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The impressive resilience of equity markets

Compared to its level at the end of February 2026, before the start of the war in the Middle East, the S&P 500 index has risen today by 3.7%, the Nasdaq Composite by 8.8%, and the Magnificent 7 index (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla) by 10.2%. The US equity market has therefore risen compared to the period preceding the war in the Middle East.

The Euro Stoxx 50 index, also compared to its level at the end of February 2026, has fallen by 5.2%, which shows that the European equity market has suffered relatively little from the war in the Middle East. The gains in the Japanese market (the Nikkei 225 has risen 0.7% since the end of February 2026) and the emerging markets (the MSCI Emerging Markets Index has risen 0.5%) demonstrate the strong resilience of these two markets.

The resilience of the US equity market is understandable, since the United States benefits from increased revenue if oil and natural gas prices rise. However, the situation of European stock indices (with a decline in future growth due to rising oil and natural gas prices) and those of Japan and emerging markets (where, moreover, there is rationing of oil and natural gas) points to an exaggerated optimism among equity investors.

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Compared to the end of February 2026, U.S. and Japanese stock markets rose, emerging market stock markets remained stable, and European stock markets fell very slightly

We compare stock market indices (in the United States, the Euro zone, Japan, and emerging markets) with their levels at the end of February 2026, just before the outbreak of war in the Middle East.

Since late February 2026, U.S. stock market indices have risen, while stock markets in Japan and emerging markets have edged up slightly, and the European stock market (in the Euro zone) has edged down slightly (Charts 1, 2, 3).

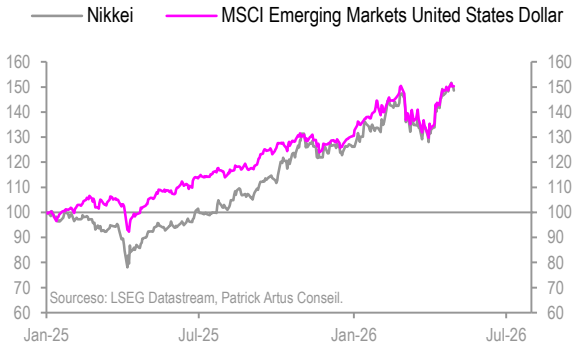
Chart 1
Stock market indices (01.01.2025 = 100)



Chart 2
Euro Stoxx 50 (01.01.2005 = 100)



Chart 3
Stock market indices (01.01.2025 = 100)



The reaction of the U.S. stock market is understandable

The United States is an exporter of oil and natural gas (Charts 4A/B).

Chart 4A
United States: Crude oil exports
(million bbl/day)

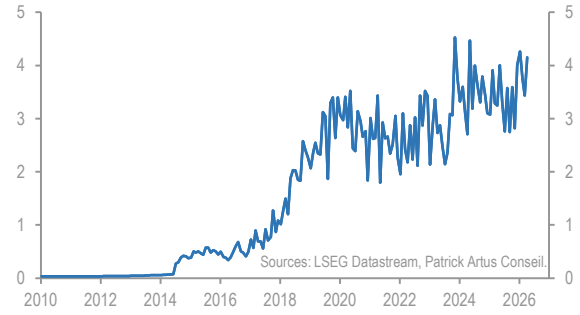


Chart 4B
United States: Natural gas exports
(monthly, billion cubic feet)



As a result, rising oil prices (Chart 5A) and natural gas prices outside the United States (Chart 5B) are boosting U.S. income, which explains the strong performance of the stock market.

Chart 5A
Oil price (Brent, $/bbl)



Chart 5B
Europe: Natural gas price (€/MWh)

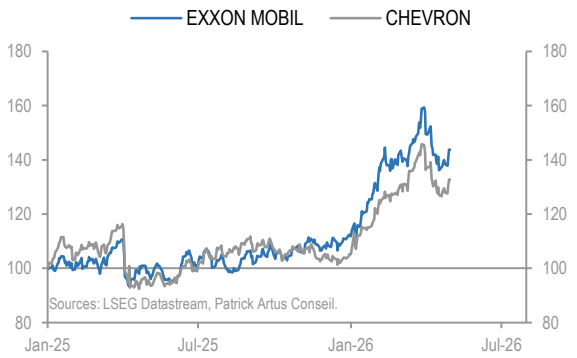


It is simply surprising that it is technology stocks that are driving the indices higher, rather than oil company stocks (Charts 6A/B).

Chart 6A
Magnificent 7: Stock market indices (01.01.2025 = 100)



Chart 6B
Stock market indices (01.01.2025 = 100)



The performance of European, Japanese, and emerging-market indices is more difficult to understand

Europe and Asia are importers of oil and natural gas.

Before the war in the Middle East began, European fuel imports accounted for 3.9% of the European Union's GDP. In the first half of 2025, 50% of oil imports and 30% of natural gas imports (in the form of LNG) from Asian countries passed through the Strait of Hormuz.

The Asian countries with the highest direct exposure to crude oil exports transiting through the Strait of Hormuz are China (5.4 million barrels per day of crude oil transiting through the Strait of Hormuz), India (2.1 million barrels per day), South Korea (1.7 million barrels per day), and Japan (1.7 million barrels per day, Table 1).

Table 1: Volume of crude oil and condensates transiting the Strait of Hormuz, by destination (first half of 2025)

Country	Million barrels per day
China	5.4
India	2.0
South Korea	1.7
Japan	1.7
other Asia & Oceania	2.3

Sources: U.S. Energy Information Administration

Furthermore, 25% of global LNG exports originated from Gulf countries prior to the closure of the Strait of Hormuz. China, India, Taiwan, South Korea, and Pakistan are the Asian LNG importers most affected by the closure of the Strait of Hormuz (**Table 2**).

Table 2: Volume of LNG transiting the Strait of Hormuz, by destination (first half of 2025)

Country	Billion cubic metres per year
China	27,7
India	22,8
Taiwan	11,6
South Korea	10,3
Pakistan	9,4
Other Asia	20,0

Sources: U.S. Energy Information Administration

Rising oil and natural gas prices, coupled with the rationing of oil and natural gas demand in Asia due to the decline in exports through the Strait of Hormuz, will inevitably **slow growth in Europe, Japan, and emerging markets, particularly in Asia**. In Europe, growth will be curtailed by the negative supply shock resulting from rising fossil fuel prices. In Asia, it will also be curtailed by the forced decline in oil and natural gas consumption. **The slight decline in European stock markets and the rise in markets in Japan and emerging markets** (**Charts 2 and 3 above**) do not appear consistent with weak growth in those countries. We believe that stock indices in Europe, Japan, and emerging markets are likely to fall significantly.

Summary: It is difficult to understand the movements of stock market indices, particularly outside the United States

The fact that U.S. stock indices are higher today than they were before the start of the war in the Middle East can be explained by the fact that the United States is an exporter of oil and natural gas, and thus the rise in fossil fuel prices increases U.S. income, including corporate earnings. But the resilience of stock indices in Europe, Japan, and emerging markets is harder to understand. Indeed, rising prices for imported fuels—and, in Japan and emerging markets, rationing of oil and natural gas consumption—will lead to a slowdown in growth and, consequently, in corporate profits.

It is likely that stock investors are being unreasonably optimistic. Furthermore, the nature of the market rally in the United States is surprising: it is not the stock prices of oil and gas companies that are rising, but those of information technology and communication companies.

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