



Geopolitical Shock: Markets Enter a Risk Repricing Phase

A *grey swan* is a low-probability, high-impact event that is known but underestimated. Geopolitical escalation in the Middle East falls within modeled scenarios; what changes is timing, intensity, and transmission.

What we are observing is not a collapse but a structured repricing of risk across three layers: liquidity, commodities, and financial assets.

Liquidity preference shifts first. Markets reallocate toward USD cash and short-duration U.S. Treasuries, reduce exposure to emerging markets and cyclical sectors, and shorten duration. *The move reflects a transition from return-seeking to capital preservation, driven by optionality rather than panic.*

Commodities act as the primary transmission channel. The Strait of Hormuz concentrates a critical share of global oil flows, so even partial disruption introduces asymmetric pricing risk. War-risk insurance, marine premiums, and freight costs amplify the shock, generating oil price pressure, higher logistics costs, and second-round inflation expectations.

Financial assets show selective de-risking, not systemic unwinding. Cross-border financial institutions face higher scrutiny, emerging market spreads widen, and equity volatility increases within controlled ranges. *This is not a liquidation phase but a compression of risk appetite.*

The critical variable is correlation under stress. Systemic risk emerges when shocks reinforce each other—energy and inflation, liquidity and funding, geopolitics and cyber. *If correlation tightens, the system can move from repricing to dislocation.*

Markets are pricing policy response capacity. Central bank liquidity readiness and fiscal flexibility remain key anchors. The absence of policy stress signals explains why adjustment remains orderly.

In our opinion, the current environment reflects a repricing of geopolitical risk, not a black swan. Markets are adapting within known stress frameworks. This is not a breakdown but a test of resilience under conditions that were known yet underpriced.

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