MACRO & MARKETS

April 2026

Modelling Market Scenarios: Middle East Conflict

MARMORE MENA INTELLIGENCE

A MARKAZ Subsidiary

Authors

M.R. Raghu, CFA, FRM, FCMA
CEO, Marmore MENA Intelligence

Vibeesh Sampath, CFA
Senior Consultant

Disclaimer

This report has been prepared and issued by Marmore MENA Intelligence Ltd (Marmore), a fully owned research subsidiary of Kuwait Financial Centre “Markaz” K.P.S.C. Marmore is a private limited company registered with the Registrar of Companies in India.

This Report is owned by Marmore and is privileged and proprietary and is subject to copyrights. Sale of any copies of this Report is strictly prohibited. This Report cannot be quoted without the prior written consent of Marmore. Any user after obtaining Marmore’s permission to use this Report must clearly mention the source as “Marmore.” The Report is intended to be circulated for general information only and should not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction.

The information and statistical data herein have been obtained from sources we believe to be reliable, but no representation or warranty, expressed or implied, is made that such information and data is accurate or complete, and therefore should not be relied upon as such. Opinions, interpretations, estimates, and projections in this report constitute the current judgment of the author as of the date of this Report. They do not necessarily reflect the opinion of Markaz or Marmore or other identified parties and are subject to change without prior notice. Neither Marmore nor Markaz have an obligation to update, modify, or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast, or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn.

This Report may not consider the specific investment objectives, financial situation, and the particular needs of any specific person who may receive this report. Investors are urged to seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed or recommended in this report and to understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security’s price or value may rise or fall. Investors should be able and willing to accept a total or partial loss of their investment. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily indicative of future performance.

Markaz may seek to do business, including investment banking deals, with companies covered in its research reports. Markaz may have interests in the areas covered in this research report. Markaz, Markaz managed entities, its clients, or its employees may have from time to time long or short positions in any security, derivative or other types of assets referred to in this research report. As a result, investors should be aware that Markaz may have a conflict of interest that could affect the objectivity of this report.

This report may provide the addresses of or contain hyperlinks to websites. Except to the extent to which the report refers to website material of Markaz and Marmore, Markaz has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to Markaz’s or Marmore’s own website material) is provided solely for your convenience and information, and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or Markaz’s or Marmore’s website shall be at your own risk.

For further information, please contact ‘Markaz’ at P.O. Box 23444, Safat 13095, Kuwait; Email: info@e-marmore.com; Tel: 00965 22248280; Fax: 00965 22495741.

Market Wrap

The MSCI World Index and the S&P 500 declined by 6.6% and 5.1%, respectively during March 2026. The poor performance reflected oil price volatility, and continued pressure on large cap technology stocks amid inflation fears and monetary policy uncertainty. Emerging Markets, as measured by the MSCI EM Index, declined 13.3% during the month, primarily driven by decline in heavily weighted blue-chip stocks. Samsung Electronics and Taiwan Semiconductor Manufacturing, which together account for roughly 19.5% (as of Feb 20206) of the index, declined by 22.8% and 11.8%, respectively. The downturn was further exacerbated by a 11.5% decline in India's Sensex.

All GCC equity indices, except Saudi Arabia and Oman, ended the month on a negative note, with Dubai's DFM index falling the most by 16.4%. Overall, the S&P GCC Composite index declined by 2.3% despite a 5.0% rise in Tadawul Index. The decline was due to escalating geopolitical tensions between Iran and the U.S and the attack on GCC countries. The Kuwait All Share Index declined mildly in March 2026 by 1.8%, with the banking sector index providing resilience amidst the broader market fall, declining by only 0.7% during the month. UAE equity markets declined sharply during the month, primarily driven by concerns over potential foreign capital outflows from the real estate sector, which weighed heavily on investor sentiment. Saudi Arabian markets were driven by Saudi Arabia's largest oil producer, Saudi Arabian Oil company (Aramco), recording a monthly gain of 9.8%, amid rising oil prices.

Oil (Brent) prices closed at USD 118.35/bbl. for the month, gaining 63.3%. During the month, markets witnessed extreme volatility, with Brent surging to nearly USD 120/bbl. intraday, reflecting heightened fears of severe supply disruptions amid escalating geopolitical tensions and risks around the Strait of Hormuz. The sharp move was driven by concerns over constrained supply flows, limited spare capacity among major producers, and the buildup of a significant geopolitical risk premium in oil prices.

Modelling Market Scenarios: Middle East Conflict

The Middle East conflict between Israel/US on the one side and Iran on the other side has now lasted for a month. What started as a swift military operation is now morphing into a forever war, like Russia and Ukraine. Analysts are struggling to gauge how long this war will last and what the endgame will look like. The world is feeling the heat from higher oil prices, higher inflation, lower growth estimates, etc. The stock and bond markets have reacted negatively to this conflict worldwide, especially in emerging markets, taking a heavier toll.

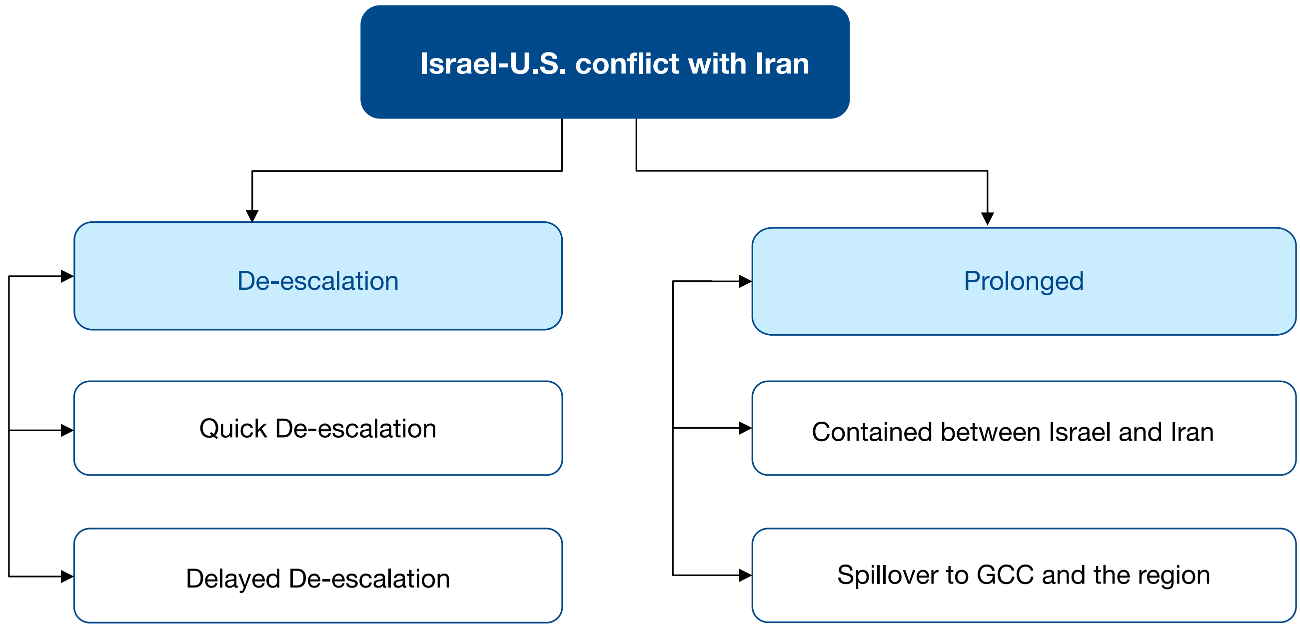
The S&P 500 has fallen 5.1% post-conflict, while emerging markets have fallen 13.3%. Interestingly, the GCC index fell by only 2.3%, led by Dubai and Abu Dhabi, while Saudi Arabia and Oman moved up!

The bond market has also reacted, with the UST 10-year rising 12 bps during the year to 4.30%. The US Investment Grade spread has increased 20 bps to close to 100 bps, while the high-yield spread has moved up to 320 bps.

Given that the conflict is just one month old, the stock and bond markets' reactions could be much deeper as it ages.

While a war like this, which involves not just Iran and Israel/US but also wider GCC, and also given the fact that energy is a global commodity where the world depends on it for many aspects (including electricity generation and transportation), war scenarios matter a lot now more than ever. While continued disruption to oil and gas will see energy prices spike, the attendant increase in inflation, along with a drop in GDP, will mean that the stock and bond markets may experience a deeper drawdown, depending on the longevity of this conflict.
In this research, we aim to model market scenarios to estimate the likely impact on stock and bond markets, both globally and regionally.

Modelling Market Scenarios: Middle East Conflict



At the broadest level, we have two scenarios, i.e., De-escalation and Prolonged. In the De-escalation scenario, we have two sub-scenarios: quick de-escalation (2-4 weeks) and delayed de-escalation (2-3 months). In the Prolonged scenario, we have two sub-scenarios: a conflict contained between Iran and Israel/US (like Russia/Ukraine), or a conflict that drags in other stakeholders, such as the GCC and other countries.

Modelling Market Scenarios

Our aim is to estimate the market impact (stock and bond markets) for a given range of oil prices using recent oil supply shock episodes. Our analysis of 6 such episodes (see Appendix) indicates that the oil price spike has been 112% at its maximum and 18% at its minimum. Stock market drawdowns have been the worst in emerging markets, reaching -27.6% at the maximum and -3.6% at the minimum. Using this data, we have drafted the input sheet as follows:

Scenarios

Quick		
Asset Class	**Benchmark**	**Expectations**
Equity (maximum drawdown)	S&P GCC Composite	-5%
	MSCI World Index	-3%
	MSCI EM Index	-5%
Fixed Income (bps)	Investment Grade Bonds	10
	High Yield Bonds	30
Oil (USD/bl)	Brent Crude	70

Delayed		
Asset Class	**Benchmark**	**Expectations**
Equity (maximum drawdown)	S&P GCC Composite	-7%
	MSCI World Index	-6%
	MSCI EM Index	-8%
Fixed Income (bps)	Investment Grade Bonds	30
	High Yield Bonds	75
Oil (USD/bl)	Brent Crude	85

Contained between Israel and Iran		
Asset Class	**Benchmark**	**Expectations**
Equity (maximum drawdown)	S&P GCC Composite	-5%
	MSCI World Index	-5%
	MSCI EM Index	-7%
Fixed Income (bps)	Investment Grade Bonds	20
	High Yield Bonds	125
Oil (USD/bl)	Brent Crude	80

Spillover to Middle East		
Asset Class	**Benchmark**	**Expectations**
Equity (maximum drawdown)	S&P GCC Composite	-25%
	MSCI World Index	-20%
	MSCI EM Index	-25%
Fixed Income (bps)	Investment Grade Bonds	40
	High Yield Bonds	200
Oil (USD/bl)	Brent Crude	130

Note: The expectations indicate the maximum drawdown for the equity indices, spread against US Treasuries for fixed income indices in bps, and the Brent Crude price per barrel in USD for oil.

Assigning Probabilities

The model is based on probabilities assigned to each high-level scenario and sub-scenario. The likely impact of the probability will be influenced by relationships estimated from recent historical episodes. While it is possible to play around with an infinite number of probability scenarios, we provide here the workings for three simple situations (Optimistic, Base case and Pessimistic).

Scenario Outcomes

Base Case: This scenario reflects a market in "wait-and-see" mode, where the probability of a resolution and a prolonged conflict are equally balanced. Investors are expected to price in some volatility in the capital markets, with the assumption that while tensions remain elevated, they are somewhat contained. This leads to a moderate "risk-off" environment where regional equities underperform global benchmarks due to their proximity to the conflict, and credit spreads widen as investors demand a higher risk premium for non-sovereign debt. Oil acts as a primary barometer for tension, incorporating a geopolitical premium that reflects a disrupted but not severed supply chain.

Base Case				
	De-escalation		Prolonged	
Probability	50%		50%	
	Quick	Delayed	Contained - Israel & Iran	Spillover to ME
	50%	50%	50%	50%

Results			
Asset Class	**Benchmark**	**Expectations**	**Result**
Equity (maximum drawdown)	S&P GCC Composite	-11%	Maximum drawdown expected for these markets
	MSCI World Index	-8%	
	MSCI EM Index	-11%	
Fixed Income (bps)	Investment Grade Bonds	+25	Spread Widening (bps) - against UST
	High Yield Bonds	+108	
Oil (USD/bl)	Brent Crude	91/bl	Oil price expectation (USD/bl)

Optimistic Case: The optimistic outlook assumes a swift diplomatic move toward de-escalation. In this environment, markets would typically see a relief rally, with capital flowing back into emerging markets and high-yield bonds after facing minimal drawdown. However, it is important to note that this scenario has largely been invalidated by current events. Given that the conflict has now persisted for a month with no near-term resolution in sight, the opportunity for a quick de-escalation has passed. Furthermore, actual market drawdowns have already exceeded the projections in this table, with these figures acting as a historical floor rather than a current possibility.

Optimistic				
	De-escalation		Prolonged	
	75%		25%	
Probability	Quick	Delayed	Contained - Israel & Iran	Spillover to ME
	75%	25%	75%	25%

Results			
Asset Class	**Benchmark**	**Expectations**	**Result**
Equity (maximum drawdown)	S&P GCC Composite	-7%	Maximum drawdown expected for these markets
	MSCI World Index	-5%	
	MSCI EM Index	-7%	
Fixed Income (bps)	Investment Grade Bonds	+18	Spread Widening (bps) - against UST
	High Yield Bonds	+67	
Oil (USD/bl)	Brent Crude	78/bl	Oil price expectation (USD/bl)

Pessimistic Case: This scenario accounts for a significant escalation, specifically a regional spillover that disrupts major trade routes or energy infrastructure. The market reaction here is characterized by a “flight to quality,” where investors exit equities and high-yield credit in favor of safe-haven assets or moving to a cash position. The significant widening of High Yield spreads suggests a tightening of liquidity and increased default concerns for leveraged issuers. Oil also becomes a major inflationary threat in this scenario, with prices surging toward triple digits, which would likely trigger broader macroeconomic concerns regarding global growth and interest rate trajectories.

	Pessimistic			
	De-escalation		Prolonged	
	25%		75%	
Probability	Quick	Delayed	Contained - Israel & Iran	Spillover to ME
	25%	75%	25%	75%

Results			
Asset Class	**Benchmark**	**Expectations**	**Result**
Equity (maximum drawdown)	S&P GCC Composite	-17%	Maximum drawdown expected for these markets
	MSCI World Index	-13%	
	MSCI EM Index	-17%	
Fixed Income (bps)	Investment Grade Bonds	+33	Spread Widening (bps) - against UST
	High Yield Bonds	+152	
Oil (USD/bl)	Brent Crude	108/bl	Oil price expectation (USD/bl)

In a dynamic situation like this, any exercise to model outcomes will always pose huge challenges. However, it is better to have a range of expectations than none at all. While high oil prices generally should be good news for the GCC, lower oil production is not. On the other hand, global markets, including emerging markets, will face pain in the form of higher inflation, lower growth, weaker currencies, and therefore higher deficits, leading to higher debt.

If you are interested in assigning your own probability to this model, feel free to request a copy of the Excel model by writing to info@e-marmore.com

Appendix

Global & GCC Equities	Mar-26	YTD 2026	2025
MSCI World	-6.6%	-3.9%	15.5%
U.S. (S&P 500)	-5.1%	-4.6%	13.3%
Nasdaq 100	-4.9%	-6.0%	17.6%
U.K. (FTSE)	-6.7%	2.5%	14.5%
Japan (TOPIX)	-11.2%	2.6%	22.2%
MSCI EM	-13.3%	-0.5%	28.4%
China (Shanghai Index)	-6.5%	-1.9%	22.1%
India (Sensex)	-11.5%	-15.6%	10.0%
S&P GCC Composite	-2.3%	1.1%	-4.3%
Saudi Arabia	5.0%	7.2%	-15.5%
Kuwait All Share	-1.8%	-5.5%	14.4%
Qatar General Index	-7.8%	-5.3%	0.9%
Abu Dhabi	-8.9%	-4.7%	4.2%
Dubai	-16.4%	-10.1%	16.7%
Bahrain	-7.8%	-8.1%	10.0%

Source: LSEG Workspace

Commodities	Close Price	Mar-26	YTD 2026
Oil (Brent) - $/bbl.	118.35	63.3%	94.5%
Natural Gas $/mmbtu	2.88	0.9%	-21.8%
Gold - $/Oz.	4,669.56	-11.5%	8.2%

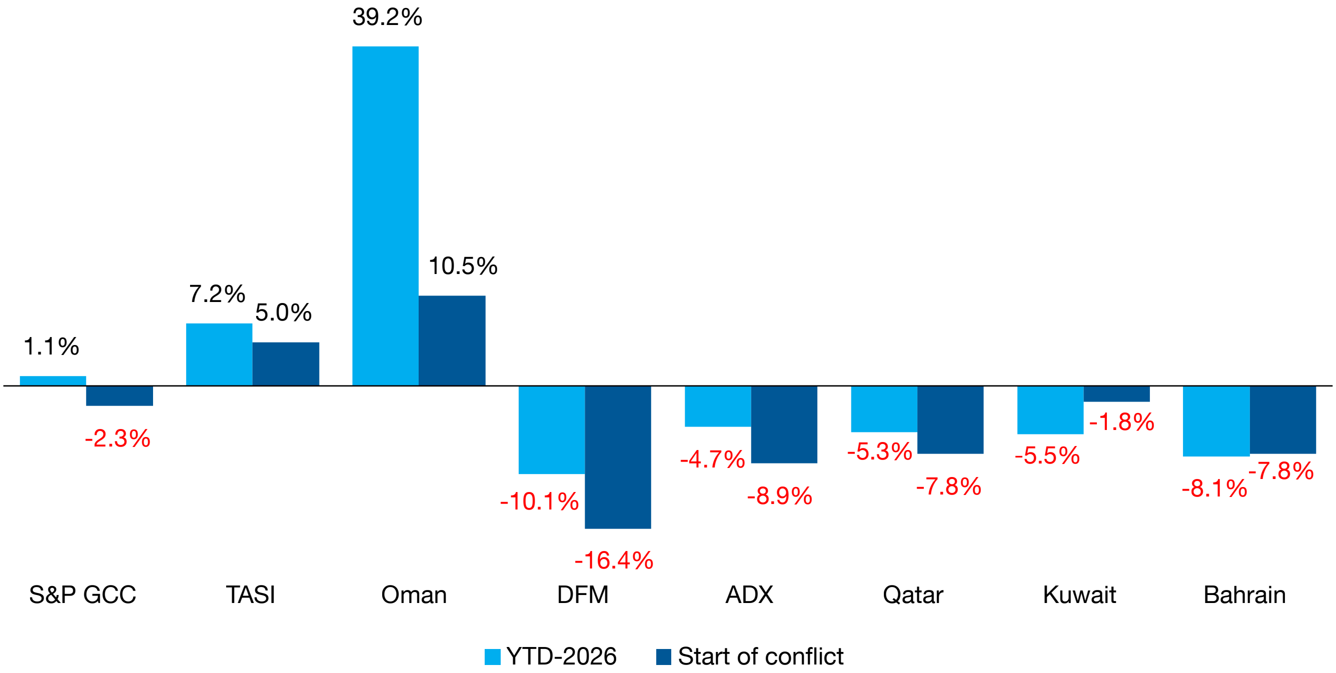
Source: LSEG Workspace

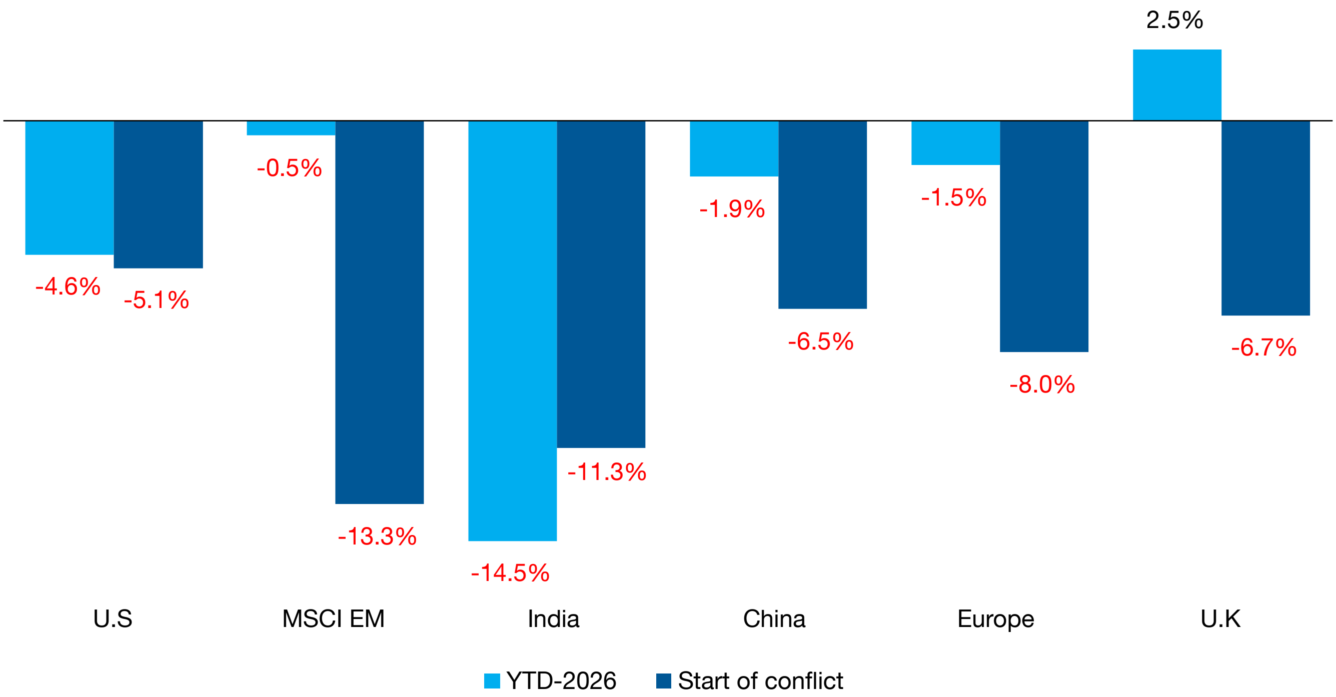
Fixed Income	Yields	
	Dec 31, 2025	Mar 31, 2026
U.S. Treasury 10Y Sov.	4.18%	4.30%
Saudi Arabia 10Y Sov.	4.95%	5.12%
Abu Dhabi 10Y Sov.	4.27%	4.42%

Source: LSEG Workspace

Source: LSEG Workspace

Market Performance since the start of the conflict





Source: LSEG Workspace, as of March 31, 2025

Recent Oil Price Shocks

2003 - Venezuela and Iraq Supply Shock (58 days)	
Oil	18.2%
MSCI World	-14.4%
MSCI EM	-12.4%
S&P GCC	NA

2012 - Iran Sanctions (56 days)	
Oil	31.0%
MSCI World	-1.5%
MSCI EM	-3.0%
S&P GCC	-3.6%

2008 - Pre GFC Supply Shock (317 days)	
Oil	112.2%
MSCI World	-18.2%
MSCI EM	No Drawdown
S&P GCC	NA

2022 - Russia Ukraine (67 days)	
Oil	66.1%
MSCI World	-13.9%
MSCI EM	-13.5%
S&P GCC	-27.6%

2011 - Libya Supply Shock (171 days)	
Oil	56.9%
MSCI World	-5.6%
MSCI EM	-6.9%
S&P GCC	-14.9%

2026 - Iran Israel (32 days - on-going, as of Mar 31, 2026)	
Oil	63.2%
MSCI World	-8.6%
MSCI EM	-13.3%
S&P GCC	-4.2%

Market	Max	Min
Oil	112.2%	18.2%
MSCI World	-1.5%	-18.2%
MSCI EM	-3.0%	-13.5%
S&P GCC	-3.6%	-27.6%

Source: LSEG Workspace

ABOUT MARMORE

Marmore MENA Intelligence

15+ Years of Consulting & Research Expertise in GCC	**50** Years since our parent company Markaz was established in Kuwait.
150+ Clients Across Middle East	**200+** Published Insights

Our Areas of Expertise

Our Business Operates in Two Key Verticals

Consulting

- Strategic/Competitors Intelligence
- Market Entry Strategies
- Business Plan
- Fintech Adoption/Integration
- Digital Banking Intelligence
- Robo-Advisory Solutions
- Company Valuation

Research Services

- Macro Economic Research
- Industry Research
- Capital Market Research
- Fixed Income Research
- Equity Research (Buy-side/Sell-Side)
- Thematic Reports
- White Papers

To know more Scan here