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**AIA** Investments

# Special Fund Insights

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Geopolitical Tensions in the Middle East (Update)

23 March 2026





## LATEST DEVELOPMENTS (UPDATE)

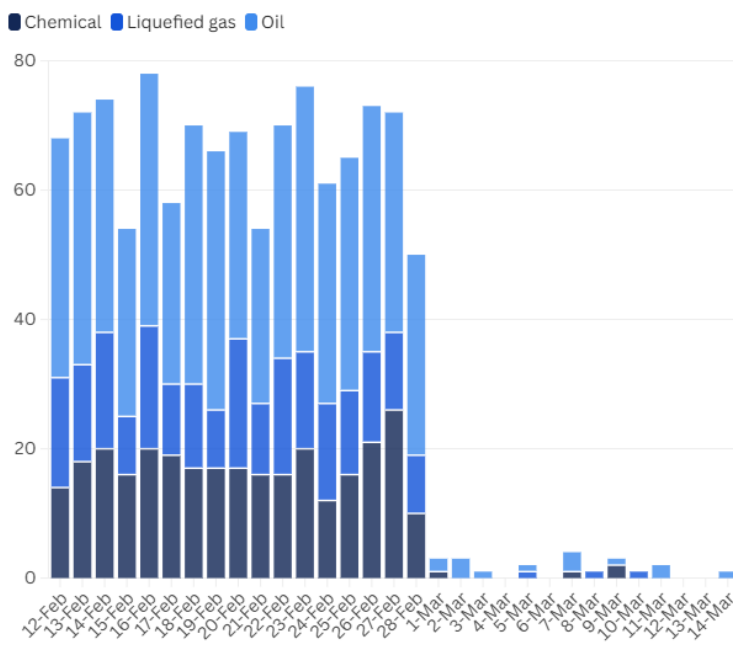
### Intensified Conflict and Strategic Energy Response

Tensions in the Middle East escalated sharply following coordinated U.S.–Israel military strikes on Iran on 28 February 2026, marking a material shift from proxy-based confrontation to direct interstate conflict. In response, Iran initiated a broad retaliation campaign targeting military assets, energy infrastructure, and commercial shipping across the Persian Gulf, Gulf of Oman, and Red Sea approaches. The conflict has since expanded to include direct strikes on major natural gas infrastructure, notably Iran’s South Pars gas field, heightening sensitivity across global energy markets.

A critical feature has been Iran’s actions around the Strait of Hormuz, one of the world’s most important maritime chokepoints, through which roughly 20–25% of global oil supply and a similar share of liquefied natural gas (LNG) typically transit. Iranian authorities publicly declared the strait “closed” in early March and warned commercial vessels that transit could be subject to missile or drone attack. Since the start of hostilities, commercial shipping through the Strait of Hormuz has fallen sharply (Chart below).

#### Shipping traffic falling off a cliff since the Iran war began

Daily number of tanker transits through the Strait of Hormuz



With disruptions now affecting both shipping routes and key energy assets, markets have increasingly focused on the risk of broader and more persistent supply interruptions.

Source: CNBC, Haver Analytics, IMF PortWatch, BMI. Days with no data indicate no transits recorded.

Historically, Iran has periodically threatened disruption to Hormuz during periods of heightened tension, but past episodes (including during the Iran–Iraq War and post-2019 sanctions episodes) generally resulted in temporary risk-premium spikes rather than sustained supply outages. What distinguishes the current episode is the scale and persistence of operational disruption, including vessel strikes, insurance withdrawal, and the large-scale suspension of commercial shipping.

In response to the tightening supply environment, major energy-consuming countries have begun drawing on strategic petroleum reserves. Under a coordinated framework led by the International Energy Agency (IEA), member countries agreed to release 400 million barrels of emergency oil stocks, the largest collective release in the agency's history. As part of this effort, the United States announced a release of 172 million barrels, while Japan and South Korea also committed to tapping their national oil reserves, aiming to cushion near-term supply disruptions and stabilize energy markets.

## Oil Supply & Price



Oil prices have remained elevated and volatile, with Brent crude trading around or above USD 100 per barrel, reflecting both physical disruption and heightened geopolitical risk. While some alternative export routes, such as Saudi Arabia's East–West pipeline to the Red Sea, are being utilized, these measures cannot fully offset Hormuz-related constraints, particularly for liquefied natural gas and refined products.

## Inflation Expectation



Monetary policy signals have also shifted in response to rising energy-driven inflation risks. At its 19 March 2026 meeting, the U.S. Federal Reserve held its policy rate unchanged at 3.50%–3.75% but acknowledged heightened uncertainty stemming from the Middle East conflict. The Fed revised its inflation projections higher, and the dot plot shifted in a more hawkish direction, with fewer rate cuts projected for 2026, reflecting concerns that elevated energy prices could feed into broader inflation expectations.

## TWO OPPOSING FORCES: AI-DRIVEN LONG-TERM GROWTH VS. EMERGING RISKS



Global markets are no longer moving in one clear, positive direction. Instead, they are now being influenced by two opposing forces — one supportive and another creating emerging risks.

### Structural Growth Drivers

- Investment related to artificial intelligence (AI) continues to support long-term growth. Spending on new equipment, technology, and infrastructure is helping improve productivity and making company earnings more resilient over time.
- That said, the impact of AI is uneven. Some sectors benefit more directly, such as semiconductors, industrials, and infrastructure, while others — including software and telecommunications — are facing adjustment pressure as business models are disrupted.



### Emerging Macro and Market Risks

- The Iran war and the oil shock have become a major global risk. The closure of the Strait of Hormuz is an unprecedented event and has led to a sharp reduction in oil supply. This has pushed oil prices higher, increased inflation pressures, and weighed on global economic growth.
- Over time, this may lead to a more fragile and lasting energy-security environment, where energy costs remain higher, risks stay elevated, and long-term investment returns are lower.
- At the same time, private credit markets are showing signs of stress. Redemptions from business development companies (BDCs) have risen to multi-year highs, largely due to difficulties in portfolios with heavy exposure to software companies. While liquidity buffers have helped manage withdrawals so far, continued outflows could challenge the stability of these semi-liquid investments, especially as discounts to net asset value (NAV) continue to widen.



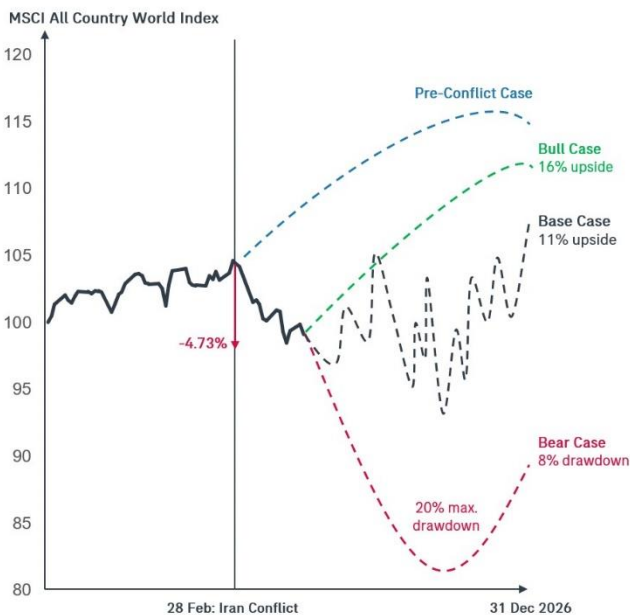


## SCENARIO ANALYSIS: TACTICAL ASSET ALLOCATION (TAA) IMPLICATIONS

Compared to the end of 2025, the range of possible market outcomes has widened (**Bull, Base and Bear**), each with different implications for oil prices, equities, and bonds, suggesting a more cautious approach.

- **Reduce** overweight positions in equities and **Reduce** underweight positions in bonds, as expected returns have weakened amid rising geopolitical, energy, and credit risks
- Maintain **broad diversification** across regions and sectors to manage a wider range of economic and market outcomes
- Look for selective long-term themes that may benefit from the new environment, such as **energy self-sufficiency**

### Iran escalation: risk-premium shock with increasing stagflation risk



Source: AIA Bloomberg. Solid line represents MSCI All Country World Index (in USD) from 31 Dec 2025 to 18 Mar 2026. -4.73% is MSCI All Country World Index return (in USD) from 27 Feb 2026 to 18 Mar 2026. Graph is for illustration purposes only.

#### TAA Implications

	Conflict Path	Oil	Equities	Fixed Income
Bull	<ul style="list-style-type: none"> <li>Quick resolution within weeks</li> <li>Hormuz reopens; gulf supply resumes</li> </ul>	<ul style="list-style-type: none"> <li>Fall toward prior ranges but stabilize at upper end of \$60-70/bbl</li> </ul>	<ul style="list-style-type: none"> <li>End year higher but below pre-conflict target</li> <li>Rotation back into laggards (AxJ vs US, Semis vs SW)</li> </ul>	<ul style="list-style-type: none"> <li>Return to two rate cuts in 2026</li> <li>Bull steepening resumes</li> </ul>
Base	<ul style="list-style-type: none"> <li>Conflict extends for months</li> <li>Partial mitigation measures (IEA reserves, escort through Hormuz)</li> </ul>	<ul style="list-style-type: none"> <li>Stay elevated ~\$100/bbl but no further spike</li> </ul>	<ul style="list-style-type: none"> <li>Higher stagflation risk</li> <li>Lower expected returns, but still positive</li> </ul>	<ul style="list-style-type: none"> <li>One 2026 cut pushed to 2027</li> <li>Higher term premium</li> </ul>
Bear	<ul style="list-style-type: none"> <li>No resolution</li> <li>Sustained Hormuz disruption with heightened escalation</li> </ul>	<ul style="list-style-type: none"> <li>Surge toward \$120-180/bbl</li> </ul>	<ul style="list-style-type: none"> <li>Material stagflation risk</li> <li>Deep sell-off in risk assets with negative returns</li> </ul>	<ul style="list-style-type: none"> <li>Uncertain rate path: higher inflation vs weaker growth</li> <li>Fed's focus to financial stability</li> </ul>

#### Risk-manage and reduce OW EQ / UW FI

- Stay flexible and monitor signposts: headline news [conflict trajectory]; cross-asset indicators [oil/gas backwardation, equity sentiment, DXY/gold, rate-cut pricing]
- Maintain diversification to cushion volatility over time
- Explore thematic opportunities in new regime e.g., energy-sufficiency

Note: Abbreviations: MSCI ACWI = MSCI All Country World Index; TAA = Tactical Asset Allocation; EQ = Equities; FI = Fixed Income; OW = Overweight; UW = Underweight; bbl = barrel; \$/bbl = US dollars per barrel; AxJ = Asia ex-Japan; US = United States; SW = Software. Stagflation: A challenging economic environment where slow growth and high inflation occur at the same time.

## AIA STEWARDSHIP SOLUTIONS UPDATE



### Equities

Allocation anchored by AIA Equity Income Fund, which has a lower beta and is expected to hold up better than the broad market during periods of volatility.

### AIA Global Adventurous Income Fund (GAIF)

### Multi-Asset

Building more exposure to Franklin Income Fund, a more defensive manager. Ongoing flows to this strategy can enhance overall portfolio robustness in an uncertain environment.

### Equities

Equity allocation anchored by AIA Equity Income Fund with lower beta, which has held up better than the broad market during recent volatility, in line with expectations.

### AIA Global Dynamic Income Fund (GDIF)

### Fixed Income

Higher allocation to the U.S. Fixed Income manager, which has performed more resiliently than the Global one, supported by the strength of the U.S. dollar as a safe haven.

### Equities

Higher allocation to value managers and managers with defensive and/or quality tilts, which have held up better than growth-tilted managers during the recent volatile period.

### AIA Elite Funds

### Fixed Income

Higher allocation to the U.S. Fixed Income manager, which has been more resilient than the Global Fixed Income manager, supported by the U.S. dollar's safe-haven characteristics.

Note: The above-mentioned ILP products may not be available to investors in your local jurisdiction. Please ensure to check that this is duly approved in your local jurisdiction before use.

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