



Iran Conflict Update: Emerging Market Sovereign Implications

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Executive Summary

With more than four weeks having passed since the first strikes on Iran, markets are increasingly focused on whether, and how, this conflict ultimately comes to an end. While the Iran-centered conflict is geographically concentrated in the Middle East, its spillover effects have been, and continue to be, global, with meaningful dispersion across Emerging Market regions based on energy balance, external buffers, fiscal flexibility, and overall policy credibility. As the conflict persists and uncertainty around the Strait of Hormuz remains elevated, distinctions across both economic outcomes and sovereign asset pricing have become increasingly pronounced.

In an environment characterized by heightened uncertainty and volatility, it is difficult to label clear “winners” or “losers.” That said, we are seeing significant differentiation across countries driven by exposure to energy markets (as importers or exporters), balance-of-payments dynamics, inflation pressures, and external financing needs. Local rates and FX markets have experienced some of the most pronounced moves, reflecting the sensitivity of inflation and growth expectations in energy-exposed economies. Egypt, Turkey, the eurozone, and South Africa have been among the more notable underperformers since the conflict began, with both rates and currencies pressured by a combination of balance-of-payments deterioration and shifting investor positioning.

Quick Snapshot of Movers:

Hard Currency Bonds (02/26/26 - 04/02/26)

Exporter		Importer	
Country	Spread Move (bps)	Country	Spread Move (bps)
Ecuador	+19	Egypt	+100
Qatar	+12	Romania	+54
Saudi Arabia	+10	Turkey	+38
Nigeria	+10	Dominican Republic	+26
Angola	-21	South Africa	+22

Source: Bloomberg LP as of April 3, 2026. Based on representative 10-year USD sovereign bonds.

Local Rates and FX (02/26/26 - 04/02/26)

Country	10yr Yield Rate Change (bps)	FX Move
Turkey	+225	-1.2%
Romania	+70	-2.3%
Hungary	+52	-4.3%
India	+45	-2.4%
Mexico	+39	-3.8%
Brazil	+36	-0.6%

Source: Bloomberg LP as of April 3, 2026

Middle East and Africa

The Middle East is at the epicenter of the conflict and faces the most acute risks. Within the GCC, vulnerability varies significantly based on sovereign wealth fund buffers and the ability to bypass the Strait of Hormuz. Qatar, Kuwait, and the UAE face the greatest risk to their exports, but also possess substantial buffers that provide insulation, while Bahrain remains highly vulnerable without external support.

Saudi Arabia and the UAE benefit from pipeline infrastructure that partially mitigates export disruption risks, though geopolitical exposure remains elevated. Iraq is particularly exposed given its reliance on the Strait and limited storage capacity, raising risks of prolonged production shutdowns and domestic power shortages.

Outside the GCC, Egypt and Lebanon are among the most exposed sovereigns due to energy dependence, capital outflows, and limited buffers. In Africa, oil exporters such as Nigeria and Angola benefit from higher prices, while importers including Kenya and South Africa face inflationary pressures, tighter financial conditions, and rising food security risks driven by higher fertilizer costs.

Asia

Asia is significantly exposed to second-round spillovers from the conflict given its reliance on imported energy and key trade routes, including the Strait of Hormuz. Higher oil and gas prices feed quickly into inflation across much of the region, pressuring current accounts and fiscal balances as governments attempt to smooth domestic fuel prices.

Countries such as India, Indonesia, and the Philippines are particularly vulnerable due to relatively small strategic reserves, weaker external positions, and limited fiscal space. Inflation risks are compounded by food and fertilizer costs, raising the likelihood of policy tradeoffs between growth support and currency stability.

By contrast, Malaysia and Australia benefit as net energy exporters, while North and Northeast Asia including Japan, Korea, and Taiwan are better positioned to manage near-term shocks due to sizable strategic reserves despite high import dependence. China remains an outlier, supported by diversified energy sourcing, large reserves, and a lower oil share in its energy mix, allowing policymakers greater flexibility to prioritize growth.



CEE and CIS

For Central and Eastern Europe, a prolonged conflict is a net negative through higher inflation and weaker growth, though the region is structurally better positioned than during the 2022 energy shock. Energy diversification, positive real policy rates, and improved external balances provide greater resilience.

Hungary remains among the most exposed due to its energy mix and reliance on imported gas, while Romania's relatively stronger energy position is offset by a more energy-sensitive CPI basket. Central banks may adopt a more cautious stance, but the threshold for renewed tightening is materially higher than in previous cycles.

In contrast, CIS commodity exporters such as Kazakhstan and Azerbaijan are clear beneficiaries of a long-war scenario, with higher oil prices strengthening fiscal revenues, external balances, and growth prospects. Uzbekistan's gold exports provide a partial buffer, while Armenia and Georgia remain more exposed given import dependence and regional trade disruptions.

Latin America

Latin America is less directly exposed to the conflict, but outcomes vary widely across the region. The dominant transmission channel is persistently higher oil and refined product prices, with macro impacts shaped by whether governments pass through higher costs or absorb them via subsidies and tax relief.

Net exporters such as Brazil, Argentina, and Ecuador benefit from improved terms of trade and stronger fiscal revenues, although inflation pressures may constrain monetary easing cycles. In Brazil, higher oil revenues provide scope to mitigate fuel-driven inflation, while Argentina's structurally improved energy balance supports the external account despite ongoing price-management challenges.

Net importers including Chile, Peru, Mexico, and Colombia face negative terms-of-trade shocks, rising inflation, and higher fiscal costs from fuel stabilization mechanisms. Even where strong commodity exports offer partial offsets, policy tradeoffs intensify, complicating fiscal consolidation and monetary normalization.

Central America, Caribbean, and Frontier Markets

For Central America, the Caribbean, and frontier markets, persistently higher energy prices represent a significant macro shock. Most countries in this universe are net energy importers with limited fiscal and external buffers, amplifying balance-of-payments pressures, inflation, and external financing risks.

Energy and commodity exporters including Venezuela, Trinidad and Tobago, Ghana, and Suriname are relative beneficiaries, as higher prices support export receipts and fiscal revenues. However, sanctions, operational constraints, and domestic price-smoothing policies limit upside in some cases.

By contrast, high-deficit importers such as Pakistan, Sri Lanka, Zambia, and several Caribbean economies face a sharp deterioration in macro dynamics, particularly where IMF program implementation coincides with tighter global financial conditions.

Portfolio Implications

From a portfolio perspective, a prolonged Iran conflict reinforces the importance of sovereign differentiation across emerging markets. Energy exporters with strong external balances, fiscal buffers, and credible policy frameworks are better positioned to navigate a higher-price environment, while energy importers with limited reserves and constrained fiscal space face rising macro, inflation, and financing risks. Selectivity remains critical, with a continued focus on balance-sheet strength, policy credibility, and the ability to absorb sustained external shocks without destabilizing currencies or domestic financial conditions.

Heightened geopolitical uncertainty also underscores the importance of portfolio flexibility and liquidity management. While geopolitical shocks can drive short-term volatility and risk-off sentiment, they have historically created attractive entry points across EM sovereign markets, particularly where price dislocations outpace changes in underlying fundamentals. In this environment, maintaining adequate liquidity and dry powder remains key, alongside disciplined position sizing and risk management as markets adjust to a more protracted conflict backdrop.

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