



associated with  Sanlam group

YOUR WEALTH ARCHITECT

Wealth, your way.

**Macro & Market update: Impact of
escalating tensions in the Middle East**

March 2026



Overview: Global risk conditions worsened over the weekend after the US and Israel conducted coordinated strikes across Iran military bases. The situation exacerbated after Iran supreme leader Ayatollah Ali Khamenei was killed along with other senior leaders

Rising regional escalation: The ongoing Iran conflict carries broader risks than recent regional tensions. The US–Israel action against senior Iranian leadership and the subsequent retaliatory strikes have heightened instability across the Middle East, raising the risk of wider regional escalation

US & Israel’s objectives for military operation in Iran: Stop Iran from developing nuclear weapons, and trigger a regime change in Iran.

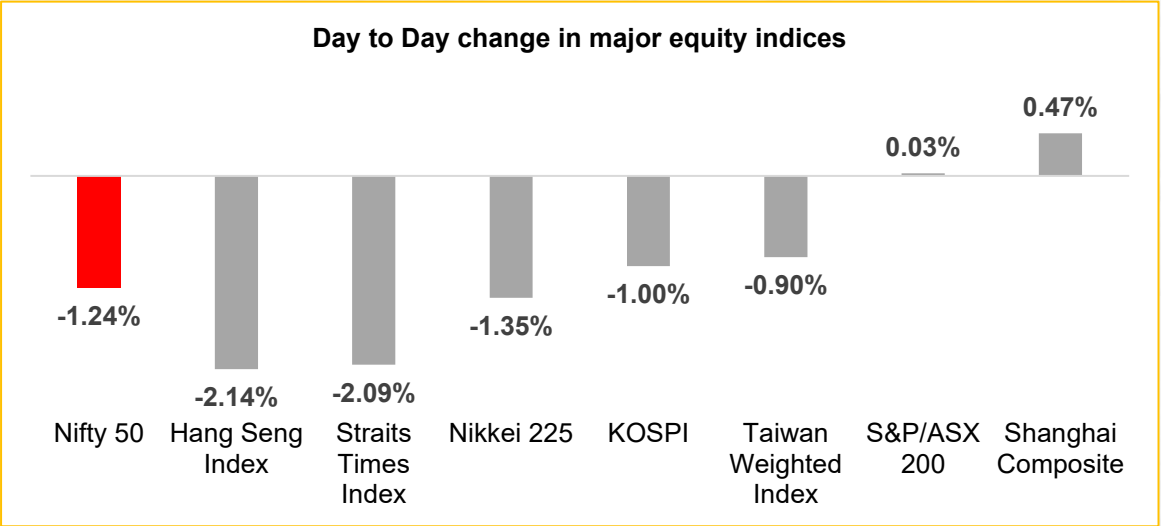
Iran’s response: Tehran responded by targeting US military bases and other sites across strategic locations such as Qatar, UAE, Kuwait, Bahrain and Israel - broadening uncertainty around a regional conflict

Indian diaspora in Middle East: With nearly 9mn Indians residing in the Middle East – contributing ~38% of India’s total remittances – the region holds strategic importance for India. It also accounts for ~15% of India’s exports and ~21% of imports, with the UAE, Iraq, and Saudi Arabia forming the core of bilateral trade flows

Concerns around logistics rise: Exporters have raised strong concerns that the conflict could disrupt shipping through the Strait of Hormuz and the Bab el-Mandeb Strait, both of which are crucial maritime corridors. These routes serve as important links connecting India with the gulf region as well as major markets in North America and Europe.

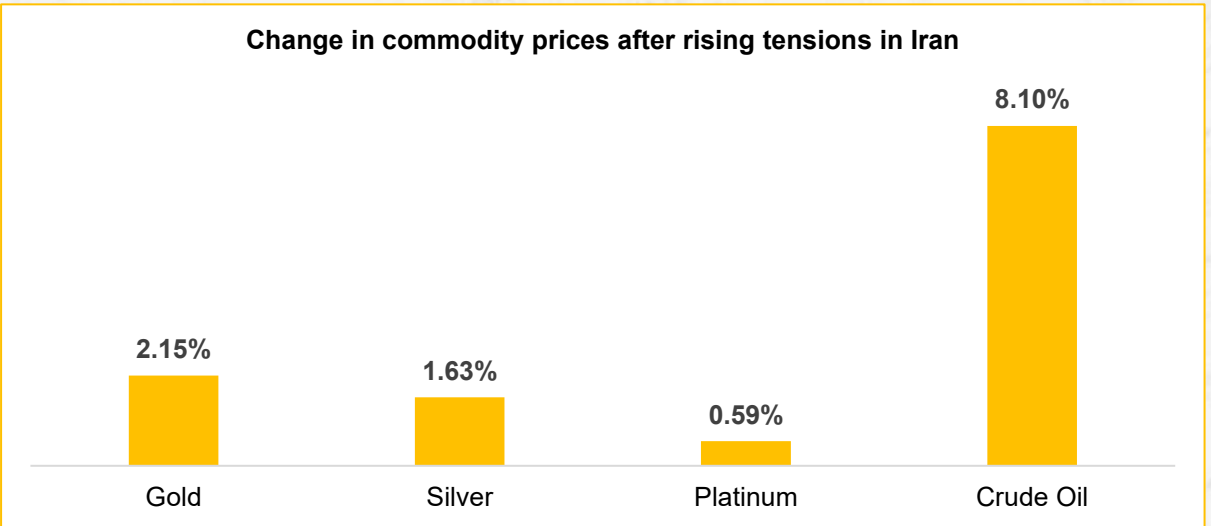
Market reaction: Commodity prices spurts, equities & currencies tank

Day to Day change in major equity indices



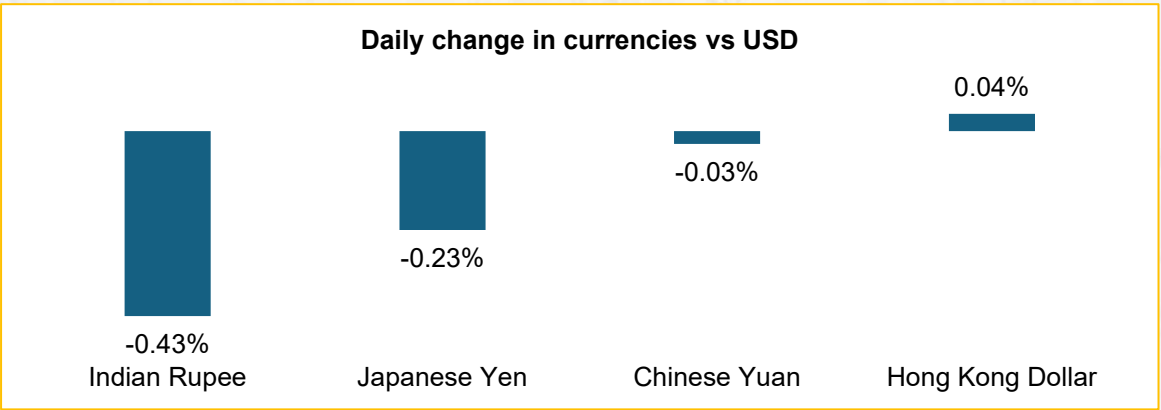
India and global equities declined following escalating tensions in the Middle east. At close, the Sensex was down 1,048.34 points or 1.29 percent at 80,238.85, and the Nifty was down 312.95 points or 1.24 percent at 24,865.70.

Change in commodity prices after rising tensions in Iran



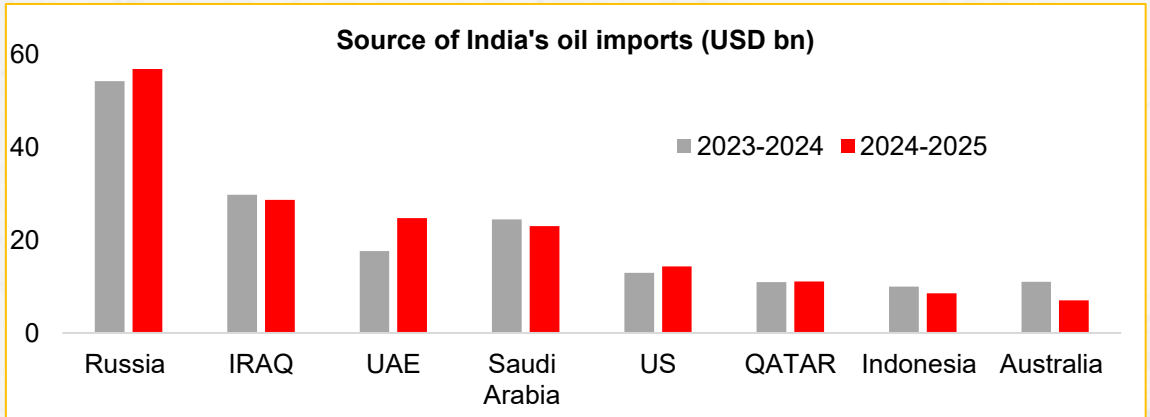
Both precious and industrial metals shot up – this was despite moves higher in the DXY. Moves higher in crude oil prices was on account of an unofficial stoppage of oil shipping in the strait of Hormuz* by Iran.

Daily change in currencies vs USD



With moves higher in dollar index, major currencies depreciated with worsening global tensions. INR weakened by 50 bps, with further fall likely capped on anecdotes of RBI FX intervention.

Source of India's oil imports (USD bn)

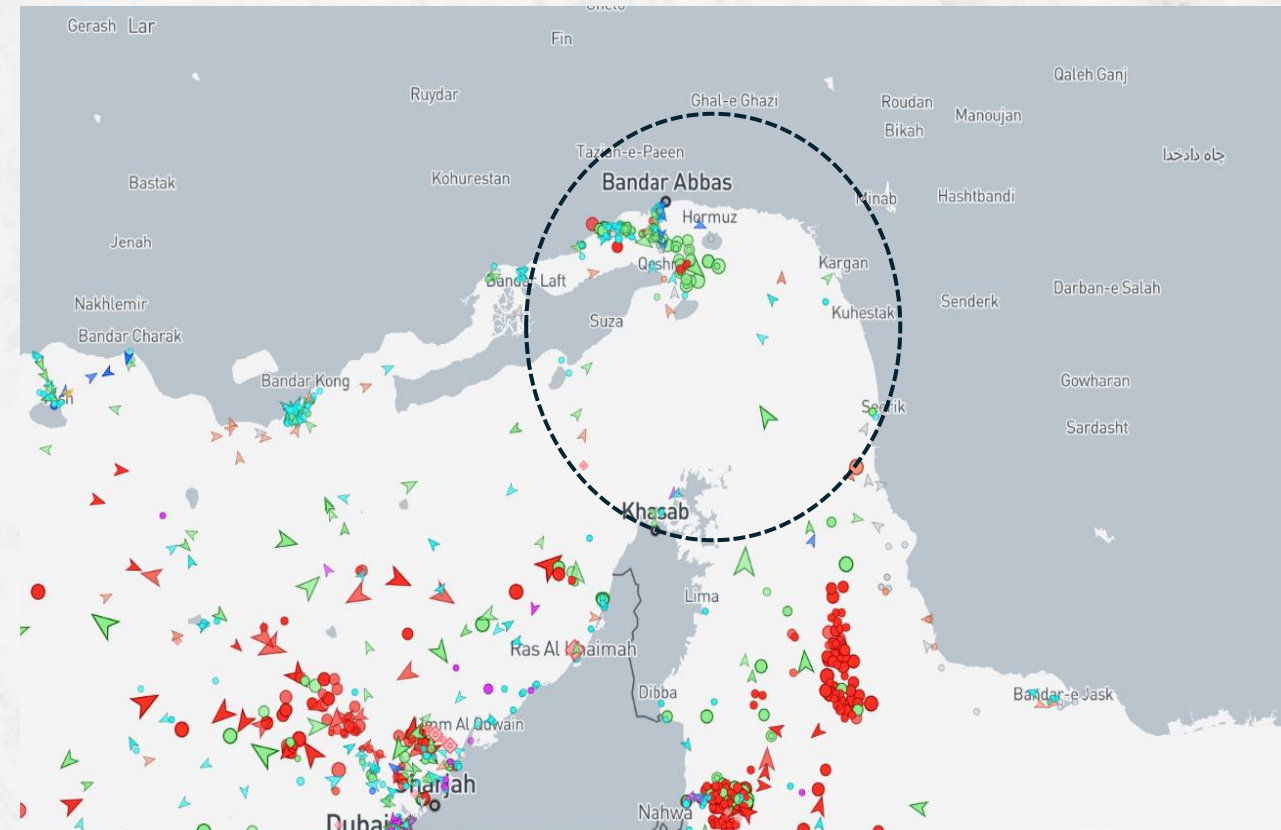
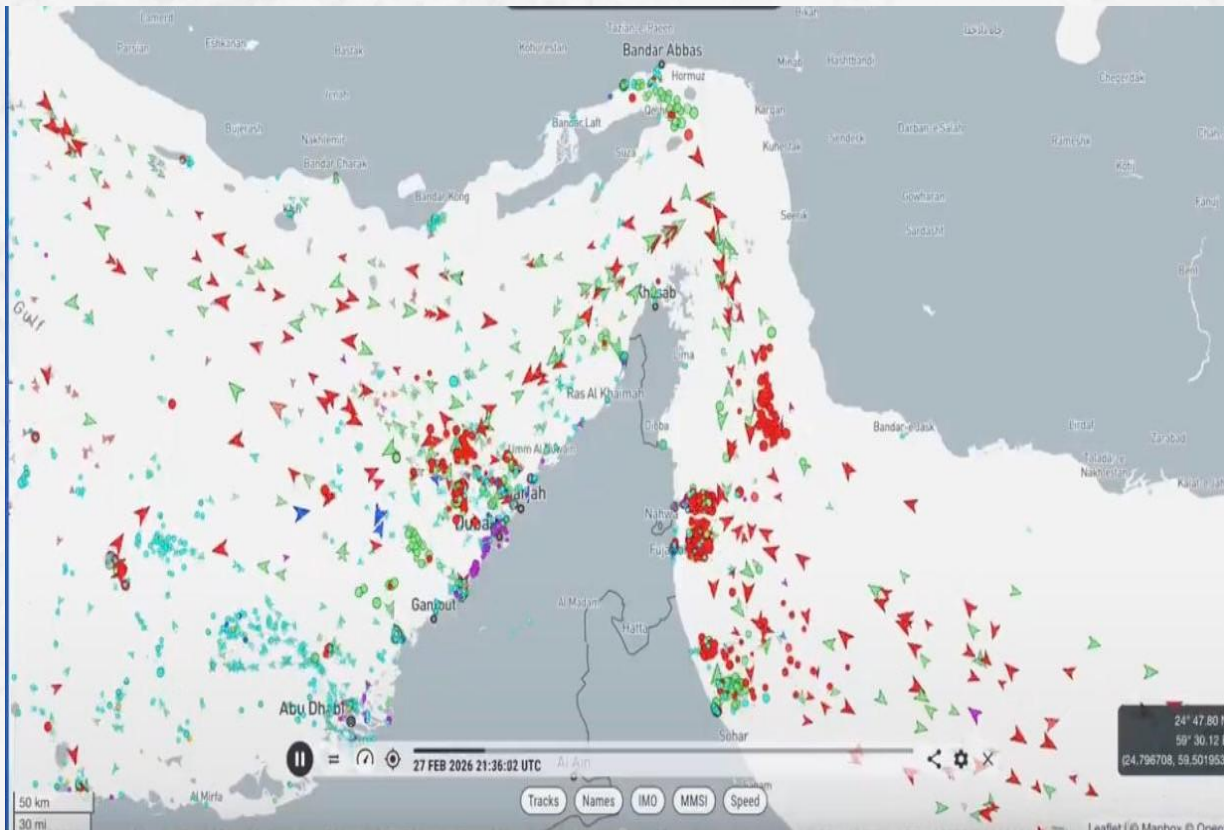


While the share of Russia in India's oil imports shot up in FY25, this trend reversed this year. India's crude oil imports doubled from the UAE almost doubled in Jan'26 (given pressure upon India to reduce its oil purchases from Russia).

Source: Investing.com, Ministry of trade & commerce, SWL

Significance of Strait of Hormuz

This is a crucial 33km waterway for oil and gas connecting supplies from Saudi Arabia, UAE, Iraq, Qatar, Bahrain and Oman. Follow escalating tensions in Iran, **the traffic volume across the waterway is said to be unofficially closed. Ships are said to be holding back due to ongoing conflict.** The reduced traffic as seen in the (RHS) chart below implies that ocean carriers are waiting to see how the situation between the US, Israel, and Iran unfolds. **This waterway controls approx. 20% of world's oil supply, and crucial for East Asian economies.**



Source: Marine traffic. (Note: The chart on the LHS is before the tensions started (27th Feb'26, and one on the right hand side is as on 2nd Mar'26)

- On the macro front, a sharp weakness in INR has implications upon India inflation as well as growth metrics. The RBI has made a baseline assumption of crude oil price to average at USD \$70/barrel for H2FY26, and spot INR at 88/1\$. In the second half of FY26 (so far) Indian crude oil basket has averaged at USD 65/barrel (under RBI's baseline assumption).
- A 10% rise from the baseline assumption of crude oil basket (to USD \$70/barrel) can drive inflation higher by 30 bps, and growth lower by 15 bps (assuming a full passthrough of rise in global prices to domestic fuel prices). **It will be crucial to understand how long these uncertainties last for oil prices to sustain higher.**
- Additionally, a 5% depreciation in INR from baseline assumption (to spot INR at 92.4) can drive inflation higher by 35 bps, while GDP growth may benefit by 25 bps. So far in H2FY26TD, spot INR has averaged at 89.5. Hence a ~3% further depreciation (from the current average) can drive inflation up by 35 bps.
- Having said this, we believe that depreciation in INR is likely to be capped on account of RBI FX intervention. Additionally, reversal of ongoing tensions should help the local currency stabilize. **Based on these assumptions, we noted limited upside risks of oil prices to domestic inflation and growth outlook.**

SECTORAL IMPACT

Sectors reliant on crude-linked inputs—such as chemicals, paints, pharma & APIs, airlines, tyres, agrochemicals, and oil marketing companies (OMCs)—are likely to face margin pressure from higher oil prices.

Companies with meaningful exposure to the Middle East—such as L&T, Adani Ports, and selected chemical players—may also face operational and earnings risks.

The defence sector is likely to benefit from improving sentiment amid rising global defence spending.

Bullion, traditionally regarded as a safe-haven asset, has scaled consecutive record highs this year, underscoring heightened economic and geopolitical uncertainty. Any further escalation is likely to support gold and silver prices in the short term, which would be positive for Gold and Silver ETF investments.

Sectors	Impact Sensitivity	Reason - Key Risk Driver	Earnings Impact
Aviation	High Negative	ATF cost surge + rerouting Expenses	Sharp margin pressure
IT Services	Low–Medium	Risk-off sentiment	Limited impact
Chemicals	Medium–High	Feedstock disruption - Methanol, Intermediates	Input cost pressure
Fertilizers	Medium	Gas & ammonia pricing	Subsidy payment delay risk
Cement	Medium	Fuel & pet-coke inflation	Margin compression
Auto	Medium	Demand slowdown + logistics	Limited direct crude risk
Shipping	Medium Positive	Freight rate spike	Higher charter rates
Precious Metals	High Positive	Safe-haven flows – Gold / Silver	Positive for mining companies
Banks / NBFCs	Medium	FPI outflows & volatility	Banking Book (treasury) MTM loss
Mid/Small Caps	High	Risk-off FPI selling	Valuation correction risk

The geopolitical situation in the Middle East has triggered **risk-off sentiment in Indian stocks**, with crude-linked pressure weighing on broad markets, while some sectors (like defence and upstream energy) benefit from safe-haven or commodity dynamics. Continued conflict may keep volatility high and markets biased negatively but markets eventually refocus on earnings, liquidity, and growth — unless the geopolitical event alters those fundamentals structurally.

- The scope of this conflict appears worse, following retaliation by Iran across strategic locations, with ongoing tensions likely to be longer than the 12-day war in Jun. **However, tensions could ease over the next five to six weeks, depending on China's intervention to cap oil prices and normalize logistics**—this hope is reflected in the relatively less dramatic market reaction across indicators.
- On easing of tensions, crude oil prices are expected to move back towards USD \$70/barrel. Additionally, market participants are also of the view that a steep rise in crude oil prices is less likely to continue given US mid-term elections later this year.
- The recent correction in local equities have made India stock valuation slightly fairer than before. We continued to maintain inclination towards large cap companies in a staggered manner, with global tensions still evolving.
- While it appears attractive at these levels to add, we believe FPIs will likely refrain from an EME like India until ongoing tensions ease. India bond yields edged higher 4-5 bps tracking moves higher in crude oil prices and sharp weakness in INR, though this appears more like a knee jerk reaction. Lastly, precious metals (gold & silver) have also shot up significantly on tensions around the Middle East region.

Market performance during past episodes of geopolitical conflicts

The chart below illustrates the **historical performance of global stock indices and commodity prices** following major **geopolitical conflicts** and acts of terrorism. Past records suggest that while **warfare triggers temporary instability**, global financial markets frequently demonstrate **long-term resilience**, with a consistent pattern of **market recovery** and growth over a six-month horizon.

