global energy flows have been disrupted, with the Strait of Hormuz essentially closed. For context, pre-conflict, the 30-day average vessel count from east-to-west through the Strait of Hormuz was roughly 47 per day. Since February 27, the average has been about 2.

The Strait is a crucial chokepoint for the global energy trade, with roughly 27% of the world's global maritime oil trade flowing through it. Any prolonged disruption to these energy flows could hamper the global economy and cripple global supply chains. We are already seeing signs of rationing with select Asian countries declaring 4-day working weeks to conserve fuel.

In response to the disruption of the Strait of Hormuz, governments have responded with a two-track policy approach. Actions that are already in place include a record-breaking coordinated release of strategic oil reserves, led by the US, alongside fuel tax cuts and consumer subsidies in several countries to limit inflation spillovers. There have also been producer adjustments, with Saudi Arabia rerouting some exports via existing pipeline infrastructure. By contrast, several high-profile measures remain prospective rather than operational, most notably US Navy tanker escorts, which have been publicly discussed but have not yet been implemented, with no confirmed escorted transits through the Strait. As a result, the actions taken to date have helped ease near-term market stress and bought some time, but the measures most directly capable of restoring physical shipping flows remain conditional, most acutely guaranteeing safe passage through the Strait, leaving energy markets highly sensitive to the evolving security situation.

One thing that has become apparent, though, is that the policy responses thus far, that have actually been implemented, are oil centric (SPR releases). Perhaps this is emblematic of the muscle memory of policymakers with regard to their energy market crisis playbook. By contrast, there is no equivalent strategic reserve or coordinated policy response for LNG, refined products, or fertilisers, even though disruptions in those markets may prove just as economically consequential with downstream impacts on global supply chains.

Figure 1: Vessel count: Strait of Hormuz (East to West)



Source: Bloomberg, Deutsche Bank AG. Data as of March 18, 2026.

Figure 2: Volume of crude oil, condensate, and petroleum products transported through the Strait of Hormuz (2020–1Q25) (million barrels per day)

	2020	2021	2022	2023	2024	1Q25
Total oil flows through Strait of Hormuz	**19.1**	**19.4**	**21.4**	**21.4**	**20.3**	**20.1**
Crude oil and condensate	14.3	14.4	16.0	15.5	14.3	14.2
Petroleum products	4.8	5.0	5.5	5.8	5.9	5.9
World maritime oil trade	**71.4**	**72.6**	**74.3**	**76.0**	**75.5**	**75.7**
% of World maritime oil trade flowing through Strait of Hormuz	**27%**	**27%**	**29%**	**28%**	**27%**	**27%**
World total petroleum and other liquids consumption	**91.0**	**96.6**	**99.5**	**101.8**	**102.7**	**102.1**
LNG flows through Strait of Hormuz (billion cubic feet per day)	**10.7**	**10.7**	**11.0**	**10.5**	**10.3**	**11.5**

Source: US Energy Information Administration, Short-Term Energy Outlook, June 2025, and US Energy Information Administration analysis based on Vortexa tanker tracking.

Where we may be heading

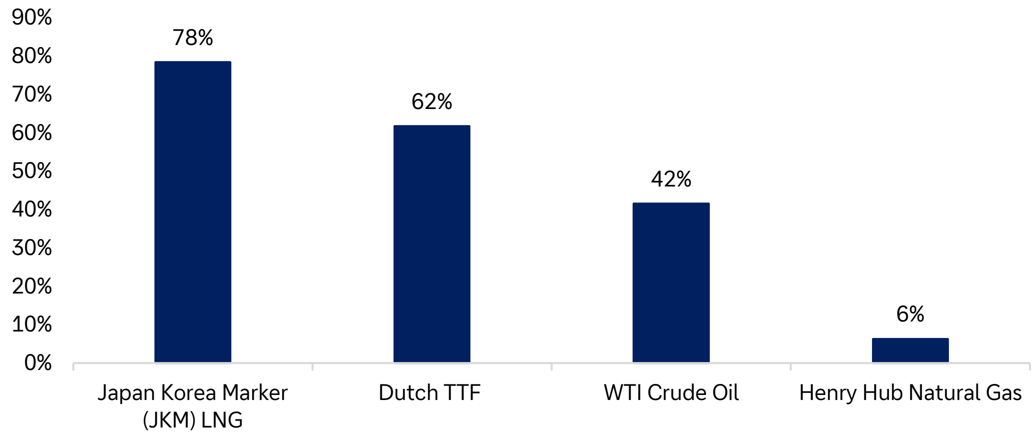
With all of that said, the world looks a lot different today than it did prior to the Iran conflict on February 27, let alone at the start of the year. Unsurprisingly, there has been a parallel shift higher in the broader energy complex because of this ongoing disruption with acute stress on LNG, European natural gas, and refined products more broadly.

Now, one could argue that US consumers are equipped to cope with this energy price shock given they managed to deal with the energy price shock associated with the Russian invasion of Ukraine in February 2022.

However, the dynamics for both consumers and the labour market are vastly different today to those in February 2022. Real income growth is on the verge of turning negative ex transfer payments, leaving households with far less of a buffer to absorb higher energy costs. At the same time, slack has clearly emerged in the labour market, with job openings having nearly halved from their peak and a negligible amount of net employment growth. Lastly, retail sales have moderated immensely from their stimulus-driven, post-pandemic peaks with YoY growth running below headline inflation.

Taken together, this suggests that while US consumers were able to adapt to the 2022 energy shock from a position of strength, today's shock is hitting an economy with less income momentum, weaker labour dynamics, and less capacity to absorb another sustained rise in energy prices.

Figure 3: Price performance since the onset of the Iran conflict



Source: Bloomberg, Deutsche Bank AG. Data as of March 17, 2026.

Figure 4: Economic Indicators

	Feb'22	Today
Retail Sales YoY	**15.3%**	**2.1%**
Change in Nonfarm Payrolls (6 Month Average, Thousands)	**620 K**	**13 K**
JOLTS (Millions)	**11.7 M**	**6.9 M**
Real Income Growth ex-Transfer Payments YoY	**2.5%**	**0.6%**

Source: BEA, FRED, Deutsche Bank AG. Data as of March 16, 2026. or Most Recent Data Release.

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Asset class implications

Fixed Income

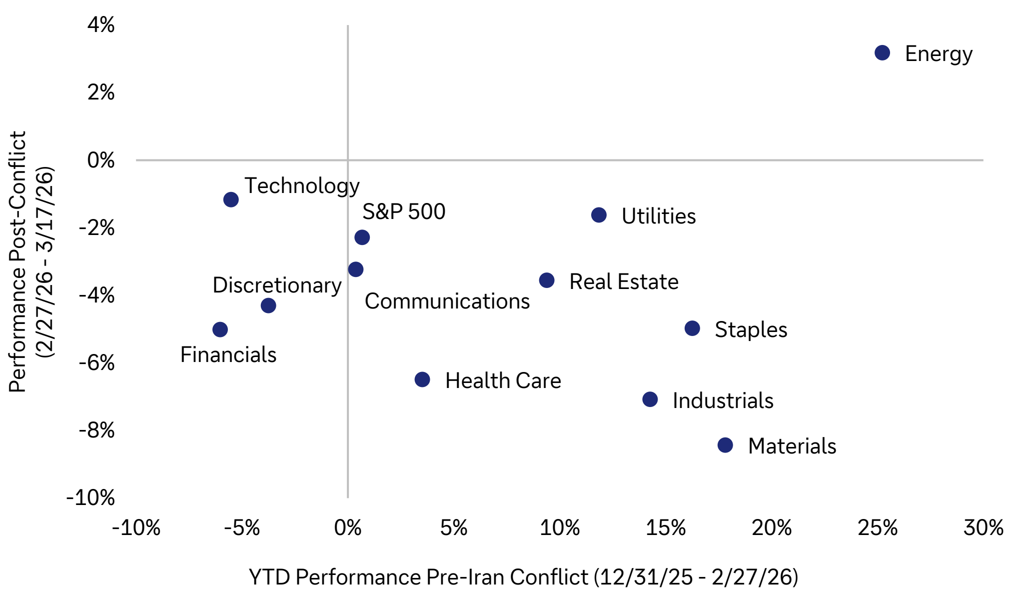
The Iran conflict has shifted markets decisively back toward inflation risk, pushing long-end yields higher after a strong start to the year. Before the escalation, Treasuries had rallied meaningfully, with the 10-year falling below 4% and the 2-year reaching fresh cycle lows as investors grew confident of a disinflation-led easing cycle. That momentum has unwound though with US 10- and 30-year yields rising roughly 30bps since late February, driven by a sharp repricing of near-term inflation expectations. One-year breakevens have jumped from roughly 2.3% at the start of the year to +5.0%, reflecting heightened sensitivity to energy-related price shocks.

Policy expectations have adjusted accordingly. The Fed Funds futures market had priced in some 2.5 cuts by year-end 2026 , but now assigns no cuts. The 2-year yield are trading above the upper bound of the Fed Funds rate as well, the first time it has done so since the regional banking crisis in 2023. This shift comes at an inopportune moment for interest-sensitive sectors of the real economy, particularly housing, as the spring selling season begins with diminished prospects for rate relief. In aggregate, rates markets are signalling a clear message that the conflict is amplifying inflation concerns into a period of already moderating growth. Ultimately, this may leave central banks with far less flexibility to pivot toward supporting activity vis-à-vis more accommodative monetary policy.

Equities

Equity performance in the early part of the year had been consistent with the pre-conflict macro backdrop: moderating inflation, falling yields, and late-cycle defensiveness. Real Estate, Health Care, Consumer Staples, Utilities, and late-cycle cyclicals such as Industrials, Materials, and Energy outperformed on a relative basis, while more pro-cyclical areas like Financials, Consumer Discretionary, and Technology lagged.

Figure 5: S&P 500 GICS sector performance (pre- & post-Iran conflict)

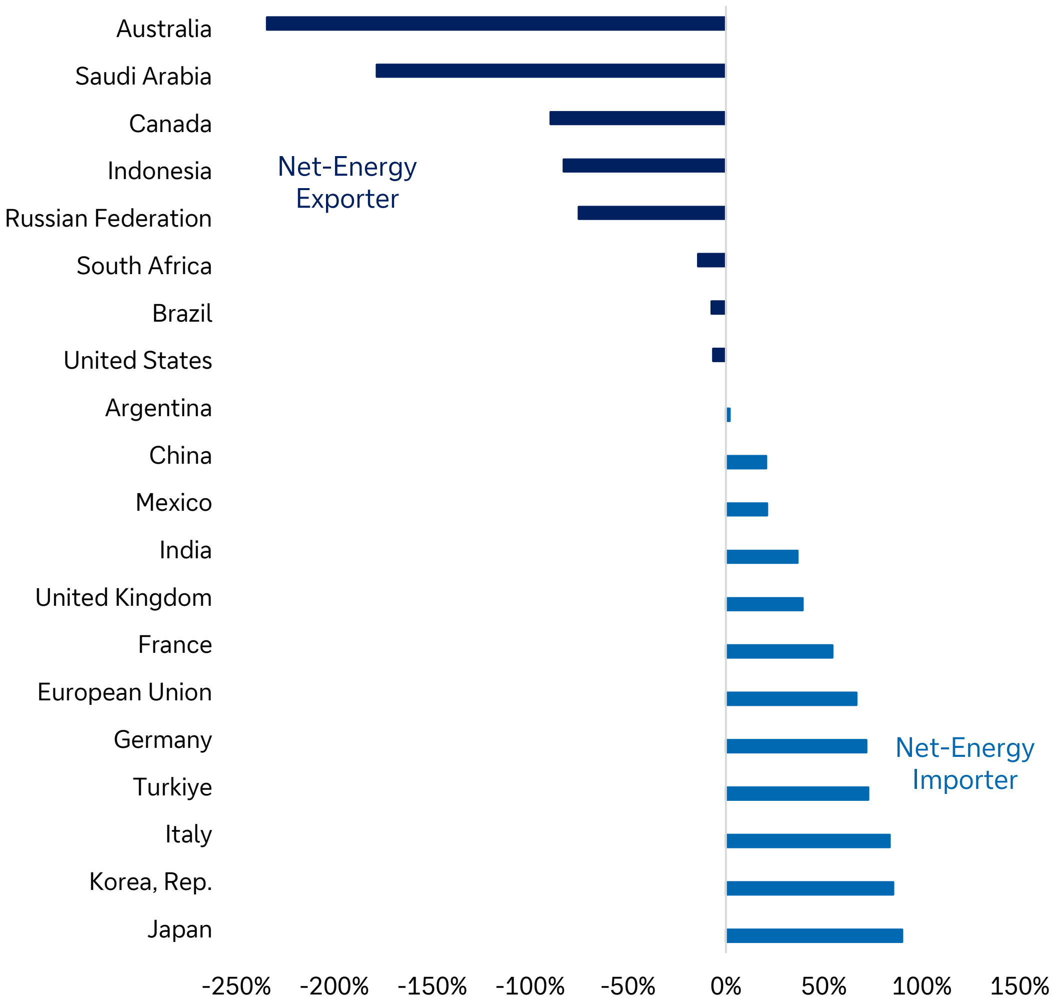


Source: FactSet, Total Return Data, Deutsche Bank AG. Data as of March 17, 2026.

Post-conflict dynamics have realigned market leadership in ways generally consistent with a stagflation-tilted risk environment. Energy has become the standout performer, supported by supply-disruption premiums and elevated crude prices. Technology and Utilities have also participated in the rebound, reflecting a mix of quality preferences associated with a high degree of earnings visibility. The relative underperformance of some classic defensives such as Staples and Health Care is harder to reconcile with the macro backdrop, though it may reflect positioning overhangs and stretched valuations heading into the year.

Geographic dispersion has been pronounced. Markets closest to the conflict or most exposed to energy imports have faced the sharpest declines. The S&P 500's move (of roughly -2.3%) stands in stark contrast to those of the MSCI South Korea (-12.9%), MSCI Japan (-9.5%), and MSCI Germany (-8.4%) since the onset of the conflict (February 27–March 17, 2026). The US's status as a net energy exporter has been a buffer, insulating it from far more supply constrained regions like Asia and Europe.

Figure 6: G20 Countries: Net energy Imports as a % of energy use



Source: World Bank Group, IEA, Deutsche Bank AG. Data as of December 31, 2022.

US sectors in focus

The sector response reflects three overlapping forces: energy-price transmission, inflation sensitivity, and proximity to the conflict.

Energy

The best performer post-conflict, driven by elevated crude, an expanded risk premium, and global supply uncertainty.

Outlook: Support remains firm in the near term as supply-risk premiums stay embedded. Medium-term returns should moderate as prices stabilise, but balance-sheet strength and cash-flow durability keep the sector structurally resilient. Within the sector, Upstream, integrated oils and refiners stand out given stronger cash-flow leverage to higher and more volatile oil prices amid supply disruptions.

Technology

Despite its pro-cyclical nature, Tech has benefited from continued demand for high-quality earnings streams, particularly in the semiconductor and semiconductor-adjacent sub-industry groups. The sector's rebound aligns more with the "quality growth amid uncertainty" theme than with cyclical optimism.

Outlook: Short-term leadership likely continues as markets favour earnings visibility. Over the medium term, performance will hinge on the trajectory of corporate capex, AI monetisation, and the durability of profit growth rather than geopolitical rotations. Overall, AI infrastructure, hyperscalers and defence and cybersecurity-based tech remain supported by secular demand trends that are relatively insulated from energy-price volatility.

Utilities

Supported by defensive positioning, stable cash flows, and partial energy-price pass-through characteristics. Performance reflects the bid for stability rather than growth rotation.

Outlook: The defensive bid should hold while macro uncertainty remains elevated. Over time, regulated earnings bring stability, but sector upside stays capped unless long end rates meaningfully ease.

Defensives (Staples & Health Care)

The notable lack of follow-through remains a puzzling divergence relative to macro signals. Positioning saturation, valuation constraints, and idiosyncratic earnings issues may be contributing to the weaker performance despite a fundamentally supportive environment for safe haven sectors.

Outlook: Short-term performance may remain constrained by stretched positioning. Longer term, the sector's earnings resilience argues for a gradual re-rating as volatility broadens, and investors rotate back into stability. Pricing-power staples and large pharmaceuticals as well as managed care tend to hold up better given lower energy sensitivity and steady demand profiles.

Cyclicals (Industrials, Materials)

Held up reasonably well pre-conflict as late-cycle segments benefited from stable activity. Their resilience may weaken if higher energy costs begin to tighten margins and dampen global growth.

Outlook: Margins face near-term pressure from elevated input costs. Medium-to-long term prospects depend on whether global growth can absorb this energy price shock. Within industrials, defense, aerospace and infrastructure could potentially benefit from geopolitical and reshoring spending, while fertilisers and select chemicals in materials gain from improved pricing dynamics.

Financials & Consumer Discretionary

Remain the most challenged. Higher yields in tandem with market pricing shifting towards reduced rate-cut expectations are tightening financial conditions and may ultimately put pressure on consumers as real incomes stagnate. Housing-linked segments are particularly vulnerable given the uptick in rates too.

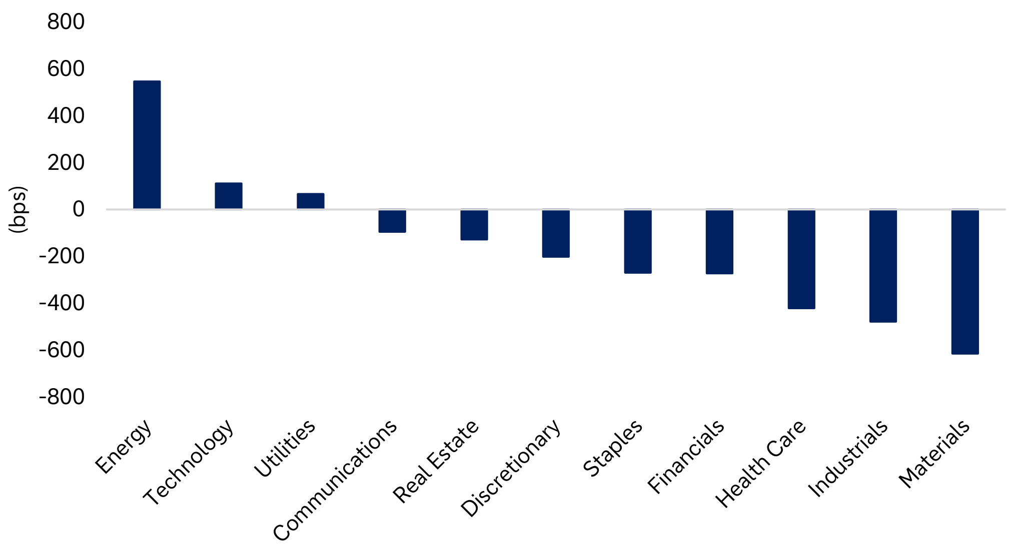
Outlook: Headwinds persist in the near term as tighter financial conditions; rising concerns over the Private Credit market, and weak real-income growth dominate the narrative. Longer-term recovery hinges on rate stabilisation and a rebound in household purchasing power.

Alternatives & Thematic Assets

The overlapping geopolitical shocks, financial-system stress, and technological transitions are shifting the long-term architecture of portfolio construction. This could support:

- Gold, benefiting from hedging demand amid geopolitical instability and rising inflation.
- Real assets (infrastructure, pipelines, storage) given their role in supply-chain redundancy.
- Long/short hedge-fund strategies, which gain from elevated dispersion across sectors and regions.

Figure 7: Performance relative to the S&P 500 since conflict began on February 27, 2026



Source: FactSet, Total Return Data, Deutsche Bank AG. Data as of March 17, 2026.

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Conclusion

The Iran–Hormuz conflict further complicates an already challenging macro backdrop, characterised by persistent energy volatility and a fluid global growth backdrop. Markets are gradually adjusting to the likelihood of a longer shock window, with oil-linked volatility and tighter financial conditions, and emerging private credit fragility shaping cross-asset behaviour. Together, these dynamics suggest an environment with somewhat firmer underlying price pressures, increasing sensitivity to energy costs and second-round effects.

The Fed remains firmly in data-dependent mode, with elevated uncertainty reinforcing a gradual and cautious approach to any policy adjustment. Our base case continues to anticipate two additional rate cuts by March 2027, with meaningful easing unlikely until clearer progress on inflation emerges.

Against this backdrop, asset allocation is shifting toward resilience rather than optimisation. The combination of war-related disruptions, supply-chain reconfiguration, and de-globalization trends supports more diversified exposures that hedge macro-regime risk. That approach aligns with the evolving investment landscape, where the disruption of long-standing supply chains and rising geopolitical uncertainty require multi-regional redundancy and broader risk buffers.

Cross-asset signals remain consistent. Energy continues to outperform as risk premia stays elevated. Select Industrials tied to defence, reshoring, and supply-chain diversification gain structural support, while global cyclicals linked to Asian energy demand face the sharpest pressure. Rate-sensitive and fuel-intensive segments lag in an environment where inflation concerns outweigh safe-haven flows. Meanwhile, broader US equities show resilience despite volatility, supported by domestic energy insulation, strong institutional positioning, and durable AI-driven capex even as sector leadership rotates more frequently.

For the US, the macro trajectory is softer but not destabilied: inflation runs higher than expected, growth is modestly weaker, and the Fed's easing path shifts further out. Europe confronts a harder energy-inflation trade-off, and Asia bears the most acute exposure to supply risks. Globally, the result is a more fractured return pattern across regions and sectors, with persistent dispersion likely to remain a defining feature of the investment landscape.

In this environment, it is important that investors avoid reacting to short-term volatility and instead stay aligned with long-term portfolio expectations and individual risk profiles. Markets will continue to adjust as the conflict evolves, but portfolios built around diversification, risk budgeting, and resilience, rather than tactical swings, remain best positioned to navigate a potentially prolonged period of geopolitical and macro uncertainty.

Appendix

Glossary

The C**onsumer Price index (CPI)** measures the price of a basket of products and services that is based on the typical consumption of a private household.

The **International Monetary Fund (IMF)** was founded in 1994, includes 189 countries and works to promote international monetary cooperation, exchange rate stability and economic development more broadly.

LNG refers to Liquified Natural Gas (mostly methane) and **LPG** refers to Liquified Petroleum Gas (mainly propane and butane). LPG is a by-product of crude oil refining.

Producer price inflation (PPI) measures the change in prices received by producers (e.g. firms) for their output.

Real GDP (Gross Domestic Product) is the inflation-adjusted value of all final goods and services produced within a country in a given year, measured at constant prices.

Real income is an individual's or nation's earnings adjusted for inflation, representing actual purchasing power rather than just the nominal amount of money received.

Reflation can either be used to refer to an increase in the level of price indices, or to policy designed to boost the level of economic activity.

Stagflation is an economic condition characterized by the simultaneous occurrence of slow or stagnant economic growth, high unemployment, and high inflation.

USD is the currency code for the US dollar.

Appendix

Historical performance

	19.3.2021 – 19.3.2022	19.3.2022 – 19.3.2023	19.3.2023 – 19.3.2024	19.3.2024 – 19.3.2025	19.3.2025 – 19.3.2026
S&P 500	14.1%	-12.2%	32.2%	9.6%	16.4%
NASDAQ	5.1%	-16.3%	39.0%	9.8%	24.4%
MSCI South Korea (USD)	-19.9%	-18.4%	10.8%	-12.8%	144.7%
MSCI Germany (USD)	-12.8%	-7.8%	18.2%	25.7%	0.7%
MSCI Japan (USD)	-12.6%	-8.3%	25.1%	1.1%	22.4%
10 Year U.S. Treasury	-5.0%	-7.1%	-4.9%	0.8%	0.2%
2 Year U.S. Treasury	-3.5%	-2.6%	-1.5%	1.3%	0.2%
Gold (USD/oz)	10.8%	2.3%	9.4%	40.8%	51.4%
WTI Spot (USD/bbl)	67.8%	-35.3%	24.0%	-19.1%	42.8%

Source: Deutsche Bank AG, FactSet, Data as of March 19, 2026.

Appendix

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