

# Erste Insights 2026 Report Update: MIDDLE EAST DE-ESCALATION OUTLOOK

## A. What exactly has happened

The United States and Iran have reached an agreement to halt a conflict that lasted more than three months, caused significant casualties and led to exceptional volatility on capital markets. The two parties have also committed to reopening the Strait of Hormuz, a key route for global oil shipments.

The arrangement includes a ceasefire, the gradual removal of mines to allow safe maritime traffic, and the lifting of a U.S. naval blockade on Iranian ports. It also provides for renewed discussions on Iran's nuclear program, which has been a central source of tensions between the two countries.

The agreement is intended as a **temporary measure**, lasting around 60 days, during which **further negotiations between the U.S. and Iran** will take place.

Following the announcement of this agreement, the **price of oil has fallen** significantly further, though **it remains noticeably higher** than it was **before the outbreak** of the war at the end February. Assuming that the Strait of Hormuz will be fully reopened in the coming days, the agreement signals the beginning of a normalization of oil and other product shipments from the Persian Gulf. However, the **disruptions** of recent months **have been massive** on both the supply and demand sides, so there is **considerable uncertainty regarding the pace** at which **prices** for the affected goods **will fall**.

**If the agreement** between the U.S. and Iran **holds**, the process of **normalization will certainly begin**, which is a positive development. Businesses and households will gain **greater planning certainty** and, thanks to falling energy prices, will become **more confident**, even if the burdens remain. Overall, this points to a **revival of the global economy in the second half of the year**. With a decline in oil prices and other fossil fuels, a peak in inflation is also foreseeable. However, it remains unclear whether and to what extent prices for other products and services will also rise with a lag.

**Uncertainty** thus persists regarding the **future course of the major central banks**. Due to falling energy prices, we believe the **likelihood of a further interest rate hike by the ECB has decreased**, and we expect rates to remain unchanged. However, the risk of a further rate hike remains. **In the U.S.**, on the other hand, **we expect a rate hike** due to persistent inflation, which had already risen prior to the Iran conflict as a result of U.S. tariffs.

The **agreement** reached **does not fundamentally change the outlook for the global economy and interest rates**, as we - and likely most market participants - had anticipated a resolution of the conflict during the summer months. The agreement marks an important first step; now the normalization of supply chains begins.

## B. What it means for investors

Despite an environment marked by rapid geopolitical change and reactive markets, **our yearly outlook<sup>1</sup> continues to hold up well, allowing us to maintain a clear and consistent House View.**

The interim agreement and expected reopening of the Strait of Hormuz reduce the risk of disruption to energy supply, inflation and growth. As a result, they **improve the relative attractiveness of riskier assets. Equities could benefit most**, particularly **European** and selected **Emerging Market equities**, as these regions were more exposed to the energy shock and its negative growth effects. **U.S. equities** remain **supported by the Artificial Intelligence (AI) boom.**

**Government bonds** may receive some short-term support as fears about rising prices ease, but we **remain cautious given the still elevated inflation levels. Corporate bonds** are **attractive**, with the improved economic outlook and lower energy risks making corporate borrowing costs more stable. In this segment, **EUR investment-grade credit is particularly well positioned.** In **alternatives, energy commodities could consolidate** as geopolitical concerns decrease, while **industrial metals remain supported** by resilient manufacturing activity, AI investment, and infrastructure demand. **Gold remains useful** as a **hedge.**

## C. Investment discipline remains essential

The recent de-escalation in the Middle East is a welcome development and should help reduce one of the key sources of market anxiety, particularly around energy supply. Lower geopolitical risk can improve investor sentiment, but it does not remove the need for careful and disciplined decision-making.

Rather than reacting immediately to changing headlines, investors should consider whether anything has materially changed in their own objectives, investment horizon or ability to take risk. If these foundations remain unchanged, maintaining a diversified portfolio and staying disciplined remains the most sensible approach. Where uncertainty persists, a discussion with your advisor can help ensure that your portfolio remains well positioned for both opportunities and risks ahead.

1. Erste Insights 2026: cutting through the noise (19.01.2026)

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Today, the banking group serves around 23 million customers in eight core markets: Austria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia and Slovakia. Erste Group offers private, corporate, and institutional clients a broad range of banking and financial services – from retail and private banking to corporate and transaction banking, as well as asset management. In doing so, the Erste Group combines digital innovation with a strong branch network.

For the 2025 financial year, the group reported a net result of 3.5 billion euros, while its CET1 ratio stood at 19.3%. More than 55,000 employees contribute to the banking group's success. Its total assets amounted to 368.6 billion euros.

The Erste Group Chief Investment Office (CIO) provides an integrated investment perspective combining research, asset management and capital-markets expertise to guide investors through complex market environments - distinguishing temporary disruptions from structural economic forces.

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