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Geopolitics heats up from Venezuela, to Greenland to Iran, but investors shrug. For how long?

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In Summary

- **2026 started off on a strong footing with geopolitics taking on center stage, again.** Market reactions have been fairly muted so far, with global equities, rates and FX remaining stable. Only gold and oil briefly reached highs of +7% and +8%, respectively, year-to-date (YTD), reflecting investor uneasiness and rising probabilities of downside scenarios. We anticipate two tail-risk events that could trigger a strong global market reaction: 1) an escalation in the Middle East, where higher oil prices could push the world back toward stagflation, and 2) a forceful annexation of Greenland by the US, which would have repercussions for NATO, trade and the Ukraine conflict. A resulting global one-standard-deviation confidence shock, comparable to the period between Liberation Day and the onset of the pandemic, would reduce global GDP growth by approximately 1pp (from 2.9% in 2026) and trigger severe market disruptions, including falling equities (except defense), widening credit spreads, steeper yield curves and a weaker euro.
- **In Venezuela, the status quo is the most likely scenario.** The country would remain unstable and unattractive to oil companies. No significant global market impact is expected, as oil prices would remain unaffected. However, regional instability and escalation with US interventions in other regional countries (e.g. Cuba or Colombia) would lead to a negative global market reaction due to increased uncertainty. A swift realignment of Venezuelan politics with US demands and increased oil production would push down oil prices, leading to a slightly positive market reaction, with lower global rates. What to watch: The evolution of trade deals, including the USMCA, and the extent to which negotiations might break down, leading to an increase in tariff and non-tariff barriers; election cycles in Costa Rica, Colombia, Peru and Brazil and risks in fiscally strained countries in the region, such as Argentina and Colombia.
- **On Greenland, we expect the US to eventually tone down its rhetoric and abandon plans for tighter control or outright annexation amid domestic political headwinds and strong pushback from allies.** Informal control via a “New Greenland Deal” with very generous economic sweeteners and strong security guarantees (including for a ceasefire in Ukraine) is a plausible scenario, and one to watch. A full-fledged annexation by force is unlikely: A US attack would immediately put an end to NATO and trigger major market disruptions, while Russia would likely advance in Ukraine, pushing uncertainty to unprecedented levels, particularly in Europe. The response of the EU and Denmark to the US military presence, strategic interests and Greenland's independence movement, as well as the potential economic incentives from the US, need to be scrutinized.
- **In Iran, the probability of a regime change is low at this stage, though an escalation of tensions is also likely.** A significant risk would be an all-out war in the Middle East involving the US military, which would lead to significantly higher oil prices (120 USD/bbl) and a negative reaction in the global market.

The Trump Corollary to the Monroe Doctrine will shape 2026-2027 in Latin America

Following Operation Absolute Resolve in Venezuela, the Trump Corollary to the Monroe Doctrine looms over Latin America. Besides the large-scale strike that resulted in the capture of President Nicolás Maduro, Washington has also maintained an expanded military footprint throughout the Caribbean and wider Latin American region, involving maritime interdictions against vessels alleged to be tied to drug trafficking and increased deployments in nations such as Paraguay, Guatemala and Panama. These maneuvers have been framed by US officials and analysts as part of a Trump Corollary" to the 19th century Monroe Doctrine intended to consolidate US primacy in the Western Hemisphere. Against this backdrop, the upcoming review of trade deals with the US (including the USMCA with Mexico), a packed election calendar (Costa Rica, Colombia, Peru and Brazil) and security risks bring significant downside risks to the region's growth outlook, local currencies and long-term yields.

Our baseline scenario for LatAm (60% probability, see Figure 1) sees limited downside risks from rising uncertainty leading to subdued business confidence and wait-and-see attitudes in terms of investments. Inflationary pressures are expected to rise only moderately due to a combination of input-cost volatility and delayed monetary easing in Brazil and Colombia, given the election cycles ahead. We expect regional economic growth in 2026 to be in line with 2025 (+2.3% vs. +2.2%) with an acceleration to +2.6% in 2027 (see Figure 2). Demand resilience will continue to surprise positively in several economies, particularly in Brazil and across the Andean economies, supported by potential rate cuts ahead. Headwinds from subdued consumption along with fiscal concerns are emerging in Argentina, Colombia and Mexico. Sovereign insolvency risks rise moderately in countries with weaker fiscal positions, such as Argentina, or fragile balances, such as Colombia. USD currency weakness has reduced repayment risk, but risks exacerbating corporates' competitiveness in countries where still-elevated inflation combines with high local costs, such as Brazil. Corporate insolvencies will peak in 2026 (+3% after a +12% expansion in 2025) and decline slightly in 2027 (-7%). Geopolitical tensions, the review of trade deals with the US and major elections will shape local trajectories and weigh on debt financing and local currencies. Political violence, particularly organized crime, violence against political figures and military threats by non-state actors, can worsen the business environment and reduce overall confidence in specific areas. Even with a potential shift toward more market-friendly leadership in upcoming elections, investors should not expect an immediate easing of fiscal pressures, while higher imports may turn trade balances into the red, particularly in the Southern Cone. Markets remain cautious, with range-bound sovereign spreads close to all-time lows and subdued investment as political uncertainty and election cycles weigh on sentiment. Sovereign differentiation persists: fiscally fragile names face ongoing scrutiny, while stronger credits benefit from steady domestic demand and continued investor appetite.

Figure 1 – Main political, economic and market scenarios for Latin America in 2026

Regional instability and capital outflows	Heightened scrutiny & uncertainty	Swift realignment and increased investment
25%	**60%**	**15%**
In a nutshell: Multiple security crises and trade disruption trigger capital outflows, supply-chain breaks and confidence shocks, cutting regional growth by +0.5pp and lifting CPI by +2-3pps.	**In a nutshell**: Heightened scrutiny, political uncertainty and limited business confidence accompany subdued investment, moderate inflation pressures and near-steady growth.	**In a nutshell**: FDI-driven realignment and cooperation accelerate infrastructure and trade, adding +0.5pp to regional growth in 2026-2027 with stable commodities and neutral CPI.
Key features: • The US expands spot interventions to several countries in Central America, Colombia, Mexico and Panama. • Logistics are interrupted, and states of emergency are	**Key features:** • Demand resilience continues to surprise positively in several economies. • Political violence worsens the business environment, but regionwide the situation remains under control.	**Key features:** • Investment in projects related to critical minerals and soft commodities increases. • Newly elected governments boost cooperation, regional trade and engagement with the US and the EU.

declared across Andean economies. • Organized crime and social tensions intensify, triggering institutional crises. • Sovereign defaults emerge; corporate insolvencies surge.	• Sovereign risks rise moderately in fiscally weak/fragile credits, even as USD weakness eases near-term repayment pressures. • Corporate insolvencies peak in 2026, with amid prudent financing conditions.	• Fiscal pressures ease in Brazil and Argentina. Sovereign risk premia compress amid increased cooperation, smooth political transitions and orderly election cycles. • Corporate insolvencies decline already this year.
Market implications: Limited global but only local market impact: Disorderly widening across HC sovereigns and HY corporates; local curves bear-steepen as risk premia jump, and policy rates stay elevated. Equities/FX with exposure to Latin America: Cyclicals and leveraged financials would underperform high-quality defensives with pricing power, low FX-mismatch and USD revenues, but expect broad drawdowns amid FX depreciation and liquidity stress.	**Market implications**: Limited market impact globally and locally: Rate-cut cycles and resilient demand in Brazil and the Andean region favor domestic cyclicals and selected financials in Latin America; prefer quality, low-leverage defensives and firms with limited FX-mismatch. HC sovereigns and HY corporates in fiscally fragile names face wider spread risk; in the region prefer IG corporates with natural USD hedges, shorter duration and prudent sovereign exposure.	**Market implications**: Moderate global impact and local rally. Slightly lower oil prices from increased Venezuela oil production outlook would lower global inflation expectations and rates marginally. Positive market impact on LATAM asset classes. Spread tightening across HC sovereigns and IG corporates; front-end / local-currency debt in stronger credits would outperform. Equities/FX with exposure to Latin America in particular infrastructure, critical-minerals, logistics and soft-commodity plays would profit together with quality financials and exporters with US/EU demand.

Source: Allianz Research

Figure 2: Few LatAm economies are growing faster than in 2022-2024; country risk may worsen (real GDP growth forecasts and Allianz Trade's country risk ratings)

	2025	2026	2027	Avg. 22-24	Rating
Argentina	4.2	3.5	3.0	0.6	C3
Brazil	2.4	2.2	2.2	3.2	B2
Chile	2.0	2.4	3.0	1.8	BB1
Colombia	2.6	2.8	3.5	3.3	B2
Costa Rica	3.4	3.4	3.5	4.7	BB1
Dominican Rep.	3.5	4.5	5.0	4.1	B1
Ecuador	2.1	2.1	2.3	2.0	C3
Guatemala	3.5	4.0	3.8	3.8	B1
Mexico	0.8	1.2	1.6	2.8	BB2
Panama	4.2	4.0	4.0	7.1	BB2
Peru	3.2	2.7	2.5	1.9	B1
Uruguay	2.7	2.4	2.1	2.8	BB1
LatAm	2.5	2.3	2.5	2.9	

Sources: IMF, Allianz Research

However, if more US interventions follow, a downside scenario (probability: 25%) could unfold, triggering a GDP contraction by -0.5pp. Prolonged regional instability and capital outflows may occur if geopolitical tensions with the US extend to other countries. Events may take place in Central America (including Cuba, but also economies with delicate election cycles ahead like Costa Rica next month and Guatemala in 2027, which may follow the playbook of last December in Honduras), Colombia, Mexico and Panama. Transit through the Canal would be disrupted, affecting supply chains and increasing criminal activity along key truck corridors and ports. States of emergency may be declared across Andean economies amid intensified organized crime and social tensions, triggering institutional crises. Under this negative scenario, GDP growth could potentially contract by -0.5pp regionally and -1.5-2pps in affected countries due to greater instability, confidence shocks and business interruption. Regionally, consumer prices could rise by an additional +2-3pps due to higher input costs. Given the heavy dependence of many economies on private consumption and their lower vulnerability to oil prices, a consumer confidence shock could damage fiscal systems much more than additional revenue from higher export prices. Under this scenario, Brazil's growth would remain stable due to local dynamics, but the Selic interest rate would stay in the double digits until end-2027. Governments increase spending on security, social and emergency measures. Bond yields become unsustainable in Colombia and Brazil. Sovereign and quasi-sovereign defaults may occur across the region (e.g. Argentinian provinces, agencies in Mexico) as escalating conflict risk triggers a shift to risk-off positioning, driving LatAm sovereign spreads wider and weakening local FX as foreign investors withdraw – especially since current EM spreads are at historical lows and priced to perfection. Regional instability raises the likelihood of capital outflows, higher inflation and elevated rates, pressuring fiscal balances and refinancing conditions. Corporate insolvencies surge, particularly in sectors linked to global supply chains.

Figure 3: A new wave of elections in the region in 2026-2027

Note: green for countries with no major elections scheduled in 2026-2027; light green for countries with a transfer of power underway; orange for countries with major elections in 2026; light orange for countries with major elections in 2027; yellow for countries with election results still contested. Sources: National authorities, Allianz Research

Figure 4: Approval rating of the incumbent administration, as of Dec 2025 (the darker, the higher)

Sources: Boz, Cadem, CB Consultora, CID-Gallup, Equipos Consultores, Genial/Quaest, IEP Perú, PollsMx, EIU, Allianz Research

A positive scenario (15%) could emerge amid swift realignment and increased investment. At present, the two economic giants of the region, Brazil and Mexico, have been able to play their cards right, thanks to their critical importance in US trade and leaderships with a strong mandate, further strengthened locally by the dialectic with Washington. Both countries have done their best so far to cope with recent trade tensions. This year, however, both have a sword of Damocles hanging over them: in one case, the renewal of the USMCA, and in the other, the presidential election, which coincides almost exactly with the midterm elections in the US. For this reason, we believe that further pragmatic efforts will prove difficult and consider this as the least probable outcome. Under this scenario, +0.5pp would be added to regional GDP growth in 2026-2027 due to renewed confidence, trade and investment opportunities. Infrastructure development accelerates thanks to foreign investment in projects related to critical minerals and soft commodities. Greater cooperation between newly elected governments, particularly in the Southern Cone, would boost regional trade. China's role in the region would be balanced by renewed engagement with the US and the EU. In this scenario, geopolitical risk premia across Latin America would decrease, supporting spread compression and FX stabilization as capital outflow pressures subside. Improved political and business conditions would bolster confidence, enhancing market access, particularly for high-beta sovereigns such as Colombia, Ecuador and Peru. Reduced institutional stress and fewer supply-chain disruptions would strengthen fiscal trajectories, aiding refinancing and lowering default risk. With volatility declining, local-currency debt would benefit from firmer FX and anchored inflation expectations. Corporate insolvencies would decrease as businesses benefit from improved trade conditions and investment. Overall, the region would shift toward a more constructive credit environment driven by improved stability and resumed investment flows.

As President Trump reshuffles the terms of engagement, several LatAm governments will face "deals they can't refuse" on security and trade that test institutions, market access and currencies – yet the region's capacity to bend without breaking remains its core strength. Our baseline is resilience under pressure: moderate inflation, near-steady growth and selective easing, offset by tighter financing and episodic FX stress. The downside scenario would sap confidence, cutting growth by about -0.5pp regionally, lifting CPI by 2-3pps and pushing weaker sovereigns toward distress, while a positive scenario of realignment could add +0.5pp and ease fiscal risk, but is least likely and hinges on USMCA renewal and orderly ballots. For investors, the playbook is discipline over heroics: keep a quality bias, prefer shorter duration and stronger local-currency credits, be selective in equities (defensives with pricing power and low FX-mismatch) and maintain hedges. Watch the election calendar, USMCA signals, Canal throughput and security headlines for early inflection points. Ultimately, diversified external partners, still-strong demand pockets (notably Brazil and parts of the Andes) and policy agility underpin LatAm's resilience.

Grabbing Greenland: The island that could break NATO – but won't

The US administration is stepping up Greenland annexation threats. The world's largest island is an autonomous territory of 56,000 inhabitants within the Kingdom of Denmark, which controls its foreign affairs and defense, and provides roughly half of the government budget (about USD600mn). The US has long shown interest in Greenland, first floating the idea of purchasing the territory as early as 1867. President Trump revived the proposal in 2019 during his first term and has doubled down following his reelection, repeatedly threatening to take control of Greenland – preferably voluntarily and if necessary, by force. The rationale is strategic: Greenland sits astride the GIUK Gap, a critical Arctic surveillance chokepoint vital to US national security. As climate change melts sea ice, the region is increasingly opening up to shipping, resource extraction and military activity, sharpening competition with China and Russia. Both are expanding their Arctic presence, with Russia dominating Arctic navigation, thanks to its icebreaker fleet.

But the US does not need territorial control to benefit from Greenland's strategic position or resource potential. A 1951 defense treaty with Denmark already grants the US the right to build and operate military bases on the island, and Denmark has signaled openness to an expanded US military presence, now reduced to about 200 troops from over 10,000 during the Cold War. Greenland's NATO status further deters hostile moves by China or Russia, and Denmark has also invited US investment in Greenland's natural resources, including oil, rare earths and uranium, as extraction up until now has long been deterred by high costs and harsh conditions, rendering projects uncompetitive. Still, the administration's escalating rhetoric means a forced takeover can no longer be fully dismissed.

The most likely scenario (50% probability) is that the US eventually moderates its rhetoric and review plans for tighter control over Greenland or outright annexation, prompted by domestic political headwinds and strong pushback from allies, who would simultaneously take significant steps to address Washington's stated security concerns. The US administration is most likely to drop its Greenland ambitions amid a lack of congressional and public support for territorial expansion and military action involving a NATO ally (73% of Americans oppose the use of military force to seize Greenland). Moreover, with Republicans likely to lose their majority in the House of Representatives following the US midterm elections in November 2026, the administration would further shift its attention toward pressing domestic priorities. In parallel, it would recalibrate its approach to avoid a rupture with allies, refocusing on cooperation rather than confrontation. Additional US military access in Greenland – including new bases, infrastructure upgrades and enhanced Arctic surveillance – is likely to be negotiated peacefully. Meanwhile, the EU would act cohesively on the basis of a common strategy to deter any potential US attempt to seize Greenland, combining strong diplomatic messaging with credible policy threats, such as closing US military bases in Europe, reducing purchases of US Treasuries, imposing punitive tariffs or leveraging Finland's global leadership in icebreaker design (80% of global) and construction (60%) as a bargaining chip. In an effort to provide a carrot, Europe may also invite coordinated US–European investment in Greenland's mineral and energy resources through joint frameworks that reduce costs, share risks and promote cooperative development. At the same time, the EU would likely signal its commitment to Greenland's territorial integrity by deploying rapid-response forces to the island in coordination with Copenhagen and Nuuk. Denmark, for its part, would address Washington's stated security concerns and follow through on announced investments to strengthen Arctic and North Atlantic defense capabilities. In this baseline scenario, all sides would achieve some of their objectives: the US would strengthen its Arctic defense posture, Denmark would close security gaps and Europe would prevent a forcible takeover, preserving the unity of NATO. The market implications in this scenario are expected to be positive, albeit modest, as current market prices have demonstrated minimal concern thus far.

A scenario in which the US gains informal control of Greenland through an association arrangement is the second most likely (40% probability), with military conflict avoided but Europe's geopolitical weakness exposed once again. In this scenario, Washington would increasingly engage directly with Greenland and sway its population through generous economic incentives, such as preferential access to the US-Mexico-Canada Agreement, increased investment in infrastructure and mining and strong security guarantees. Denmark, seeking to avoid a full-fledged confrontation with the US that could spell the end of NATO, would ultimately lend reluctant support to a Compact of Free Association (COFA) between Greenland and the US. This pathway could culminate in Greenland's independence, after Denmark authorizes a fast-tracked independence referendum confirming current polling that shows a majority in favor of independence (56%). Importantly, this last step would call for finding a solution for how to replace the annual EUR600m block grant from Denmark. In this scenario, Europe's inability to formulate a common position would prevent it from effectively blocking US efforts. Member states would prioritize bilateral relationships with Washington, while the US links the Greenland issue to broader security commitments – including support for Ukraine's defense and increased US engagement in European security – implicitly asking Europe to "look the other way" on Greenland. US expansion in Greenland would be reframed as a collective security benefit rather than a unilateral land grab, allowing NATO to remain intact. Military conflict between alliance members would be de facto avoided, but Europe's geopolitical weakness would once again be exposed, and transatlantic trust would deteriorate. Market implications in this scenario would be muted.

In the worst-case scenario (10% probability), the US pursuing a full-fledged annexation of Greenland by military force would end NATO overnight, unraveling decades of European security architecture and marking the end of the US-led system of collective defense in Europe. When negotiations with Greenland and the EU fail to deliver the swift extension of US control, Washington may opt to seize the island by military force. Given Greenland's minimal defenses – consisting largely of outdated assets and no territorial army – US troops would rapidly secure strategic locations, including Nuuk, major airports, ports and mining sites. American airpower and satellite capabilities would quickly establish control of Greenland's airspace, while US Marines or airborne units capture critical infrastructure. Resistance would likely be limited to protests or symbolic acts, and within days the American flag would be flying over Greenland's institutions. The EU would be unable to mount an effective military response, given the imbalance in capabilities vis-à-vis the US. The attack would also bring NATO to an immediate end. Article 5's principle – that an attack on one member is an attack on all – presumes alliance solidarity, not armed conflict between members. While the treaty might formally remain in place, NATO's credibility and unity would be destroyed overnight, unraveling decades of European security architecture and marking the end of the US-led system of collective defense in Europe. Europe would be left exposed. Member states would convene emergency summits to form a new security pact and sharply accelerate defense spending, forced to rebuild military strength rapidly to deter external threats. Political and economic cooperation with the US would also deteriorate: trade agreements would be suspended, US military bases in Europe closed, and negotiations over Ukraine abandoned. In this worst-case scenario, major powers would feel emboldened by the US territorial grab. China would expand its influence in the Global South and increase pressure on Taiwan, while Russia would exploit Europe's vulnerability by intensifying military operations in Ukraine. This would raise the medium-term risk of Europe being drawn into direct military conflict. The ramifications of this scenario cannot be overstated. A brief US military victory in Greenland would demolish the Western alliance and severely damage the international order. It carries only a 10% probability due to its far-reaching risks and because it would represent a radical break with long-standing US policy and values: The US has not annexed territory by force or purchase in over a century. Doing so against an ally would usher in a new era of power politics in which brute force again becomes paramount. The expected global confidence shock – comparable to an event between "Liberation Day" and the pandemic – would reduce global GDP growth by around 1.0pp. In such a scenario, global markets would reprice abruptly for sustained geopolitical instability, triggering severe disruption marked by falling equities (except defense stocks), widening credit spreads, steepening interest-rate curves and a sharply weaker euro.

Figure 5: Main political, economic and market scenarios for Greenland in 2026

Status-quo / de-escalation	US association deal	Forced annexation
50%	**40%**	**10%**
In a nutshell: US backs down amid domestic constraints and strong allied pushback; security concerns are addressed cooperatively.	**In a nutshell**: US gains de facto control via economic, political and security leverage short of annexation.	**In a nutshell**: US seizes Greenland by force to secure direct territorial control.
Key features: • No congressional or public backing for use of force against a NATO ally • Denmark boosts Arctic defense and grants additional US access • EU acts coherently, deters escalation and deploys forces with Danish consent.	**Key features:** • US courts Greenland with generous economic sweeteners and security guarantees • Denmark reluctantly accepts a Compact of Free Association (COFA) to avoid NATO rupture • Potential pathway to Greenlandic independence	**Key features:** • Rapid US military takeover given Greenland's minimal defenses • EU unable to resist militarily • Transatlantic cooperation collapses • Confidence shock shaves 1pp off global economic growth
Geopolitical outcome: NATO unity preserved; Greenland remains under Danish sovereignty; US strengthens Arctic posture.	**Geopolitical outcome**: NATO formally intact but Europe's geopolitical weakness exposed; US achieves strategic primacy in the Arctic	**Geopolitical outcome**: NATO collapses de facto; Europe forced into emergency rearmament; China and Russia emboldened.
Market implications: Muted and continuation of status-quo also in markets.	**Market implications:** Muted as purely political sphere with no trade or supply-chain implication.	**Market implications:** Severe risk-off moves: in deflationary recession global equities plummet (excluding defense), significantly wider spreads, weaker Euro. Europe underperforms given the increased risk premium stemming from the proximity to Russia. Rates dropping globally but even more in Europe as the ECB would ease policy to fight a deflationary recession.

Source: Allianz Research

A break or make moment for the Iranian regime

A once-in-a-generation protest movement has brought the question of regime change back to Teheran once again. Will this time be any different? A severe economic crisis – with the Iranian rial depreciating by more than 70% during 2025, inflation at 52% y/y at the end of the year and youth unemployment above 20% – has sparked a new social movement with vast potential consequences. Though weakened by international sanctions and US strikes against its nuclear capabilities in summer 2025, the regime has responded with a severe crackdown on demonstrators: Independent watchers estimate that more than 2,000 people have been killed by security forces, and 10,000 arrested. Nevertheless, protests continue, raising the very real question of regime change. Germany's Chancellor Merz himself has said the regime is facing its "final days and weeks". For now, however, clerics and the Revolutionary Guard continue to hold on to power through the security apparatus.

At this stage, the most likely scenario (55% probability) is regime continuity, with further escalation between the US and Iran, as well as a stronger crackdown on demonstrations before some normalcy returns. But US intervention will play a key role in what happens next. So far, President Trump has announced 25% tariffs on any country that trades with Iran, which would mainly affect China, Türkiye and India. In parallel, the military option remains on the table, though the targets (potentially the Revolutionary Guards' operation grounds or police headquarters) and their consequential impact are unknown. Moreover, the goals of a potential strike remain unclear, and the US's military capabilities in the region are reduced compared to last summer. Iran has warned of severe consequences in the event of any military intervention, pointing to a possible escalation, unlike the events of the so-called 12-days war between Israel and Iran. Back in June, direct fire between the US and Iran was highly orchestrated by both sides, while domestically it united the population around the defense of the nation. But this precedent does not guide future outcomes as a renewed attack would most likely arrive differently and to a much more stressed regime.

Figure 6: Main political, economic and market scenarios for Iran in 2026

Tail risk: all-out war	Regime holds		Regime falls with unclear outcome
	War escalates but status quo remains	Negotiated outcome between US and Iran	
5%	**55%**	**30%**	**10%**
In a nutshell: conflict escalates, US intervenes militarily, aiming at the regime's key infrastructure. Iran doesn't back down, responding with attacks on US and Israeli military presence in the region, as well as disruption of energy flows through the Hormuz Strait.	**In a nutshell**: Iranian regime escalates crackdown on protests. US intervenes with targeted strikes only and Iran responds against US and Israel but with limited impact. Domestic mobilization eventually eases following severe repression.	**In a nutshell**: while crackdown continues, US and Iran reach an agreement to ease tensions and establish new understandings around nuclear, economic and regional security.	**In a nutshell**: regime falls after persistent social unrest, and most likely a successful US intervention that further destabilizes the regime. Internal power infighting to follow between powerful Revolutionary Guards, and more liberal sections of society.
Oil price: +100%, towards USD120/barrel	**Oil price**: Baseline USD60/barrel.	**Oil price**: -15%, towards USD52/barrel	**Oil price**: +10%, towards USD66/barrel on higher uncertainty and disruptions
Market implications: global energy flows are disrupted and if sustained beyond few weeks drive inflation expectations and mainly short-term rates significantly higher and equities lower. Energy companies and energy-rich countries outperform.	**Market implications:** regional disruption similar to summer 2025 escalation. No broader global market implication beyond rising regional risk premium.	**Market implications:** Positive global market reaction (lower rates, due to less inflation pressure, higher equities) on prospect of structurally improving Middle East stability and lower oil prices. Regional assets outperform global markets and energy-intense countries and sectors benefit at the margin.	**Market implications:** As long as instability remains contained inside Iran, mainly bordering financial markets and assets with exposure decline on risk of spill-over. However, for global markets it is an extension of the status quo with periodic volatility.

Source: Allianz Research

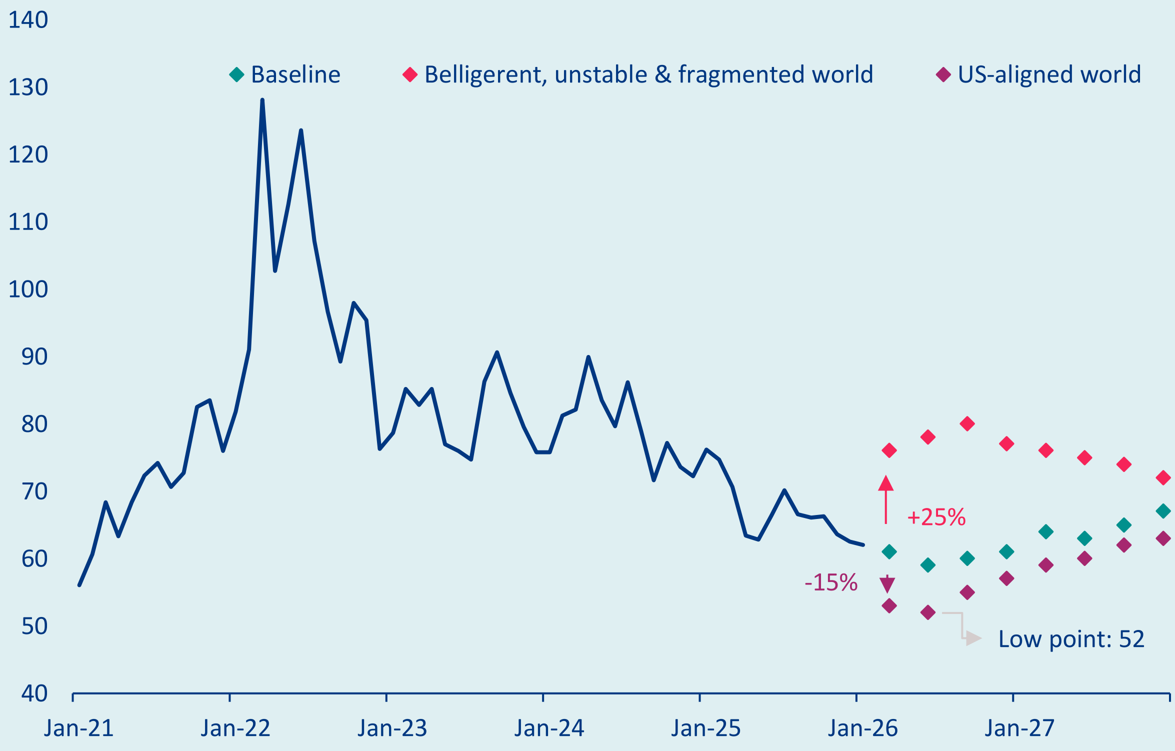
A US-Iran negotiated outcome remains a high probability outcome (30%) as Teheran has reiterated its preference for diplomacy. Earlier this week, Iran's Foreign Minister indicated that the regime is ready to negotiate with the US, following the last round of negotiations on nuclear topics that took place in spring 2025. In this scenario, the US would have the upper hand to force Iran to reduce or halt its uranium enriching program, while ballistic missiles would most likely be on the agenda as a top priority for Israel, which has a strong influence on the topic in the White House. It remains unclear how much sanction relief the US would be willing to offer without a change of leadership in the regime.

The fall of the regime remains a low-probability scenario (10%), likely only if protests persist for a long time. The 1979 Iranian revolution was preceded by 13 months of social unrest. Moreover, the fall of the current regime would not translate into a clearer outcome in Iran as there are multiple power centers and exogenous players that would make sure to influence the final form of the regime, especially when it comes to the relevance of oil in the country.

BOX: What are the energy market implications of developments in Venezuela and Iran?

In Venezuela, oil markets have largely treated the US intervention as a flow-disrupting event rather than a material supply shock. The centerpiece is a deal to move up to 30-50mn barrels (worth about USD2bn) of Venezuelan crude – barrels already produced but trapped by the December blockade – into US-supervised export channels, not a sudden increase in global output. Even on the ground, the story is one of restart and stabilization: PDVSA is reversing forced shut-ins after exports resumed, with output having fallen from about 1.16mn barrels per day (bpd) in November 2025 to roughly 880,000 bpd as of early 2026. The long-term supply upside is far less certain and depends on whether Venezuela can translate headline reserves into investable, commercially recoverable barrels. The US EIA and OPEC still lists 303bn barrels of proved reserves – the world's largest on paper – but (i) these numbers are contested and some experts put the reserves closer to 100bn barrels and (ii) the country's extra-heavy Orinoco crude requires sustained capital, diluent logistics and refinery-compatible upgrading, all of which demand political stability and credible contract terms. The ongoing shift is unambiguously negative for Beijing: Venezuela's crude accounted for 6-7% of China's total crude imports, according to tanker data, and now the country risks losing access to deeply discounted Merey, forcing independent refiners to source replacement heavy crude from elsewhere, likely at a higher cost. The clearest (and only ?) prospective winners are US Gulf Coast refiners, which are configured for heavy sour feedstocks and could benefit if Merey returns in size and at a meaningful discount. However, that margin story is not yet locked in: The latest market prices suggests Merey discounts have tightened to around USD10 per barrel below Brent, and some refiners and traders argue current offers are no longer decisively cheaper than competing Canadian heavy barrels.

Figure 7: Oil price scenarios for 2026/27



Belligerent, unstable & fragmented world" refers to increased tensions/ US intervention in the middle-East, unstable LatAm and no resolution to the Ukraine conflict / "US-aligned world" refers to a ramp up of oil production in the Americas, resolution of the war in Ukraine and a regime change in Iran

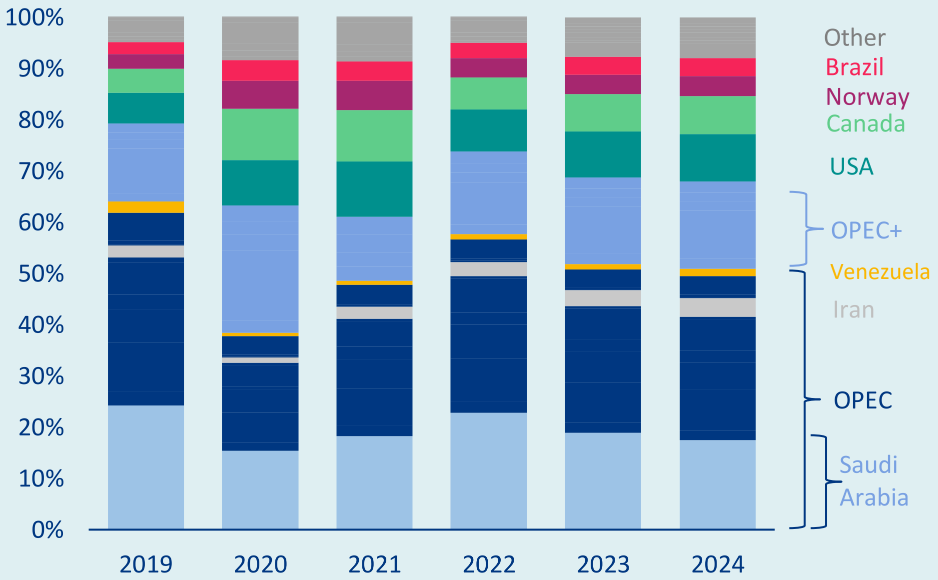
Sources: LSEG Datastream, Allianz Research

In Iran, the major game changer for energy markets would be a return of Iranian oil to the market either following a regime change or a negotiated outcome between the US and Iran. While it currently only produces 3% of total oil supply, Iran hosts 12% of proven global oil reserves and its oil capacity is estimated to be between 4-7mn barrels a day. While decades of sanctions have reduced its production capacity, the Persian nation has kept some key infrastructure online, and new developments are projected to be delivered over the next few years. Without economic sanctions, it could quickly become the 4th largest oil exporter, just behind Russia. With the oil market starting 2026 in a fundamentally loose position, the price path in each Iran scenario is primarily about how much risk premium traders are forced to pay, and for how long. A negotiated US–Iran outcome would strip out a chunk of that premium and increase confidence that additional Iranian barrels can reach the market more openly. In such scenario, the oil price could move down toward USD52/bbl (roughly -15% versus our baseline). This would have further ramifications on markets, with reduced global headline inflation, and support a bullish stance in core rates, while equity markets would generally respond positively, particularly in transport, manufacturing and consumer sectors, with underperformance of energy producers. If the regime holds and tensions flare up but exports and shipping keep functioning, Brent can still spike on headlines and geopolitical premium, but the surplus backdrop would cap any long-lasting price increase, which should anchor prices around USD60/bbl. A regime collapse with an unclear successor would be more destabilizing than immediately bullish: The market typically prices the probability of logistical disruption, sanctions ambiguity and higher freight/insurance rather than a clean supply loss, supporting a more modest premium toward USD66/bbl. Market sanctions would most likely be subdued while the fallout would remain limited to Iran given its isolated economy.

The true tail risk is an outright war, which could prompt the regime to disrupt flows through the Strait of Hormuz – a chokepoint that moves about 20% of global petroleum liquids. A temporary panic spike toward USD120/bbl becomes plausible even if the physical interruption ultimately proves short-lived. Such a scenario would have the largest market consequences, especially if oil flows are interrupted, bringing higher global inflation, especially affecting core rates of oil-importing countries. A physical interruption of the Strait would also unleash a greater offensive against the Iranian regime that could damage its oil infrastructure.

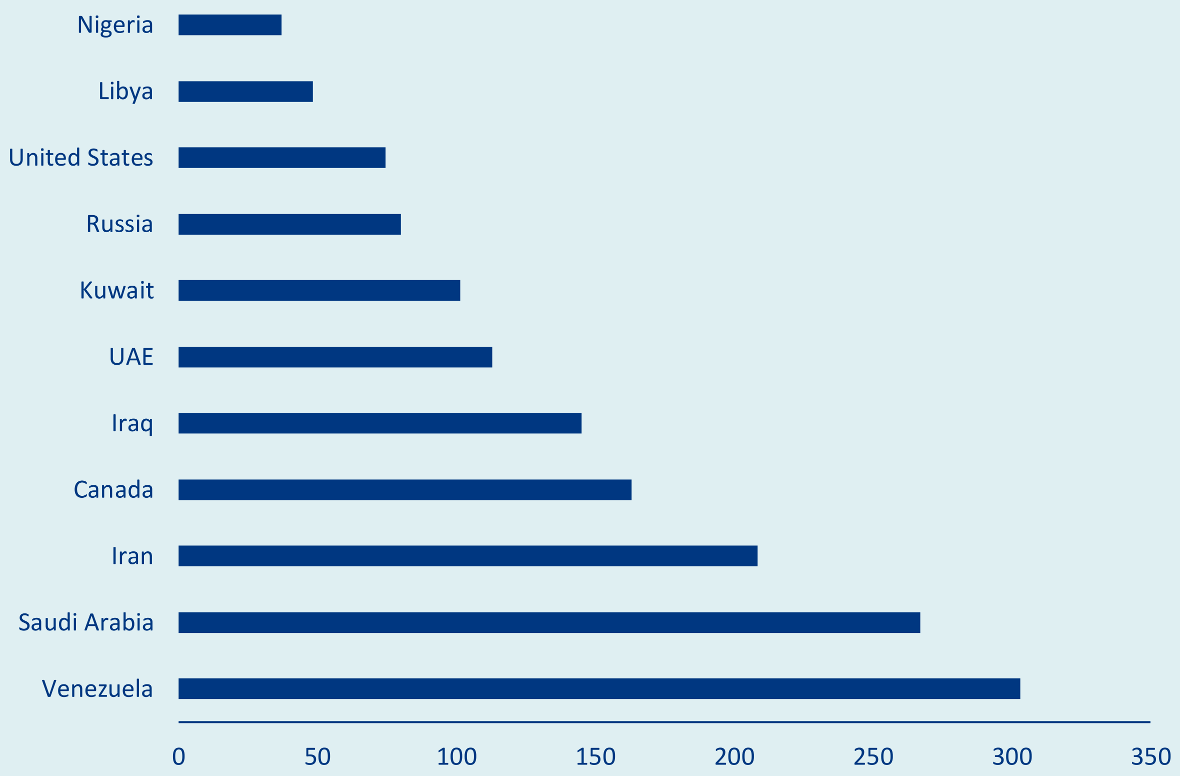
Beyond oil, Iran could become a global powerhouse of gas and LNG, even though significant investment would be required. Iran remains a relatively small player in the natural gas export fields, while having the second-largest proven reserves of the energy source only after Russia. Current Iranian gas exports are done via pipelines with its neighboring countries as it lacks any type of LNG infrastructure.

Figure 8 : Iran and Venezuela contribute a very small share to total market-traded oil



Sources: EIA, OPEC, Allianz Research

Figure 9: Proven oil reserves



Sources: EIA, Allianz Research

These assessments are, as always, subject to the disclaimer provided below.