

The Strait's Fate and Timing Have Diverging Sector Impacts

Hani Redha, CAIA, Global Multi-Asset Portfolio Manager

The situation in the Strait of Hormuz remains highly fluid. The US is relying on sustained pressure via restricting Iranian oil revenues to force concessions. Meanwhile, Iran is betting that political and economic strain will eventually push the US to compromise. Ultimately, the difference between scenarios is primarily one of timing: both lead to resolution, but a prolonged stalemate entails greater economic pain, and vice versa. We outline how each scenario could affect energy, food, and chemicals across different time horizons.

In energy, markets are balancing physical disruption with early signs of demand destruction. Weakness is emerging in Asia and the Middle East, particularly in jet fuel demand and through fuel switching, while incremental supply releases are partially offsetting disruptions. Pricing is driven less by immediate shortages and more by expectations around the duration of the shock. A quick resolution would cause prices to fall rapidly, while a prolonged stalemate keeps them elevated, though likely not at extreme levels absent direct infrastructure damage. Meanwhile, inventory drawdowns and restocking needs provide a medium-term floor. The US, as a net energy exporter, is less exposed in the near term, reducing urgency on its side and reinforcing the likelihood of a prolonged standoff.

Turning to food, fertilizer is the key transmission channel. Unlike energy, fertilizer operates in a fully global market, and the Gulf Cooperation Council (GCC) accounts for roughly 10% of global exports, so disruptions translate quickly into higher input costs. There are early signs of strain among farmers, including affordability concerns and rising financial stress. However, the impact on food prices is likely to be delayed. Current planting cycles are largely complete, and inventory buffers and expanded storage following the Russia-Ukraine war could provide some mitigation. Additional adjustments, including alternative sourcing, potential humanitarian shipping corridors, and policy support for agriculture, further cushion the near-term impact. The more meaningful pressure will shift into the medium term if disruptions persist.

In chemicals, the sector entered this period from a position of weakness, characterized by global oversupply, especially from Asia, and subdued demand. Companies had already been operating in a prolonged downturn, focusing on cost control and preserving cash. The current disruption has created a temporary reversal, with constrained supply from the Middle East and reduced feedstock availability in Asia tightening the market. European producers are benefiting from reduced imports, especially from China, which has allowed margins and utilization rates to improve despite higher energy costs. This improvement is not expected to last, however, as structural issues like cost disadvantages relative to Chinese players remain intact.

At a macro level, the situation in the Strait of Hormuz is best understood as a temporary shock rather than a regime shift. While oil shocks are inherently more disruptive than trade shocks, expectations of eventual normalization are anchoring sentiment. The US economy remains relatively resilient, supported by its role as an energy producer and lower energy intensity. Growth is likely to soften modestly over one to two quarters while inflation rises temporarily, before both normalize. In this environment, opportunities remain in areas supported by sustained but contained disruption, particularly in energy, while caution is warranted where current strength is unlikely to endure.

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About This Report

PineBridge believes that not only do differences of opinion make markets, but they also foreshadow substantial moves ahead as these differences are resolved. Once a month, investment leaders from our global multi-asset, equities, and fixed income teams meet to share their diverse viewpoints. This report reflects those discussions and debates by providing insight on the topic of the month along with snapshots of our asset class views and convictions across the firm.

Conviction Score (CS) and Investment Views

The Conviction Scores shown below reflect the investment team's views on how portfolios should be positioned for the next six to nine months. 1=bullish, 5=bearish, and the change from the prior month is indicated in parentheses.

Global Macro

Sam McDonald
Sovereign Analyst, Emerging
Markets Fixed Income

CS 3.00 (unchanged)

Despite the Iran war's indefinite ceasefire extension, the continued closure of the Strait of Hormuz remains the key risk to the global economy. Potential oil and gas inventory drawdowns in coming weeks may push energy prices higher, although demand destruction will bring some offset, albeit at the cost of weaker growth. Nonetheless, US economic activity remains robust, with the labor market stabilizing and tax refunds acting to neutralize (for now) the higher energy prices.

Inflation is rising in the US, with the March CPI jumping to 3.3% year-over-year (y/y) from 2.4% in February. Business surveys also indicate inflationary pressures, as input prices are jumping materially. Additionally, short-run inflation expectations have begun to rise: The recent University of Michigan survey found 12-months-ahead price expectations increasing to 4.7% from 3.4% pre-conflict; the five- to 10-year expectations saw a much smaller rise to 3.4% from 3.3%. The magnitude of second-round effects on food prices and the pass-through to other inflation components remains uncertain but will become increasingly important if the strait remains closed.

For now, the impact on US economic activity is relatively contained. March non-farm payrolls increased by 178,000 following February's 133,000 decline. Similarly, the four-week initial jobless claims figure remains around 210,000, while the four-week trend for continuing claims stayed negative. Other indicators remain resilient, with March retail sales increasing by 1.7% month over month despite elevated gasoline prices. Tax refunds year to date are a mitigant but will fade in the coming months.

For the Fed, a wait-and-see mindset was the main message from April's Federal Open Market Committee meeting. While inflationary pressures have increased, the outlook remains uncertain, although better jobs data may lead to a slight hawkish skew. Additionally, the Justice Department's decision to drop its investigation of Chair Powell is expected to clear the way for Kevin Warsh's confirmation as the next Fed chair for the June meeting. During his hearing, Warsh reaffirmed a desire for a smaller Fed balance sheet, reduced reliance on forward guidance, and his disinflationary view of AI.

Although Europe and Asia remain more exposed to the energy shock, natural gas pricing has moved lower from its peaks in March, albeit still higher than in 2025. With the most recent data prints pointing to higher inflation and weaker growth, members of the European Central Bank's Governing Council are signaling no need to rush into a rate decision. The March Harmonized Index of Consumer Prices (HICP), a standardized measure of European inflation, rose to 2.6% and is expected to rise above 3% in April, driven by energy prices. European PMI surveys point to weakening output and deteriorating expectations.

Rates

Gunter Seeger
Portfolio Manager, Developed
Markets Investment Grade

CS 3.75 (-0.25)

While inflation remains underappreciated, the US blockade of the Strait of Hormuz – which creates a corridor allowing non-sanctioned vessels to pass – mitigates the tail risks of complete closure and \$125 per barrel oil prices. The US military has the capability to maintain the corridor, but that effort is expensive and is not a long-term solution.

With the tail risk of extremely high oil prices off the table, the risk of an economic slowdown or recession is also diminished, but we believe inflation-linked assets are still under-owned and underpriced due to overconfidence in the war's outcome, as well markets having conditioned participants to buy any dip for any reason.

Iran has promised the strait would be opened for 10 days and that a five-year moratorium on nuclear enrichment would be acceptable. The US "mostly agreed" but wanted a 20-year moratorium on enrichment. Now it seems that none of these terms is adequate for either side. With the war now in its third month and the second round of peace talks cancelled, each side believes that waiting is its best option. Iran is waiting for the pressure of US midterm elections to build, while the US is waiting for the regime to run out of funds. We certainly hope that the war ends quickly, but that is not our base case, as no quick or easy off-ramp is in sight.

Credit

Steven Oh, CFA

Co-Head of Leveraged Finance

CS CS 3.50 (-0.5)

The dominant risk overhang – the Iran War – has de-escalated, and worst-case scenarios have diminished. But despite the market optimism in asset pricing, the resolution of the conflict remains murky, and the impact of the energy price spike will start to filter through to the economy in the months ahead. Another diminished risk scenario relates to the Department of Justice dropping its criminal probe of Jerome Powell, which clears the path for Kevin Warsh to be confirmed as Fed chair. The new Fed leader will be challenged to reduce rates quickly due to the inflation impact from the war, but we believe the market is underestimating the probability of future policy easing.

While risk factors have declined over the past month, market valuations appear to be pricing in a near-riskless path forward, with equities reaching new highs and credit spreads at ultra-tight levels. Therefore, while our score has improved, it remains defensive. It is hard to see spreads tightening much further from current levels. Excess returns will be limited, and total returns are more likely to be a function of yield and curve.

Currency (USD Perspective)

Alfonso De la Torre

Sovereign Analyst, Emerging
Markets Fixed Income

CS 3.00 (unchanged)

The “dollar smile” phenomenon – which describes how the US dollar outperforms other currencies when the US economy is strong and there is optimism in markets, and also when the global economy is doing badly and risk appetites are low – now argues for range-bound foreign exchange (FX). The US dollar currently sits in the middle of the dollar smile framework. It is neither supported by strong US outperformance nor by acute global risk aversion. With growth cooling but not collapsing and financial conditions still benign, this argues against a sustained US dollar trend and reinforces our range trading FX view.

We see energy de-escalation as capping the US dollar’s upside. Reopening the Strait of Hormuz remains key to calming Middle East tensions and avoiding persistently higher oil prices. In the wake of the US–Iran ceasefire, the US dollar has already reversed part of its haven- and oil-driven gains. While FX markets remain more tightly correlated with oil prices than with equity volatility, offsetting macro forces suggest the US dollar should continue to trade in a relatively narrow range in the coming months.

As the energy shock subsides and macro drivers normalize, we expect the inflation surge to remain modest and predominantly headline driven, eventually reversing. This should reopen opportunities for the Fed to resume rate cutting, particularly as underlying disinflation trends reassert themselves. Disinflation and softer growth in the second half of the year should encourage front-end yields to price out the recent oil risk premium, allowing new Fed Chair Warsh greater latitude to calibrate rate cuts based on economic data rather than political pressure.

Range-bound FX remains our base case as markets continue to operate in a low-volatility, carry-friendly regime, even as headline risk persists. A cooling US economy in the year’s second half, anchored inflation expectations, and scope for additional Fed cuts should limit sustained US dollar upside, modestly favor higher-yielding currencies, and keep the euro/US dollar relationship anchored in the 1.15–1.20 range.

Emerging Markets Fixed Income

Joseph Cuthbertson
Sovereign Analyst, Global
Emerging Markets Fixed Income

USD EM (Sovereign and Corp.)
CS 2.75 (unchanged)

Local Markets (Sovereign)
CS 2.75 (unchanged)

Despite an uptick in volatility, EM spreads have remained resilient. Since the start of the conflict, EMBI spreads are 15 basis points (bps) tighter, a total of 10 bps tighter year to date. Under the base-case stabilization macroeconomic scenario, we still expect nominal growth levels to improve. We also expect EM current accounts to remain in surplus and for overall balances — still elevated owing to higher borrowing costs and post-Covid/Ukraine debt levels — to trend in the right direction.

The hard work done to improve external buffers going into this period gives us confidence that EM can handle the “shock.” The work also creates opportunities to exploit mispricing as we gain confidence in the timeframe for easing the disruption in the Strait of Hormuz caused by the conflict. We expect the Strait to remain disrupted for the next few weeks, leading to elevated oil prices over the next quarter. We expect higher oil prices to create terms-of-trade winners, but the duration of disruptions and extent of higher prices should be manageable for the losers. Countries like Azerbaijan, Angola, and Nigeria, which share a high degree of hydrocarbon exports, have traded relatively better than importers such as Kenya and Turkey. Countries like South Africa could see a negative terms-of-trade impact, which should be partially offset by higher metals prices. As markets price in the end of conflict, any outperformance should start to reverse as expectations for oil prices over the medium term adjust lower.

Robust economic data, high real rates, and large external buffers had supported policy easing among local-currency high-yielders. While the uptick in oil prices will raise concerns of CPI spikes, we expect the cutting cycle in many frontier and higher-yielding local-currency names will only be paused and elongated rather than stopped as a result. Pricing of hikes in some names appears excessive, which we expect to fade.

As first-quarter earnings reports start coming in, we expect to see a skew toward beats. Balance sheets remain healthy. Net credit-rating actions have been more neutral after a strong year, largely driven by idiosyncratic stories in Brazil. We could see another month of net negative financing given scheduled cash flows. Outflow has been limited only to cross-over EM bond ETFs, but dedicated investors seem to be sitting on high cash levels. Valuations look fair to tight, but higher carry remains attractive.

Multi-Asset

Sunny Ng, CFA
Portfolio Manager,
Global Multi-Asset

CS 2.75 (+0.5)

The macro backdrop remains constructively biased, although near-term conditions are still being shaped by geopolitical tensions and energy-market disruptions. The Iran-related shock has lifted oil, gas, and refined product prices, tightened financial conditions, and introduced a temporary stagflationary pulse, with Asia facing the greatest pressure given its dependence on imported energy. Europe also remains vulnerable through the energy channel, while the US appears relatively better insulated.

Even if our base case is not for prolonged full closure of the Strait of Hormuz, but rather a gradual (if lengthy) normalization in energy flows, time is not on our side. Inventories are being drawn down at an alarming rate, so timing will be crucial. That said, the current inflation shock should begin to fade if a resolution is reached in the coming weeks, helping ease volatility and stabilize policy expectations.

Beyond the immediate disruption, the broader backdrop — a global fiscal impulse along with a strong capex cycle — remains supportive. Productivity-led expansion is still the dominant theme, driven by sustained AI-related capital expenditures, broader enterprise adoption, stronger demand for cloud and digital infrastructure, and continued investment-led growth. While activity may soften in the near term, the wider cycle remains resilient, and the current shock still looks temporary rather than structural.

This keeps us constructive on medium-term risk assets, while favoring a selective approach focused on high-quality growth beneficiaries and cyclical areas with durable tailwinds. It also supports a somewhat greater willingness to extend duration as markets begin to look beyond inflation and toward a slower, but still positive, growth path. We view this as a pause of our reacceleration thesis rather than an abandonment. We continue to expect the AI-led productivity cycle to reassert itself as geopolitical clarity improves and supply-side constraints ease.

Global Equity

Chris Pettine

Healthcare Analyst,
Global Equities

CS 3.00 (unchanged)

Equities in developed markets (DMs) are holding positive despite the Iran war and the spike in oil prices. The war appears to have reached a de-escalation phase, but the likelihood of some lasting economic impact and higher oil prices is increasing. Tax refunds and incentives from the OBBBA should provide offsets to the short-term disruptions with the potential for more lasting benefit to economic growth. Lower-income consumers and small businesses continue to struggle with higher prices and higher costs, respectively. With its dual mandate, the Fed remains divided over whether to address higher prices or a weaker labor market.

Earnings-per-share growth in S&P Index stocks is expected to remain strong, with the first quarter's 12% gain accelerating through 2026, delivering mid-teens growth for the year. AI capex buildout remains strong, with demand greater than supply. Tech hardware and cyclicals/industrials exposed to data centers are the beneficiaries. Meanwhile, consumer spending has held up well despite some low-end weakness, while banks are healthy as capital markets and business activity pick up. Private credit concerns appear contained, and healthcare sentiment has improved on policy clarity and higher utilization of healthcare services.

Global Emerging Markets Equity

Taras Shumelda

Portfolio Manager,
Global Equities

CS 3.00 (unchanged)

The start of the war in Iran has upended markets and brought geopolitics and oil prices to the forefront of global discussions. The duration of this war, and with it the blockage of the Hormuz Strait, are the most important near-term questions for the markets.

In India, loan growth momentum has strengthened across the system, with most large private and public-sector banks clocking y/y growth in the mid-teens. Rate cuts in the Goods and Services Tax (GST) are expected to benefit the consumer staples and automobile sectors. Samsung Electronics, SK Hynix, and TSMC kicked off the first-quarter reporting period with strong results and bullish guidance. Skeptics of AI demand growth appear to be losing their upper hand, with Korean and Taiwanese stock prices making a comeback. We have recently added to our chip and adjacent exposures.

In Latin America, earnings reporting has begun and has been in line with or better than expected for the names we hold. LatAm, especially Brazil, is seeing strong inflows into equities by foreign investors, in part due to the quality of the country's crude oil exports. In Peru, scandals around presidential elections are drawing unwelcome attention.

In EMEA, all eyes are on the two peace processes, neither of which is going well. Iran's foreign minister is in Russia trying to drum up support. In Hungary, the opposition won parliamentary elections, which is a positive for the currency and will be earnings-accretive for some of our positions.

Quantitative Research

Yang Qian

Fixed Income
Quantitative Strategist

Our US Conviction Score retreated last month, with contributions from the widening of credit spreads by 5 bps and flattening of the yield curve by 8 bps.

Global credit forecasts have sharply deteriorated and now favor EM over DM. In DM, industries the model favors include energy, natural gas, and industrials. It dislikes finance companies, brokerage, and insurance. Among EM industries, the model likes metals and mining, financials, and infrastructure and dislikes real estate, consumer goods, and industrials.

Our global rates model forecasts lower yields for the UK, Oceania, and North America and higher yields for Switzerland, broader Europe, and Japan. Our model forecasts a steeper curve in Switzerland, Norway, and the US and a flatter curve for the rest of the world. The rates view expressed in our G10 Model portfolio is overweight global duration by +0.67 per year. We are overweight the UK, New Zealand, Canada, and Spain and underweight the US and Germany. Along the curve, we are overweight the 10-year and 20-year and underweight the two-year, five-year, Japan government bond seven-year, and the 30-year.

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