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For investment professionals only

Ashmore

The Strait of Hormuz and the VIX shock

(Abridged and updated)

Iran's decision to close the Strait of Hormuz in March led to a sharp spike in oil prices and volatility.

A temporary ceasefire agreed in early April has turned into a rolling ceasefire while negotiations continue. Though traffic through the Strait remains highly constrained, asset prices recovered quickly as oil prices moderated, and have remained firm even as oil has risen above USD 110 again. We are not 'out of the woods' yet, but the resilience of emerging market assets over the period has been impressive and valuations remain compelling, in our view.

This note is an updated version of our March analysis, after more recent developments confirmed greater emerging market (EM) asset price resilience than we expected.

A look-back at major oil shocks, versus now

We define 'oil shocks' as periods where front-month Brent crude prices are up more than 100% on a trailing two-year basis. Accordingly, we have had seven oil shocks since 1966 and so far, 2026 doesn't qualify. Brent crude prices last month hit USD 118, 70% higher versus two years ago, still well below the shock threshold, which would be around USD 150 per barrel.

That oil at USD 120 per barrel in 2026 is not even at 'oil shock' levels intuitively makes sense when we consider oil prices in inflation-adjusted (real) terms, which more accurately represents the impact on the global economy. In real terms, oil prices at USD 100 are around 20% below 2022 peak levels, and well below levels before and after the Global Financial Crisis.

While oil prices may not yet be in true 'shock' territory, the supply crunch in physical markets is extreme. As per Bloomberg data, April's global liquid fuels deficit is forecast to be 7.15 million barrels per day (mbpd), by far the largest of this century, including in percentage of total supply.

However, the consensus remains a short-lived supply shock, particularly after the first US/Iran ceasefire was announced on 8 April, and official negotiations began. Bloomberg and the International Energy Agency (IEA) expect supply and demand to balance again by August.

This is not just a supply story: the IEA reported demand fell by over 3mbpd in March and is likely to fall further, towards 4.5-5.0mbpd.

As things stand, the 2026 average supply vs. demand balance is expected to result in only a slight deficit, with significant surpluses back in place by year-end. This explains the steep backwardation in the curve even as significant shortages of petroleum products persist.

Fig 1: **Brent crude real oil price in today's money**

Source: Ashmore, Morningstar. Data as at April 2026.

The VIX Spike

On 6 March, the VIX spiked 10% above its 60-day moving average, a signal that has historically preceded opportunities in EM assets. Our framework pointed to buying at some point towards the end of April. The ceasefire accelerated the recovery timeline, but investors may still get attractive entry points, and EM equity and FX valuations remain compelling, as we explore on page 4.

Equity market selloffs and recoveries around geopolitical events

With global equities indices now fully recovered after the start of the Iran conflict, the 'wisdom of the crowd' is discounting a heavy geopolitical shock which already passed, rather than an oil shock, as per Fig 2. The MSCI EM also fully recovered to pre-war levels last week, and is up some 15% year-to-date, outperforming the S&P 500 by almost 10% (20 April).

Fig 2: **Equity market selloffs and recoveries around geopolitical events**

Event	Date	S&P D2B	S&P Rec	S&P DD	EM D2B	EM Rec	EM DD	EMBI Start	EMBI Widen
First Gulf war	2 Aug '90	50	87	-15.9%	–	–	–	–	–
Clinton impeachment	19 Dec '98	6	5	-3.9%	–	–	–	–	–
Kosovo bombing	24 Mar '99	4	9	-4.1%	–	–	–	–	–
9/11 attacks	11 Sep '01	6	15	-11.6%	5	15	-5.8%	782	60
Iraq war	20 Mar '03	7	16	-5.3%	5	10	-1.6%	630	11
Arab spring (Egypt)	25 Jan '11	2	3	-1.3%	170	–	-21.9%	291	20
Intervention in Libya	19 Mar '11	18	29	-6.4%	135	115	-20.1%	292	77
Russian invasion of Crimea	1 Mar '14	6	13	-2.0%	10	10	-2.9%	320	8
Intervention in Syria	22 Sep '14	21	12	-7.4%	250	–	-23.5%	281	117
Brexit vote	23 Jun '16	14	9	-5.6%	0	0	0	400	0
Airstrike on Syrian airbase	7 Apr '17	32	16	-2.8%	0	0	0	306	10
Russian invasion of Ukraine	25 Feb '22	20	16	-9.1%	175	–	-26.1%	431	162
Israel-Hamas war	7 Oct '23	13	8	-5.9%	15	5	-1.8%	452	2
Israel-Iran airstrike	1 Apr '24	16	19	-5.5%	15	10	-3.6%	342	79
Iran war / Hormuz closure	**27 Feb '26**	**20**	**12**	**-9.1%**	**20**	**–**	**-10.6%**	**259**	**21**

Source: Deutsche Bank (S&P), Bloomberg, JP Morgan, Ashmore. EM and EMBI data from April 2000.

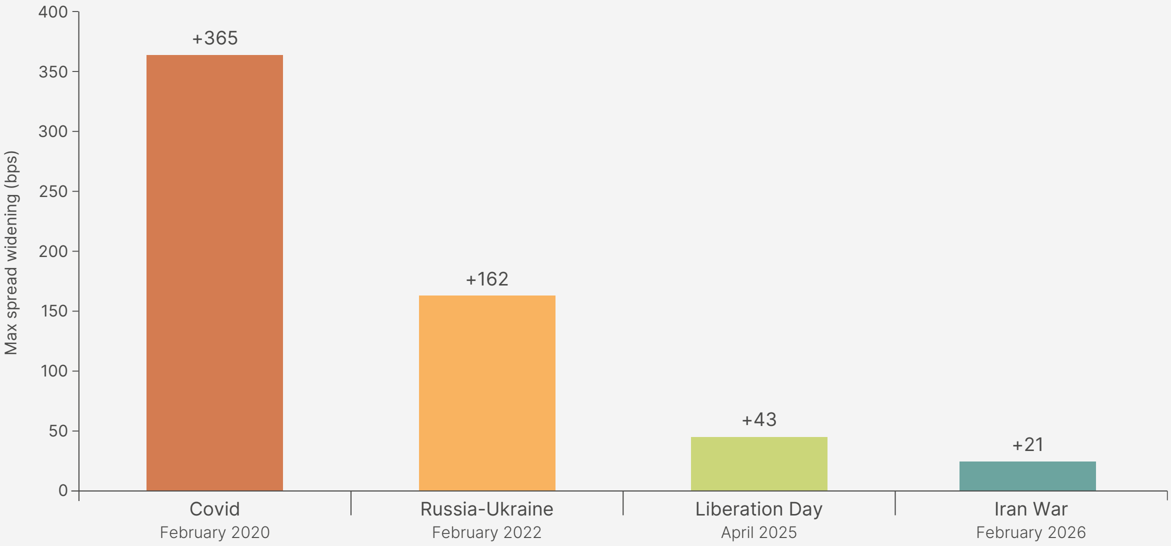
To be sure, the picture could still change. After Russia's invasion of Ukraine in 2022, stocks recovered sharply off lows in a very similar timeframe, before entering a bear market. As with any analogy, the comparison is imperfect. Back then, the catalyst for the bear market was the beginning of a rapid US Federal Reserve (Fed) interest rate hiking cycle. This is an unlikely eventuality this year, in our view, due to positive real interest rates (versus deeply negative then), core inflation trending downwards (versus sharply higher then) and some slack in the labour markets (versus extremely tight then).

Country level performance during previous oil shocks vs now

The expected divergence in performance between oil importers and oil exporters (outside of the Gulf) took place over the last six weeks, particularly in EM. In equities, clear outperformance has come from Latin America, Brazil and Colombia in particular. Malaysia also outperformed, given its net oil exporting status. Oil importers, particularly higher beta ones, such as South Africa and the Philippines, have underperformed. Taiwan is an exception, which remains buoyed by semiconductor demand, and now is back at record highs. South Korea underperformed for the first few weeks of the conflict but also remains driven by the tech cycle and has now made new all-time-highs.

A similar story has played out in credit spreads. Oil importers with weak balance sheets underperformed before recovering quickly after the ceasefire announcement. More surprising was the very mild widening at an index level. The EMBI Global Diversified widened just 35 basis points (bps) at its worst point – compared with +365bps during Covid, +162bps during Russia-Ukraine, and +43bps following "Liberation Day" tariffs. Most country spreads have already tightened back through pre-war levels. In our view, this resilience partially reflects the improved state of EM finances; since 2024, EM sovereign credit rating upgrades have outnumbered downgrades by more than three to one across all three major agencies, reflecting a better average credit rating in the index now, and better underlying macro resilience. The lower-than-expected volatility also reflects technical factors: two years of prior outflows cleared out weak hands, leaving a higher proportion of EM credit held by real money allocators that do not sell on a six-week war.

Fig 3: **EMBI GD: max spread widening during recent shocks**

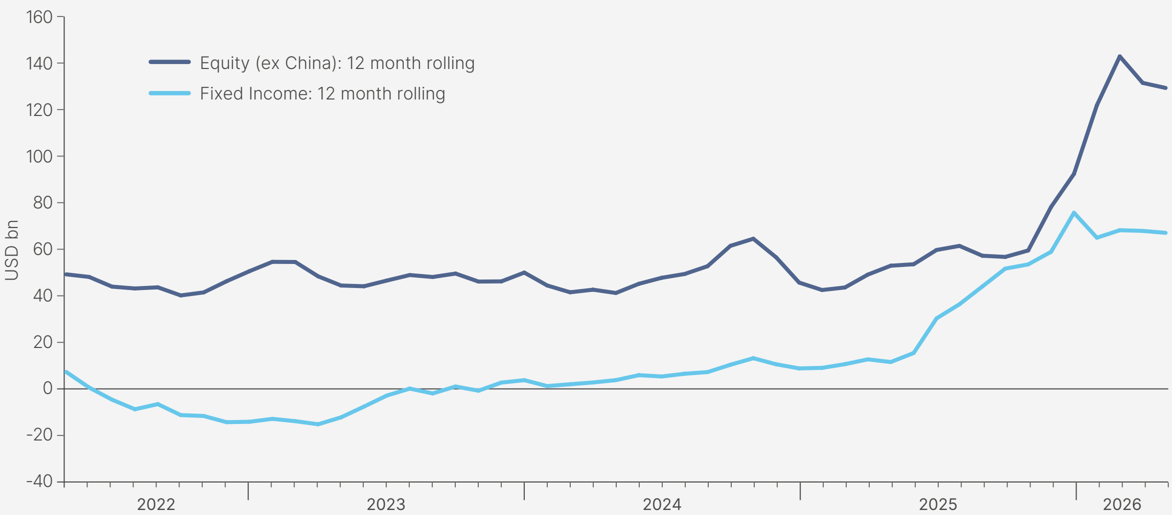


Source: Bloomberg, Ashmore. Data as at 17 April 2026.

Flows

Outflows from EM fixed income and equity ETFs during the volatility shock were limited, as at 17 April, with minor outflows in March and April from Asian equities. Latin American equity ETFs have continued to see inflows over the period, reflecting the region's robust positioning against a Middle Eastern energy shock.

Fig 4: **EM equity ex-China and debt fund flows as % of AUM**



Source: Bloomberg, Ashmore. Data as at 17 April 2026.

Macro backdrop today vs prior oil shocks

The macro consequences of an oil shock depend less on the sharpness of the price spike than the duration of the shock and the macro environment going into it. The 2021-22 episode was uniquely damaging as inflation was already soaring and real rates were deeply negative. Even if the current spike becomes a bona fide 'oil shock' (+100% vs two years ago), we would be entering it with a very different backdrop. Real rates are positive in the US and across EM, labour markets are far less tight than in 2022, and fiscal policies are nothing like as expansive as they were in 2022. All of this means that higher energy prices are far less likely to spur a sustained rise in core inflation.

Fig 5: **Macro conditions prior oil shocks vs 2026**

Episode	Regime at Onset	Oil Price Start→ Peak	CPI YoY	Fed Funds Range	Real Rate at Onset	Unemployment	DXY	Fed Direction	Macro Context
1999-2000 OPEC	Goldilocks → Boom	16→34	2.1%	5.0%-6.5%	+2.7%	4.0%	103	Hiking +175bps	**Tech boom, peak cycle** Strong dollar, full employment Vulnerable to demand shock
2005-2006 China	Boom	41→77	3.0%	1.25%-5.25%	-1.8%→ +2.2%	5.2%	88	Hiking +400bps	**Post-2001 reflation** Weak dollar, neg real rates Demand-driven, not pure supply shock
2010-2011 Arab Spring	Goldilocks ↔ Boom	72→127	2.0%	0.25%	-1.8%	9.5%	88	On Hold ZLB, QE	**Post-GFC recovery** Massive slack in economy Fed constrained at zero
2021-2022 Ukraine	Boom	72→122	5.0%	0.25%-5.25%	-4.8%→ +3.0%	4.7%	90	On Hold then +525bps	**Worst Backdrop** Already inflationary Forced 525bps hike cycle
Now 2025-2026	Goldilocks ↔ Boom	77→118	2.9%	3.50%-3.75%	+0.6%	4.4%	99-109	Cutting -175bps, paused	**Moderate backdrop** Positive real rates Fed has room but constrained

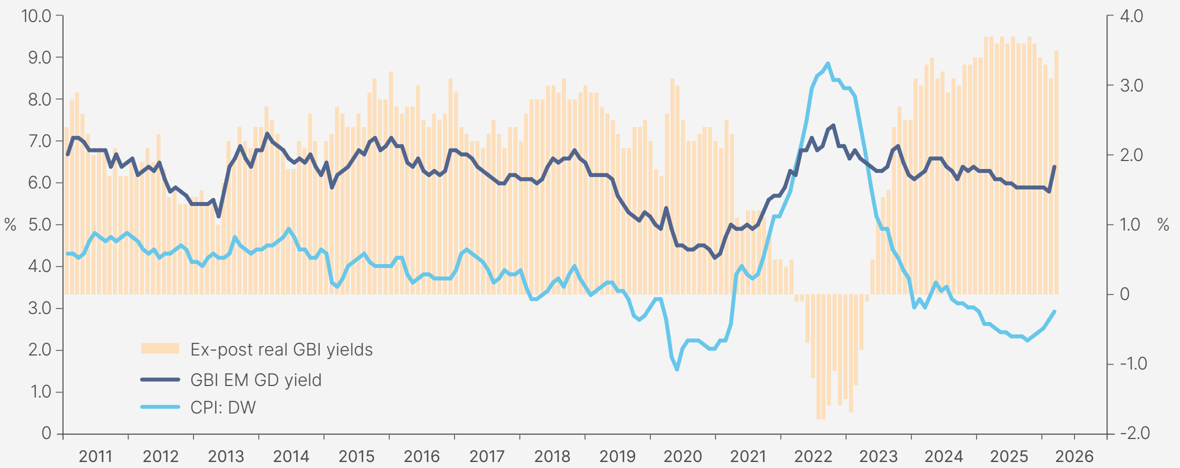
Sources: Ashmore, Bloomberg. Data as at April 2026.

This is precisely the scenario in which the Fed can look through the initial inflation impact and instead cut rates to cushion growth once supply-side pressures recede. This is the outcome we continue to expect, particularly with Kevin Warsh set to become the new Fed Chair in the coming months.

Valuations and the opportunity

There has been a notable divergence in market price reactions to the conflict. Equities and credit spreads traded it as a short-lived geopolitical shock. Rates markets, however, priced a more sustained inflationary impulse, with developed market (DM) yields rising from the outset and EM forward rates implying tighter policy than central banks were signalling. Both cannot be right. If credit is correct – that fundamentals are sound and the shock is temporary – then EM local currency duration is mispriced. Brazil's 1y1y yields rose from 12.9% to 14.3%, before slowing to 13.7% against inflation expectations of 4.8% (up 0.6% from lows) implying an ex-ante real rate of nearly 9.0%; while the central bank has just begun cutting. Across EM and frontier markets, over 20 countries have ex-ante real rates above 3% and have significant room to ease without compromising credibility, a similar picture depicted by the ex-post GBI real yield (1yr forward vs current inflation) in Fig 6.

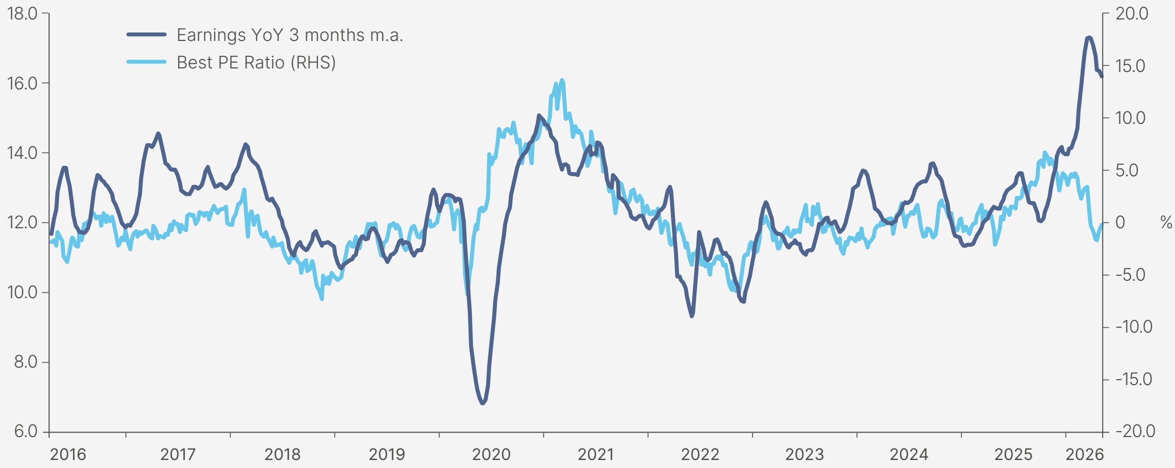
Fig 6: **EM local bonds ex-post real yields (GBI-weighted)**



Source: Ashmore, Bloomberg. Data as at April 2026.

On equity valuations, Fig 7 tells the story: EM forward P/E has compressed to around 13x while EPS growth is accelerating to its strongest pace since 2021. The conflict knocked the price, but not the earnings. For investors who missed the 2025 dip, the current environment offers a second entry point, with attractive valuations, light positioning, and mounting evidence that the asset class can withstand the tail risks that historically kept allocators on the sidelines.

Fig 7: **MSCI EM 12-month blended forward EPS & P/E**



Source: Ashmore, Bloomberg. Data as at April 2026.

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Emerging View

The Strait of Hormuz & the Vix shock

30 March 2026
By Gustavo Medeiros and Ben Underhill

The tail-risk of the Strait of Hormuz closing has materialised. Energy prices have risen sharply, and supply shortages, particularly in Asia are emerging.

In this month's Emerging View, we look back on historical oil shocks, and their impact on EM assets broadly, as well as the differences in performance amongst different regions and countries. We also examine the current macro backdrop relative to the macro contexts of oil shocks in the past 25 years and give our view on the 'game theory' framing of the current conflict between Iran and the US.

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Head office

Ashmore Investment Management Limited, 16 Palace Street, London SW1E 5JD T: +44 (0)20 3077 6000

Local offices

Bogota
T: +57 1 316 2070

Dublin
T: +353 1588 1300

Jakarta
T: +6221 2953 9000

Mumbai
T: +9122 6269 0000

New York
T: +1 212 661 0061

Riyadh
T: +966 11 483 9100

Singapore
T: +65 6580 8288

Tokyo
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