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Pixels of crisis: A granular look at the risks of non-payment due to the conflict in the Middle East

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Summary

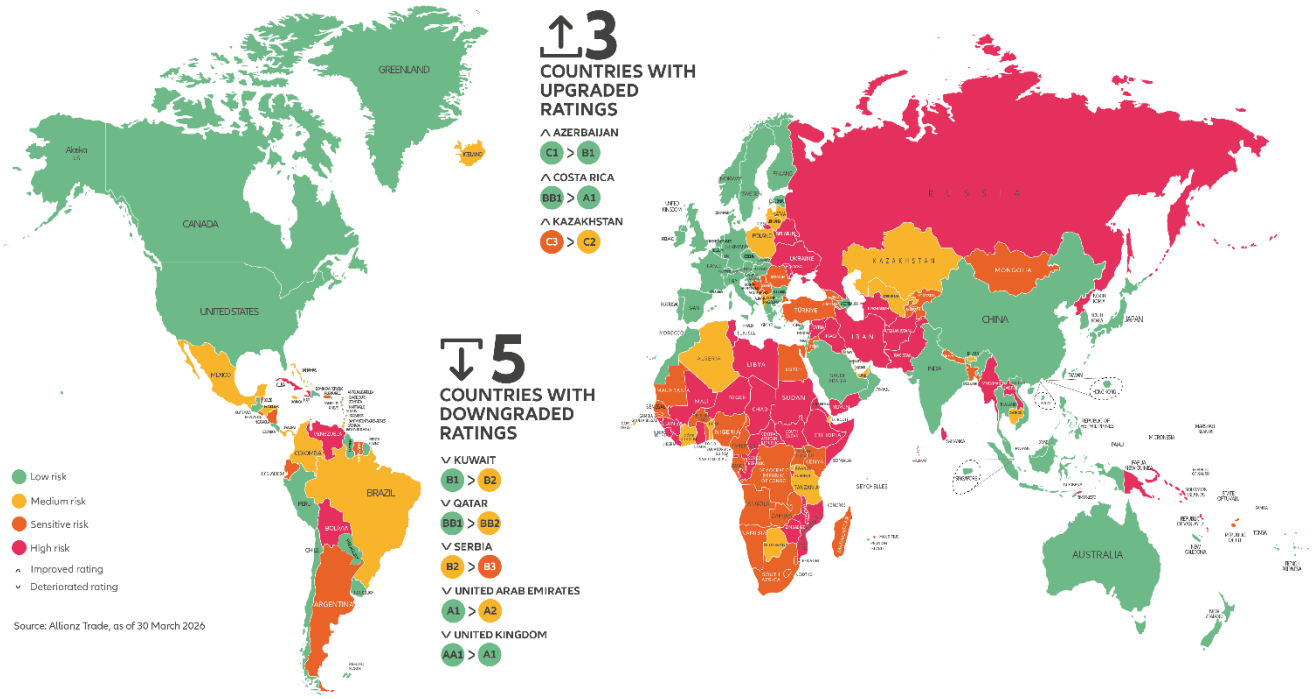
- **The Middle East conflict and the disruption of the Strait of Hormuz have led to a broad-based reassessment of non-payment risks, with country downgrades outweighing upgrades.** We downgraded the non-payment risk backdrop for five economies (Kuwait, Qatar, Serbia, the UK and the UAE) and upgraded only three (Azerbaijan, Costa Rica and Kazakhstan). Downgrades are due to either first-round effects such as higher input prices and rising supply shortages jeopardizing profitability or simply to growing domestic fragilities such as the UK's fiscal situation. Triple-deficit economies – energy, current account and fiscal – are set to bear the brunt of second-round effects, notably Ukraine, Jordan, Pakistan, Kenya and Ethiopia, followed by Ghana, Egypt, Sri Lanka, Türkiye and Morocco. In Asia, we are closely monitoring Indonesia, Thailand, Philippines and Taiwan. Third-round effects are also becoming more visible as FX reserve accumulation has decreased and tighter external financing conditions begin to feed into higher sovereign risk premia and rising debt-service costs, particularly in countries geographically close to the conflict and those where weaker external buffers and policy constraints amplify vulnerability (e.g. Türkiye's gross reserves are down -25%).
- **Sector risk ratings, measuring non-payment risks by sector, have also deteriorated markedly, reversing the improving trend seen since mid-2025. The global transport sector and the energy sector in GCC countries in particular are caught in the crossfire. Europe's energy-intensive companies, already affected since the 2022 energy crisis, are set for even tighter margins.** With 21 sector rating downgrades versus just six upgrades – one of the sharpest negative balances since end-2022 – the impact is already visible. Gulf countries sit at the epicenter, accounting for more than half of our proprietary rating downgrades, particularly in energy and transport-related sectors. Bunker oil prices have surged by around +70%, pushing total operating costs up by +25% for sea carriers, while freight rates have increased only modestly (+16%), squeezing margins amid weak demand. Airlines face a different dynamic: although jet fuel prices have hit record highs, stronger pricing power has allowed fares to rise significantly (up to +70% on some long-haul routes). However, the sector is also grappling with major disruptions, including over 70,000 flight cancellations and the closure of key Middle Eastern hubs, with tourism losses for the region potentially reaching USD55bn and international arrivals dropping by around -30% y/y in 2026. Fragilities are also resurfacing in already weakened sectors, notably chemicals and metals in Europe, highlighting the broadening reach of the shock. In Europe, natural gas accounts for 40% of final energy consumption across industries, leaving the already downsizing chemicals, steel and cement sectors in the dark in 2026.
- **Beyond these first-round effects, the risk of broader and more persistent second-round impacts is rising.** The Middle East's central role in supplying critical inputs such as LNG, fertilizers, aluminum, helium and sulfur is also pushing up costs across global value chains, from agrifood to manufacturing, healthcare and technology. Emerging markets remain particularly vulnerable, followed by Europe, where energy-intensive sectors now face further capacity reductions, while consumer confidence and pricing power show early signs of strain. If the shock persists, tighter financial conditions, weaker demand and rising input costs could trigger a more systemic downturn, echoing – or potentially accelerating – the dynamics seen during the 2022 energy crisis.

Brinkmanship trap drives country-risk repricing

The escalation of the Middle East conflict and the resulting disruption in the Strait of Hormuz have triggered a broad-based reassessment of country and sector risk ratings, reflected in five country risk and 21 sector risk downgrades and only three country risk and six sector risk upgrades across our review. The immediate macroeconomic impact has been transmitted through three key channels: weaker global growth, elevated and more volatile energy prices and heightened trade and financial disruption. For energy importers, higher oil prices are feeding into inflation, eroding real incomes and weighing on consumption, while exporters face uncertainty linked to disrupted shipping routes and volatile revenues. In parallel, country-specific dynamics – most notably in the UK – continue to play a critical role. The UK's downgrade reflects persistent fiscal and external imbalances, with public debt on an upward trajectory and a wide fiscal deficit expected to persist amid limited policy adjustment. This combination of global shocks and domestic fragilities underscores a more challenging and uncertain macroeconomic environment overall.

At the country level, the downgrades are concentrated among economies directly exposed to the Strait of Hormuz shock or facing compounding domestic vulnerabilities. Kuwait, Qatar and the UAE have all seen their short-term risk profiles deteriorate as the blockade constrains trade and hydrocarbon exports, despite large sovereign buffers mitigating immediate financing risks; in all three cases, the crisis raises structural questions about diversification models reliant on services, tourism and expatriate-driven demand. Serbia's downgrade reflects a different but reinforcing set of pressures, including weaker growth, rising energy costs, sanctions-related disruptions and intensifying political instability. The UK's downgrade is rooted in structural fiscal weaknesses rather than the conflict per se, though the external environment adds pressure. On the upgrade side, Kazakhstan and Azerbaijan benefit from stronger hydrocarbon demand, improved geopolitical positioning and, in Azerbaijan's case, reduced political risk following regional normalization. Costa Rica stands apart as an example of the relative insulation of Latin America from last month's crisis, with solid growth, low inflation, improved external balances and political continuity supporting an upgrade in its medium-term risk profile.

Figure 1: Country risk map, end of March 2026



Source: Allianz Research, based on the Country Risk Methodology and the Q1 2026 Country Risk Ratings

Looking ahead, the risk of further country-risk downgrades remains tilted to the downside in a scenario where the conflict is prolonged or escalates. A more severe scenario – such as a sustained closure of the Strait of Hormuz, a widening of the conflict and greater geopolitical uncertainty – could amplify global supply

disruptions and even intersect with geoeconomic flashpoints elsewhere, including Canada and Taiwan, with significant implications for supply-chain reconfiguration, production systems and trade flows. In the Gulf, Oman and Saudi Arabia face mounting challenges from trade disruptions, rerouting costs and increased revenue volatility, which could undermine fiscal and external stability despite higher oil prices. Kuwait, Qatar and the UAE also remain on watch. Secondary effects are visible in Cyprus and Thailand, which face tourism slowdowns and weaker domestic demand as higher energy costs and security concerns weigh on activity. The Philippines and Indonesia are also particularly exposed to imported inflation and subsidy pressures, with risks of energy shortages, demand compression and overall stagnation. Among high-income economies, Canada could face downside risks despite benefiting from higher oil prices. While stronger energy revenues provide some support, this is offset by deteriorating public debt dynamics and weakening potential growth. At the same time, a more protectionist US stance ahead of the USMCA/CUSMA review threatens around 80% of Canadian exports, weighing on the medium-term outlook.

More broadly, second-round effects are likely to materialize most severely in economies facing a triple vulnerability: high dependence on hydrocarbon imports – particularly those sourced from or transiting through the Gulf – compounded by a current account deficit and a large fiscal deficit. This triple exposure, which subsumes the classical twin deficit framework, is further amplified in countries carrying elevated external debt burdens and significant debt-service obligations falling due in 2026. While some economies enter this shock in a stronger position than at the onset of the Ukraine war, pockets of acute vulnerability remain. A first tier of most-exposed economies includes Ukraine, Jordan, Pakistan, Kenya and Ethiopia, where weakened external positions leave limited buffer to absorb both the energy price pass-through and the tightening of global financial conditions simultaneously. A second tier – Ghana, Egypt, Sri Lanka and Türkiye – faces a different but equally acute stress profile. While direct supply disruption through Hormuz is less of a concern for these economies, an energy-price surge alone is sufficient to destabilize their already fragile fiscal and external balances. Egypt is a particular case in point: the simultaneous loss of Suez Canal revenues, tourism receipts and remittances from the Gulf constitutes a current account shock of the first order, compressing the very external financing channels that have historically offset its twin deficit. A third tier of hydrocarbon-dependent but somewhat more insulated economies – including the Philippines and Morocco – face meaningful import cost pressures given their high exposure to energy imports, but are less directly affected by supply constraints, given their more limited reliance on Hormuz-transiting cargoes. Finally, most Latin American economies remain comparatively less exposed, with the noticeable exception of Chile, benefiting from greater energy self-sufficiency, geographic distance from the conflict zone and, in several cases, commodity export windfalls that partially offset higher import costs.

Table 1: EMs most exposed to the Middle East crisis

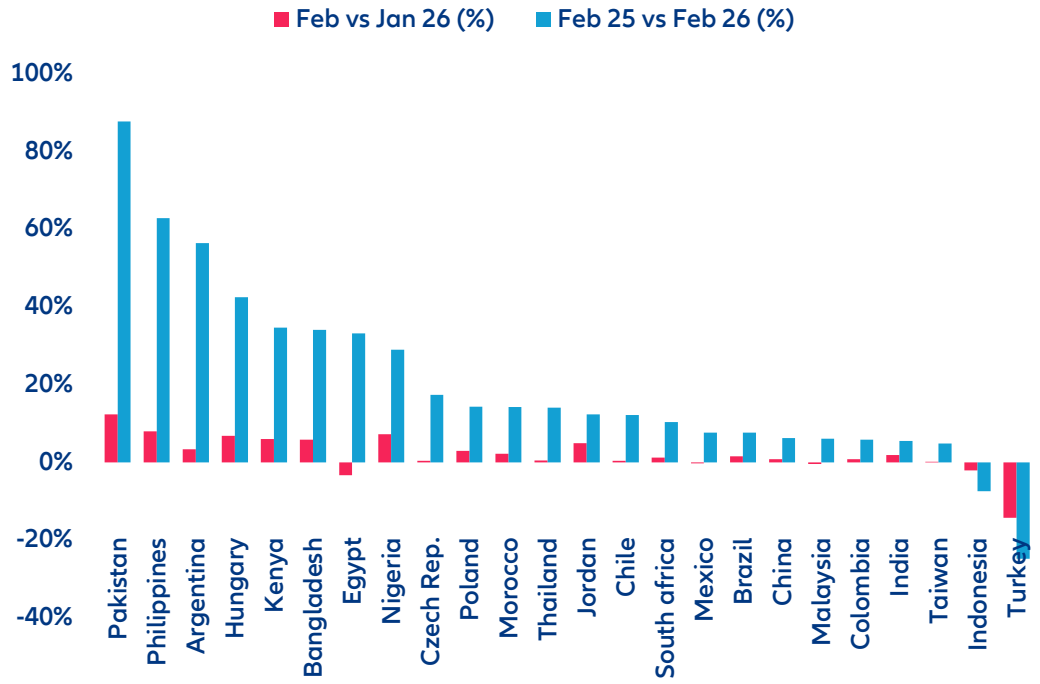
	Exposure to the Middle East crisis						Market reaction since Feb 27		Coping mechanisms					
Country	Energy balance (% of GDP)	Strategic oil reserves (days of consumption)	Oil dependency (% primary energy)	Gas dependency (% primary energy)	Vulnerability to energy price shock	Vulnerability to ME supply shock	FX (% change vs USD)	Bond yields (bps)	Fiscal balance (% of GDP)	Current Account (% of GDP)	FX reserves (months of imports)	FX outlook	Central Bank stance (by mid-2026)	Risk of fiscal slippage throughout 2026
Argentina	0.6	NA	-8%	0%	Medium	Low	1.3	N/A	-1.5	-0.4	3.8	Neutral	On hold	Low
Bangladesh	-3.5	49	0%	N/A	High	High	-0.5	36.0	-3.9	-0.9	4.9	Negative	On hold	High
Brazil	0.9	NA	-16%	2%	Low	Low	-2.3	60.0	-7.5	-2.3	12.1	Positive	Cautious easing	Medium
Chile	-4.4	25	46%	9%	High	Medium	-4.6	42.0	-0.6	-2.2	6.7	Negative	On hold	Low
China	-2.4	100	12%	3%	Medium	Medium	-0.7	42.0	-5.0	2.8	12.3	Neutral	On hold	Medium
Colombia	3.9	NA	-34%	4%	Low	Low	1.0	-38.0	-5.7	-2.6	9.6	Negative	Hike	Medium
Czechia	-2.4	117	28%	12%	High	Medium	-2.9	46.0	-2.1	0.4	9.3	Negative	On hold	Medium
Egypt	0.0	NA	8%	9%	Medium	High	-9.0	51.0	-10.7	-4.3	4.3	Negative	On hold	High
Ethiopia	-4.0	NA	0%	N/A	High	High	-0.6	N/A	-1.7	-2.6	3.7	Negative	On hold	Medium
Hungary	-3.6	215	15%	20%	High	Medium	-5.1	106.0	-5.1	0.9	3.7	Negative	On hold	High
India	-3.7	30	13%	4%	High	Medium	-3.3	18.0	-1.8	-1.4	9.1	Neutral	On hold	Medium
Indonesia	1.1	20	15%	-3%	Low	Medium	-1.3	44.0	-2.7	-1.2	7.1	Negative	On hold	High
Jordan	-8.0	45	#N/A	#N/A	High	High	0.1	-44.0	-3.5	-5.5	7.7	Negative	On hold	Medium
Kenya	-4.5	NA	16%	2%	High	High	-0.5	10.0	-5.6	-3.4	5.7	Negative	On hold	High
Malaysia	-0.4	NA	13%	-19%	Medium	Medium	-1.3	7.0	-3.6	1.8	5.3	Negative	On hold	High
Mexico	0.7	NA	2%	6%	Low	Low	-3.6	72.0	-4.1	-0.3	4.3	Neutral	On hold	Medium
Morocco	-5.0	30	50%	15%	High	Medium	-2.1	29.0	-4.5	-1.5	7.4	Neutral	On hold	Medium
Nigeria	12.2	NA	-48%	-17%	Low	Low	-1.2	62.0	-3.7	3.6	12.0	Neutral	On hold	Medium
Pakistan	0.0	28	20%	7%	High	High	0.1	84.0	-4.1	-0.4	11.6	Negative	On hold	High
Peru	-0.5	NA	34%	-6%	High	Low	-3.1	44.0	-2.2	1.2	14.8	Negative	On hold	Low
Philippines	-4.2	60	36%	5%	High	Medium	-4.6	106.0	-0.3	-3.5	8.2	Negative	On hold	Medium
Poland	-2.1	121	35%	2%	High	Medium	-3.0	76.0	-6.3	-0.8	5.7	Negative	On hold	High
Romania	-1.7	92	28%	0%	High	Medium	-1.9	105.0	-6.2	-6.6	6.0	Neutral	On hold	High
South Africa	-2.3	NA	19%	1%	Medium	Low	-5.8	92.0	-5.6	-1.2	5.6	Neutral	On hold	Low
Sri Lanka	-4.5	35	47%	4%	Medium	High	-1.2	14.0	-6.5	0.5	4.5	Negative	On hold	High
Taiwan	-5.1	80	28%	19%	Medium	High	-3.1	4.0	-0.2	13.1	15.9	Negative	On hold	Medium
Thailand	-7.8	60	35%	11%	High	High	-6.2	55.0	-2.5	1.3	8.9	Negative	On hold	Medium
Tunisia	-4.0	60	21%	22%	High	High	-1.6	N/A	-6.0	-2.0	4.9	Negative	On hold	High
Türkiye	-3.6	94	7%	2%	High	Medium	-0.8	375	-0.7	-1.3	2.7	Neutral	Hike	Medium
Vietnam	-2.5	15	20%	2%	Medium	High	-1.1	8	-2.3	2.4	2.3	Negative	On hold	Medium

Source: various, Allianz Research

While emerging markets' FX reserves are 20% higher than they were a year ago, third-round effects are becoming more visible as FX volatility and capital outflows have started adding pressures to central banks. FX reserve depletion and tighter external financing conditions in countries geographically closer to the conflict are starting to feed into higher sovereign risk premia and rising debt-service costs, particularly among countries

where weaker external buffers and policy constraints amplify vulnerability to a prolonged shock. For example, Türkiye's external buffers have deteriorated markedly since late February, with gross reserves declining by over -25% amid broad-based pressure across both FX and gold holdings. In parallel, Egypt's reserves declined by -3% in the month since the start of the conflict, though it still holds 35% higher reserves than a year ago. In the GCC region, Bahrain has been the sovereign most impacted by yield deterioration as the conflict arrives at an already delicate moment when it faces a large twin deficit.

Figure 2: FX reserve accumulation decelerates since the start of 2026



Source: LSEG Datastream, Allianz Research

Meanwhile, sector risk ratings have deteriorated in net terms for the first time since Q2 2025. With only six upgrades (compared to 12 in Q4 2025) and 21 downgrades (5 in Q4 2025), this represents one of the largest quarterly numbers of downgrades since the end of 2022 (see Table 2). Downgrades occurred mainly in GCC countries (12 cases) where the immediate impact of the war, in terms of risk ratings, is spread across the energy (6), transportation (3) and transport equipment sectors (3). The energy sector moved from low to medium risk in the UAE, Saudi Arabia, Qatar and Oman, and from medium to sensitive in Kuwait and Bahrein. Downgrades in the transport-related sectors were all from medium to sensitive. Elsewhere, chemicals and metals both stand out, the former with a batch of downgrades to sensitive risk in Western Europe (Denmark, Finland, France, Norway), and the latter with Czechia and Türkiye entering the highest level of risk. In Canada, smaller producers and regional mills in the paper sector are facing heightened risks due to cost inflation, workforce shortages and raw-material constraints. At the same time, the better risk outlook remained limited (six cases) and all from sensitive to medium level of risk. This includes construction in Switzerland, household equipment in Czech Republic and Denmark, machinery equipment in Denmark, retail in Czech Republic and transportation in Uruguay. A prolonged or escalating conflict could lead to further sector risk downgrades due to the various channels of transmission of the direct impact of higher oil prices and supply-chain disruptions, and the multiple second-round effects through inflation, rates and confidence that would lead to more broad-based and persisting impacts.

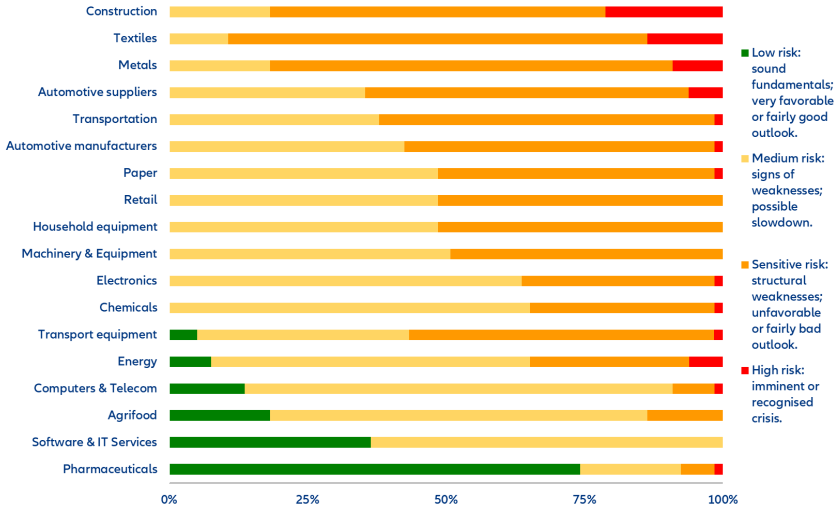
Table 2: Q1 2026 changes (downgrades and upgrades) in sector risk ratings

WORSE RISK RATINGS (DOWNGRADES)			
Sector	Country	Q4 2025 rating	Q1 2026 rating
Chemicals	Denmark	2 (medium)	3 (sensitive)
Chemicals	Finland	2 (medium)	3 (sensitive)
Chemicals	France	2 (medium)	3 (sensitive)
Chemicals	Norway	2 (medium)	3 (sensitive)
Construction	Uruguay	2 (medium)	3 (sensitive)
Electronics	Slovakia	2 (medium)	3 (sensitive)
Energy	Bahrain	2 (medium)	3 (sensitive)
Energy	Kuwait	2 (medium)	3 (sensitive)
Energy	Oman	1 (low)	2 (medium)
Energy	Qatar	1 (low)	2 (medium)
Energy	Saudi Arabia	1 (low)	2 (medium)
Energy	UAE	1 (low)	2 (medium)
Metals	Czech Republic	3 (sensitive)	4 (high)
Metals	Turkey	3 (sensitive)	4 (high)
Paper	Canada	2 (medium)	3 (sensitive)
Transport equipment	Bahrain	2 (medium)	3 (sensitive)
Transport equipment	Oman	2 (medium)	3 (sensitive)
Transport equipment	UAE	2 (medium)	3 (sensitive)
Transportation	Bahrain	2 (medium)	3 (sensitive)
Transportation	Qatar	2 (medium)	3 (sensitive)
Transportation	UAE	2 (medium)	3 (sensitive)

BETTER RISK RATINGS (UPGRADES)			
Sector	Country	Q4 2025 rating	Q1 2026 rating
Construction	Switzerland	3 (sensitive)	2 (medium)
Household equipment	Czech Republic	3 (sensitive)	2 (medium)
Household equipment	Denmark	3 (sensitive)	2 (medium)
Machinery equipment	Denmark	3 (sensitive)	2 (medium)
Retail	Czech Republic	3 (sensitive)	2 (medium)
Transportation	Uruguay	3 (sensitive)	2 (medium)

Source: Allianz Research, based on the Sector Risk Methodology and the Q1 2026 Sector Risk Map

Figure 3: Sector risk ratings as of end March 2026, in number of countries, by level of risk

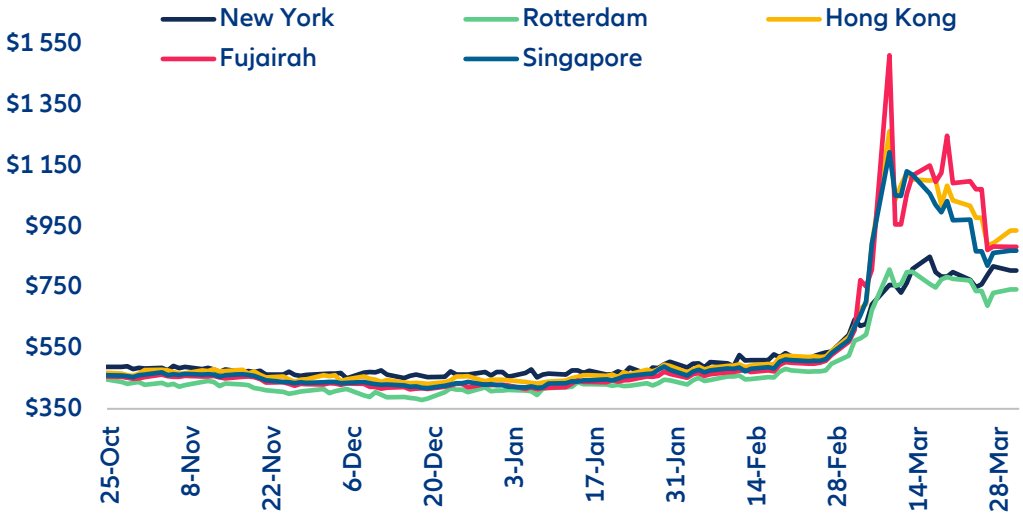


Source: Allianz Research, based on the Sector Risk Methodology and the Q1 2026 Sector Risk Map

Global transportation and GCC energy sectors are caught in the crossfire. Firstly, the ongoing conflict exposes an unusual downside for GCC energy sectors: for once higher oil prices are not translating into higher revenues. With the Strait of Hormuz effectively closed, large volumes of oil and LNG are stranded or shut in, sharply reducing export throughput despite elevated prices on global markets. Furthermore, beyond delayed and/or lost revenues as shipments cannot clear and contracts are disrupted, widespread damage to energy infrastructure - already estimated in the tens of billions of dollars - will require sustained maintenance. Rebuild capex, will further erode cash flow and delay any normalization of production capacity and thus of revenues. For shipping, fuel typically accounts for approximately 35% of operating costs in maritime transport under normal conditions. Since the closure of the Strait of Hormuz, bunker fuel prices have surged considerably (+70%), with spot prices even temporarily tripling in early March (see Figure 4). As a result, the entire marine fleet – from containerships to cruise operators – is experiencing a sharp and immediate increase in cost pressures. Moreover, the ability to pass these costs through to customers remains somewhat constrained. In 2026, weak demand relative to available liner capacity has significantly eroded pricing power, effectively capping freight-rate upside. Consistent with this dynamic, containership freight rates have increased by only +16% since the end of February (see Figure 5), a modest adjustment that stands in stark contrast to the pronounced rate spikes observed in prior stressful episodes, such as after "Liberation Day". Therefore, should the strait remain closed for an extended period, the financial impact on

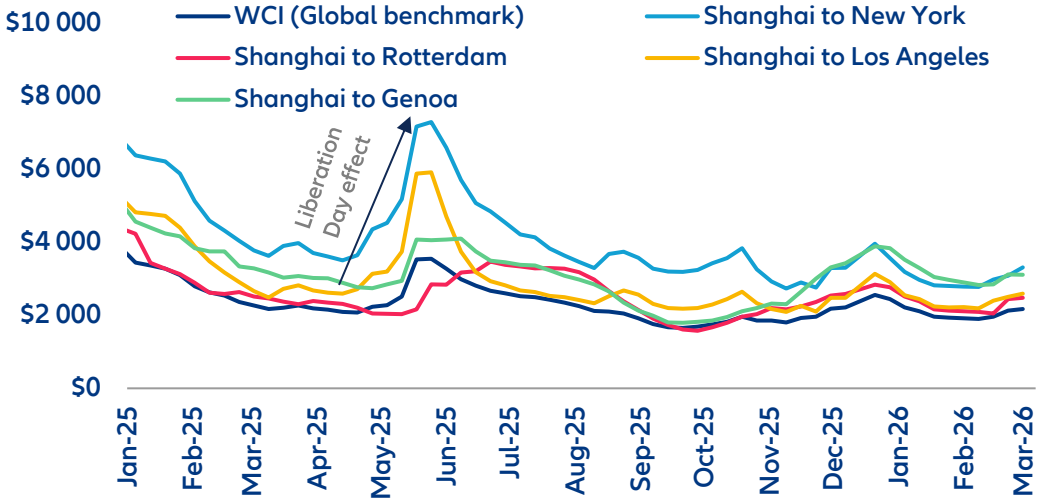
the shipping sector is likely to be quite severe (total operating costs have jumped by +25% for a month already), especially for companies whose fleet is 100% containerships, as the dynamics for other type of vessels, such as oil tankers, differ materially.

Figure 4: Marine fuel oil prices* (USD/MT) at different seaports



Sources: Allianz Research. Note: Prices are for very low-sulfur fuel oil (VLSFO), the most widely used bunker fuel (and IMO-compliant) in the shipping industry today

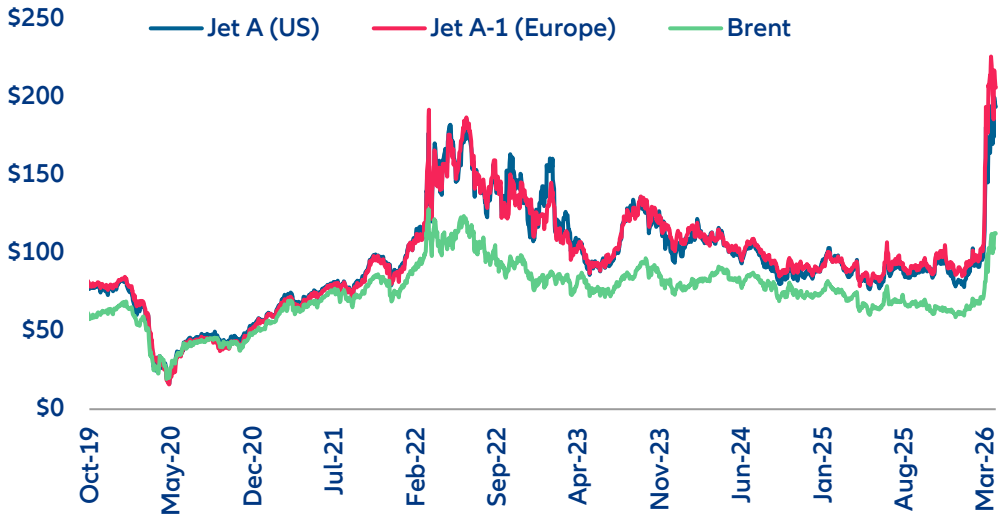
Figure 5: Containerships freight rates (USD/FEU)



Sources: Bloomberg, Allianz Research

While airlines also face soaring fuel costs, they do have pricing power. 40% of the world's jet fuel passes through Hormuz and accordingly prices have reached an all-time historic high (see Figure 6), with the crack surpassing USD100/bbl for the first time and prices in Europe particularly surpassing those in the US. However, unlike the shipping sector, the aviation sector's capacity is expanding only gradually, largely due to the production challenges faced by major aircraft manufacturers in recent years, giving the sector room to increase airfares as travel demand has remained robust since borders reopened after the pandemic. While demand is generally more price-sensitive for leisure travel (particularly in Europe, where low-cost carriers and rail alternatives intensify competition) it remains inelastic for business routes, which is precisely the segment that has historically been a key driver of airline margins. These dynamics help explain the unusually sharp increases in airfares already observed on certain long-haul routes (+70% y/y for this summer), particularly for connections between Asia and Europe.

Figure 6: Jet fuel prices (USD per barrel)



Sources: Bloomberg, Allianz Research

Airlines also have to deal with revenue losses in the Middle East (over 70,000 cancelled flights) and with significant logistical constraints. The Middle East region serves as a critical hub in global aviation networks. Since the closure of the airspace for normal commercial flights, major aviation hubs such as DXB, AUH, and DOH were forced to suspend civil operations, disrupting connections between Europe and Asia and forcing airlines to identify alternative intermediate hubs, with such adjustments being operationally complex. Beyond losing revenues from its strategical hub-role, the region will also feel the pinch on its tourism sector just as it was emerging as one of the fastest-growing tourism regions globally after the pandemic, led by cities like Dubai, Abu Dhabi, Riyadh and Doha. With one month of conflict already elapsed, and assuming an additional month of closed airspace, we can expect the number of international visitors to decline by ~30% y/y this year, which implies an estimated loss of USD55bn in tourism receipts. It should be noted that potential losses could extend even further as tourism will not rebound overnight – even if a ceasefire is reached – because restoring traveler confidence takes time.

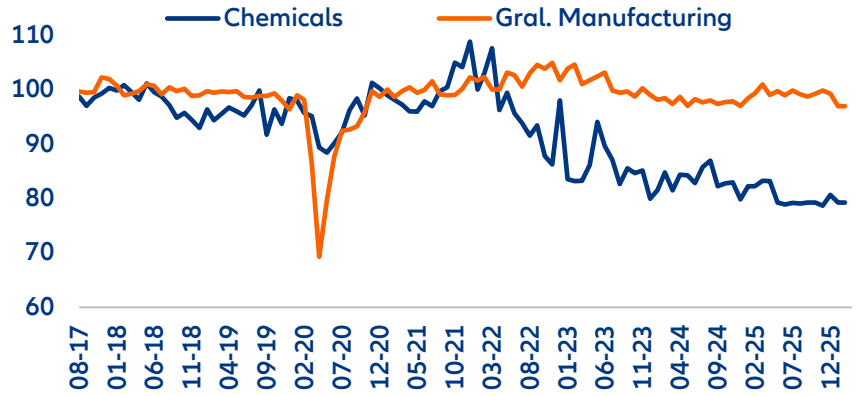
Zooming in on Europe, and going beyond transportation, energy-intensive sectors are the most immediately exposed in the region, with chemicals, steel and cement feeling the impact of developments in the Middle East most acutely (see Table 3). As we have written previously[1], the conflict in Iran underscores Europe's persistent energy vulnerability, with natural gas representing approximately 40% of final energy consumption across industries. The situation for the chemicals sector is particularly concerning as the closure of the Strait of Hormuz is exacerbating an energy crisis that has been hitting the industry since 2022. As shown in Figure 7, chemical production levels in the region remain way lower than before the start of the war in Ukraine, with petrochemicals recording the sharpest drop (-10.2% y/y in 2025). This deteriorating trend is unlikely to recover anytime soon, given the combination of persistent weak demand, uncompetitive natural gas prices and the added pressure from the Middle East (a critical upstream supplier of petrochemical feedstocks) not providing relief. Indeed, energy is the largest single operating cost for petrochemicals and basic inorganics (e.g. fertilizers), accounting for approximately 35% and 50%, respectively, while at the same time these two segments together represent around 40% of the region's chemical sales.

[1] The second energy shock – Allianz Research

Table 3: Impact on sectors – first-round effects

Sectors	Europe	Asia	Upside/Downside catalysts
First round effect			
Base metals	↓↓	↓↓	Large margin compression (rising energy costs)
Basic chemical - Fertilizer	↓↓	↓↓	/
Airlines	↓	↓↓	Large margin compression if unhedged (rising jet fuel costs)
Building materials – Cement	↓↓	↓↓	
Food	↓	↓	Moderate margin compression (rising energy costs)
Glass	↓	↓	/
Paper	↓	↓	/
Plastic	↓	↓	/
Textile	↓	↓	/
Shipping	↓	↓	Moderate margin compression (rising energy costs and low pricing power)
Utilities – Electricity provider	↑	↑	Moderate margin improvement (pricing effects on electricity)
Oil & Gas - Refinery & Distrib.	↑↑	↑↑	Large margin improvement (pricing effects on oil)

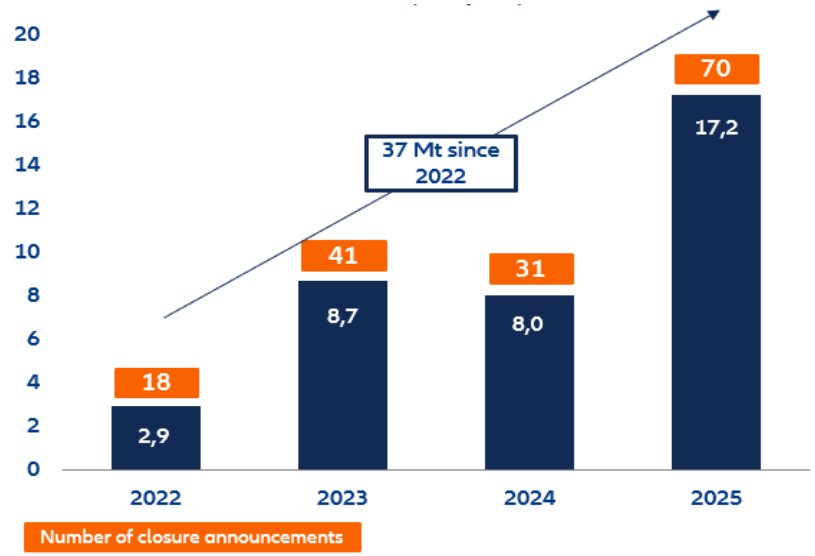
Figure 7: EU's production index, chemicals vs general manufacturing



Sources: Eurostat, Allianz Research

To cope with energy-related challenges, companies in Europe have been downsizing their capacity through plant closures. Prior to 2022, Europe produced an average of around 415 megatons of chemicals per year. Since 2022, 37 Mt (or roughly 9% of production capacity) has been slated for closure, with the largest closures, both in terms of size and number of announcements, occurring last year (Figure 8). Petrochemicals is again the segment suffering the most, accounting for 48% of the sector's plant closures. By geography, Germany and the Netherlands stand out as the two countries most affected by the loss of competitiveness, accounting for nearly half (44%) of the region's production shutdowns.

Figure 8: European chemical production capacity announced for closure (in Mt p.a.)



Sources: CEFIC, Allianz Research

Second-round effects: more broad-based and persisting impacts

A more broad-based commodity story. Rising tensions in the Middle East extend well beyond oil and gas price volatility, with potentially broader implications for global supply chains and production costs. The region is not only a critical energy supplier but also a dominant provider of several strategic commodities: it accounts for a material share of global LNG exports (around 20% from Qatar), is a leading supplier of aluminum (notably via Bahrain and the UAE) and plays a key role in fertilizer inputs such as ammonia, urea and sulfur, as well as the helium market (with Qatar alone representing roughly a third of global supply). These inputs are deeply embedded across industrial value chains – from semiconductors and data centers to agrifood and construction. With markets increasingly pricing in the risk of supply disruption – particularly in the event of a prolonged shutdown of the Strait of Hormuz – a risk premium is being incorporated across a broad set of commodities. This dynamic is likely to raise input costs across multiple industries, especially for corporates exposed to Middle Eastern supply and lacking hedging strategies, amplifying the risk of second-round effects on global inflation and growth if the conflict persists.

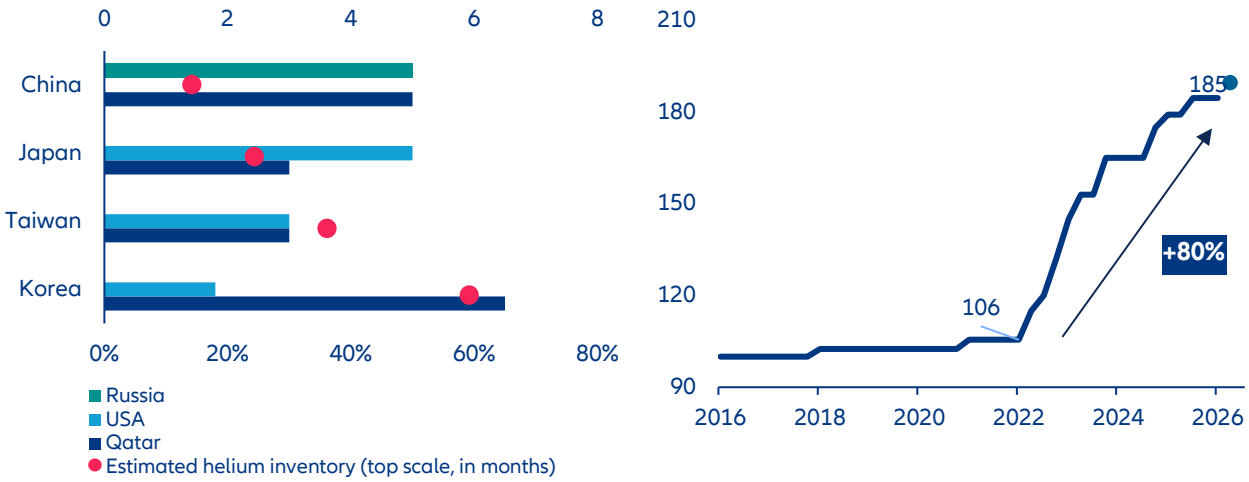
Table 4: List of commodities highly exposed to supply-disruption risks.

Commodity	Industry impacted
Aluminum	Auto, Aerospace, Construction, Packaging
Ammonia	Fertilizer, Chemicals, Agrifood
Helium	Semiconductors, Pharmaceuticals, Chemicals / Automotive, Data centers, Technology hardware & Telecom (by extension)
LNG gas	Oil & Gas refiners, all manufacturing firms (via electricity prices)
Phosphate, Urea	Fertilizer, Agrifood (by extension)
Polypropylene	Automotive, Packaging, Medical equipment, Food distributor (by extension)
Sulfur	Fertilizer, Metal mining

Source: Allianz Research

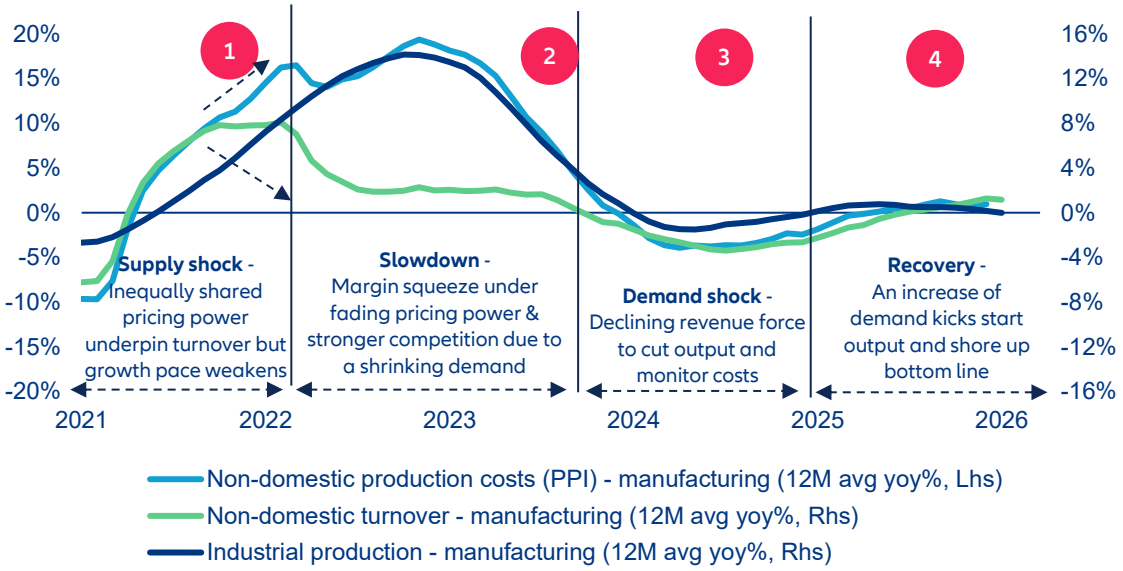
Helium shortages are a contained risk for the semiconductor industry – for now. The semiconductor industry is exposed to renewed Middle East tensions through the helium supply chain, with Qatar supplying 66% of South Korea's imports, 50% of China's and 30% of Taiwan's (the three largest global foundry hubs). A disruption in the Strait of Hormuz would threaten access to this critical gas, essential for wafer production, particularly in cooling (high thermal conductivity, very low boiling point) and lithography processes used in advanced AI chips. That said, near-term risks remain contained. Industry disclosures suggest helium inventories of ~6 months in South Korea and slightly above one quarter in Taiwan, limiting disruption risks before summer. Since the 2022 shortage, both countries have strengthened resilience via process optimization, long-term supply contracts and supplier diversification. In addition, excess US helium inventories could provide a buffer if disruptions extend beyond Q2. Given the strategic importance of semiconductors, supply allocation would likely prioritize this sector over pharmaceuticals or chemicals. Paradoxically, the situation may support pricing. Strong demand from AI and data centers, combined with capacity constraints, gives semiconductor firms scope to pass through a "geopolitical premium", supporting revenues. However, medium-term risks are building: industrial electricity prices in South Korea are already ~80% above 2022 levels, and further increases in H2 remain possible (Q2 guidance unchanged so far). Rising input costs could slow AI infrastructure expansion and force allocation trade-offs, prioritizing AI over consumer electronics and automotive, which may face shortages, lower-performance components or reduced output.

Figures 9 & 10: Top importers of helium for main Asian semiconductor foundry hubs & estimated current inventory capacity / Historical evolution of industrial electricity price in South Korea (in KRW per W)



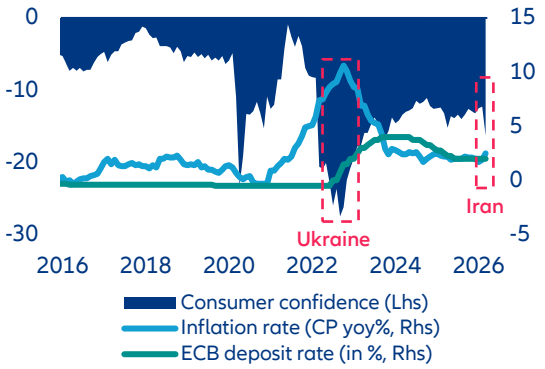
Storage capacity based on public statement made by top foundries and/or regional association.
Source: Kepco, Allianz Research

Figure 11: Industrial output, production costs & turnover of Eurozone manufacturing industry (year on year change of price index based on a 12-month average)



Sources: Eurostat, Allianz Research

Figure 12 & Table 5: Consumer confidence, inflation & policy rates in Eurozone / List of macro drivers potentially impacted by Middle East tensions



Drivers	Impacts
Productions costs (↑)	↑/↓ Margin (depending on pricing power strength)
Consumer confidence (↓)	↓ Demand
Interest rates (↑)	↓ Demand + ↓ Investment (higher lending costs)
Fiscal tightening / loosening	↓ Margin (windfall tax) / → Margin (tax freeze / postponement)
Regulatory constraints (↑)	↓ Demand (black-out measures) + ↓ Margin (pricing freeze)

Source: ECB, DG ECFIN, Eurostat, Allianz Research

Watch out for second-round effects. We see a growing need to closely monitor early signals of a macro regime shift as a renewed supply shock could again evolve into a demand shock – echoing the 2022 pattern, albeit in a more globalized and structurally constrained context. The 2022 energy shock provides a useful blueprint for assessing the potential macro and micro impacts of a prolonged Middle East conflict, highlighting two distinct transmission channels at the micro level: first-round effects driven by energy price spikes and second-round effects linked to tightening financial conditions and weakening demand. Unlike 2022, the shock is unfolding amid ongoing tensions around grid capacity and efficiency, particularly as AI-driven infrastructure expansion accelerates energy demand. At the same time, consumer price sensitivity remains elevated, suggesting corporates may struggle to pass through costs and protect margins to the same extent as during the post-Covid rebound. The recent drop of consumer confidence in Europe in March to its lowest level since Q4 2023 (-4pts at -16) is a gentle reminder that energy price volatility and inflation risks remain a hot topic for households and their purchasing power, even more when economic growth is moving sideways.

2026 is not 2022. Households remain highly price sensitive today, with lingering scars from the last inflation shock. The previous episode followed a clear sequence: an initial phase where higher commodity prices did not immediately hurt all sectors as many – energy, tech hardware, automotive, retail and consumer services – successfully passed through costs to protect margins amid strong post-Covid demand; a second phase where pricing power eroded as inflation weighed on confidence, forcing price cuts and margin compression; a third phase (2023–2024) marked by demand destruction driven by higher interest rates and declining purchasing power and finally a gradual recovery supported by easing financial conditions and improving sentiment. The Eurozone is only in the early stages of a fragile recovery, suggesting a faster and more pronounced demand reaction to renewed price pressures, increasing downside risks for corporates. That said, some sectors – particularly semiconductors – are better prepared, having implemented hedging strategies such as supplier diversification, long-term contracts, process optimization and strategic inventories, which should provide partial buffers against renewed supply-side disruptions.

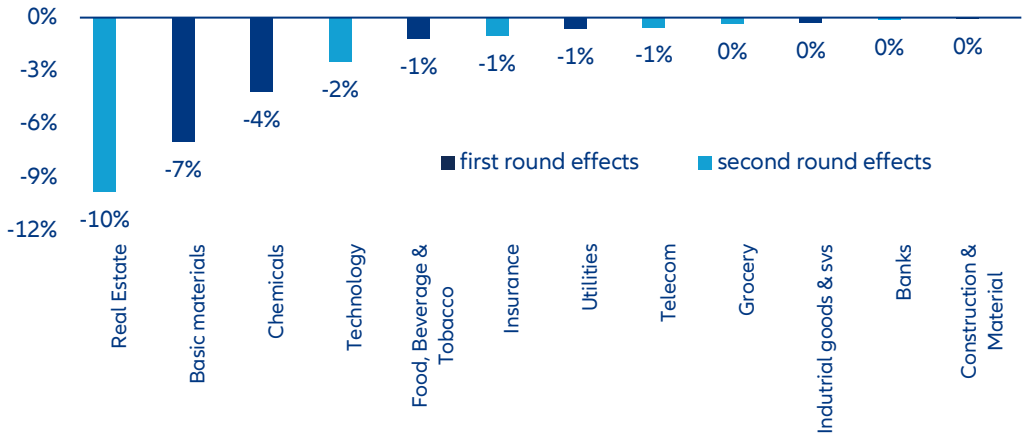
A quick look in the past and corporate earnings in Europe following the war in Ukraine gives us some guidance about the likely impacts generated by a severe and long-lasting energy-led inflation spiral, and confirms as well the greater magnitude of casualties caused by second-round effects on corporates, notably rising rates. Measuring peak net margin drawdowns from Q4 2021 to the 2022–2023 period, the European market saw an average compression of ~40bps, masking much sharper sectoral divergences. Energy-intensive industries were hit first: basic materials (-700bps) and chemicals (-400bps) experienced severe margin erosion due to surging input costs, while food, beverage & tobacco (>-100bps) proved more resilient thanks to still-solid demand. In contrast, the most acute impact came from second-round effects, with real estate (-1,000bps) heavily penalized by rising interest rates and collapsing transaction volumes. Technology (-200bps) also faced pressure, reflecting its cyclical exposure to capex and discretionary spending cuts during downturns. Looking ahead, this pattern remains relevant: sectors exposed to financing conditions, such as real estate and tech, are likely to be most vulnerable, while utilities and

insurers face increasing regulatory and risk-pricing challenges. More cyclically exposed segments like retail and automotive – already weakened by structural pressures – could face amplified downside risks in an environment of sluggish demand in Europe.

Beyond demand risks, a potential renewed monetary tightening cycle would weigh on investment, delaying digitalization and/or expansion projects. This is particularly critical for AI: higher borrowing costs and rising electricity prices could directly pressure data-center expansion pipelines, while reinforcing investor concerns around capex monetization. This dynamic could cap tech sector valuations – especially in the US – and limit capital-market gains that have so far supported the AI investment cycle. Paradoxically, higher financing costs may still accelerate AI diffusion at the enterprise level as firms seek productivity gains to offset weaker volumes. However, capped IT budgets under macro deterioration would moderate new demand for computer and telecom equipment in Europe and America. In parallel, we are monitoring fiscal responses and tax adjustments – from windfall taxes on energy players to supportive measures such as tax deferrals – as well as potential regulatory interventions (e.g., energy rationing, mobility restrictions) already observed in some emerging markets. Together, these factors will be critical in assessing whether current tensions trigger broader second-round effects across the global economy.

We see greater downside risk for Asian consumer electronics and technology components/equipment than in other regions, as the continent is more directly exposed to Middle East-driven energy supply constraints and resulting power price volatility. While the current AI-driven capex cycle remains intact, a persistently higher cost and energy price environment could slow the pace of data-center expansion. At the same time, it is likely to intensify political and industrial efforts to reduce reliance on Asia within the semiconductor supply chain, while accelerating the shift toward less energy-intensive technologies. These dynamics – already structural – could gain further momentum as geopolitical tensions persist, creating additional headwinds for the region's tech ecosystem.

Figure 13: Maximum net margin drawdown recorded by European industries over the period 2022-2023 (based on 12-month trailing weighted earnings reported by firms listed into Stoxx 600 index)



Sources: LSEG Datastream, Allianz Research

Table 6: List of sectors in Asia and Europe that are most exposed to second-round effects from the Middle East conflict

Sectors	Europe	Asia	Upside/Downside catalysts
Second round effect			
Real Estate	↓↓	↓↓	Higher interest rate (deteriorating demand)
Consumer electronics	↓	↓↓*	Rising costs (inputs pricing) + Higher interest rate (weaker business & household spending)
Technology - Components & Equipment	↓	↓↓*	Higher interest rate (weaker investment pipeline + corporate IT budget cut)
Automotive	↓	↓	Rising costs (inputs pricing) + Higher interest rate (weaker business & household spending)
Datacenter	↓	↓	Rising costs (electricity bill) + Higher interest rate (weaker investment pipeline)
Insurance	↓	↓	Large margin compression (higher repairing costs/higher insolvency risks)
Banks	→	→	Higher interest rates (sluggish household consumption & business investment)
Construction	→	→	Higher interest rates (weaker investment pipeline)
Retail	→	→	Higher interest rates (sluggish household consumption)
Telecom services	→	→	Higher interest rates (more expensive capex)
Utilities	→	→	/

**Influenced by Korean and Taiwanese producers. Source: Allianz Research*

These assessments are, as always, subject to the disclaimer provided below.

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