

UPDATE AND IMPACT ASSESSMENT

U.S. – ISRAEL – IRAN CONFLICT

| March 13, 2026

KEY DEVELOPMENTS

On February 28, 2026, the United States and Israel launched a large-scale military campaign against Iran. The stated objectives include dismantling Iran's missile industry, preventing nuclear weapons acquisition, destroying the Iranian Navy, and toppling the existing theocratic regime.

On March 1, Iranian state media confirmed the death of Supreme Leader Ali Khamenei. In immediate retaliation, Iran launched waves of missile and UAV strikes targeting Israel and Gulf nations hosting U.S. military bases. The Islamic Revolutionary Guard Corps (IRGC) vowed a "devastating offensive," described as the most severe in the history of the Islamic Republic.

Energy supply has been severely disrupted as oil refineries, gas production facilities, and storage infrastructure became primary targets for both sides. In addition, vessels transiting the Strait of Hormuz have come under attack after Iran declared the waterway closed. As a result, maritime insurance premiums have surged sharply. Some major insurers have even refused to provide coverage for ships passing through the strait, effectively paralyzing shipping activities in the region. Oil prices have experienced significant volatility during this period, at one point approaching USD 120 per barrel before easing after President Trump announced that the war could end soon and the International Energy Agency (IEA), together with the United States, released strategic reserves.

CONFLICT SCENARIOS

Despite the U.S. and Israel successfully eliminating Supreme Leader Ali Khamenei, and the U.S. President declaring that Iran has significantly weakened and the war will end shortly, we assess that the objectives declared by the U.S. are very difficult to achieve, especially the goal of overthrowing the current theocratic regime in Iran and replacing it with a more pro-Western regime, even in the medium term. The reason is that the IRGC still controls the military, security apparatus, and most of Iran's economic structure, and there is currently no meaningful domestic counterweight. A U.S. ground deployment aimed at fully dismantling Iran's nuclear program therefore also appears improbable.

The prospects for ending the conflict through diplomacy—particularly through concessions from Iran—are equally limited. This is especially the case after Mojtaba Khamenei was selected to succeed his father following his death in the U.S.–Israel operation. Iranian authorities have since accused Washington of acting in bad faith, arguing that the United States attacked Iran twice while negotiations were still underway. Meanwhile, the IRGC has quickly rallied behind the new leadership, and the newly appointed Supreme Leader is widely viewed as even more hardline than his predecessor. With its continued control over both the military and large parts of Iran's economy, the IRGC retains significant offensive capabilities.

However, despite mixed messaging from the U.S. President, we believe Washington is unlikely to prolong the conflict. The Trump administration is currently facing three major pressures:

1. Financial burden from the war amidst the U.S. Government having to deal with budget deficits and highly elevated public debt (estimated at up to 122% of GDP).
2. The war causes an energy price shock and the risk of supply chain disruptions for many downstream oil and gas products. If this prolongs, it will fuel inflation, squeeze consumption, and cause heavy damage to many industrial manufacturing sectors, thereby potentially plunging the U.S. economy into a recession.
3. Political pressure as the midterm elections will take place in November this year. High inflation and a weakened economy will put President Trump's Republican Party at risk of losing control of Congress.

While we are not military experts, based on available information and assessments from multiple independent sources, we consider the following scenarios plausible:

Positive Scenario (Low Probability): All parties agree to enter negotiations and reach an agreement within the next one to two weeks. Shipping through the Strait of Hormuz resumes quickly, allowing Brent crude prices to fall back toward USD 75–80 per barrel by the end of March, and decline further as Gulf countries restore production capacity. However, this scenario would require significant concessions from both sides, which appears unlikely given the current hardline stance of both President Trump and Iran's new leadership.

Base-case scenario (higher probability): High-intensity hostilities continue for another two to three weeks (until roughly the end of March) before gradually easing as both sides face mounting pressure and agree to negotiations, or the United States declares victory and withdraws while Iran and Israel temporarily suspend military operations. Shipping through the Strait of Hormuz would reopen gradually, bringing Brent prices down to around USD 85–90 per barrel in April, with further declines possible in the second half of 2026 as Middle East stability improves and production capacity recovers. However, it should be noted that under this scenario, the conflict between Iran, the U.S., and Israel will not completely end. Military clashes may still recur intermittently in the Gulf region, creating alternating cycles of escalation and de-escalation, keeping regional instability at a high level. This means that even if oil prices cool down below \$100/barrel, they will remain significantly higher than the \$60–65/barrel forecasted prior to the conflict. With a geopolitical risk premium maintained throughout 2026 and potentially longer, oil prices will likely anchor at least \$15–25/barrel higher than pre-war forecasts, equivalent to an average Brent price of around \$75–90/barrel.



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ECONOMIC IMPACTS

Impacts on commodity and service prices:

- **Crude oil, natural gas, and fertilizers** are the three commodities facing the highest upward price risks, as the Middle East accounts for a very large proportion of the total global supply. It is estimated that the production volume passing through the Strait of Hormuz accounts for up to 27% of total global seaborne trade for crude oil, 20% for liquefied natural gas (LNG), and 25-30% for fertilizers.
- **Coal prices** will also rise as it serves as an alternative energy source in case oil supplies are disrupted.
- **Prices of chemical products and downstream petrochemical industries like plastics** will also face strong upward pressure due to a shortage of input materials from the Middle East.
- **Iron, steel,** and cement will also face upward price pressure due to their energy-intensive production processes.
- **Precious metals such as gold, silver, and palladium** will increase in price as they act as safe-haven assets amidst rising geopolitical conflicts.
- **Ocean freight rates** will increase due to rising fuel costs, longer shipping routes (to bypass conflict zones), and higher insurance premiums.

Impacts on the global economy:

- **Impact on inflation:** The oil price shock from the Iran war is creating significant inflationary pressure globally. According to the IMF, every 10% increase in energy prices sustained over a year will push global inflation up by an additional 0.4 percentage points. BMI estimates that oil prices ranging from \$90 – 130/barrel for at least one quarter could cause global inflation to increase by an additional 1–2.5 percentage points.
- **Impact on global growth:** Prior to the war, the IMF forecasted the global economy to grow by 3.3% in 2026. According to Chatham House, if oil prices remain around \$100/barrel throughout this year, global GDP growth could decrease by 0.25-0.4 percentage points. Among these, major Asian economies like Japan and South Korea will be heavily impacted due to their high reliance on energy supplies from the Middle East. An estimated 80% of crude oil passing through the Strait of Hormuz is supplied to Asian customers.
- **Stagflation risks:** The most concerning scenario is that major economies like the U.S. fall into stagflation - high prices accompanied by slowing growth. In the U.S., where the economy is already pressured by tariff policies and a weakening labor market, high energy prices will further squeeze consumer purchasing power - a force contributing ~70% of GDP.
- **Impact on the Fed's monetary policy:** It is highly likely that the Fed will keep interest rates unchanged in the first half of 2026 due to surging inflationary pressures. The futures market currently expects the Fed to cut interest rates only once this year, compared to the 2-3 times expected before the war. However, if the U.S. labor market and consumption clearly weaken due to the spillover effects from the Iran war, the Fed might cut interest rates more aggressively this year to support the economy.

Impacts on Vietnam's economy:

- **Exchange rate:** Macroeconomic instability increases the demand for holding gold and foreign currencies, exerting pressure on the exchange rate and monetary policy management. However, while short-term exchange rate pressure is present, it is mainly psychological and manageable. In the medium to long term, the global de-dollarization trend will weaken the USD's position, thereby reducing the domestic sentiment of hoarding foreign currency. Besides, with the prospect of fortified foreign currency supplies from multiple pillars - exports, foreign direct investment, tourism, and remittances - the exchange rate will be supported more positively in the future.
- **Manufacturing within the oil and gas value chain:** Certain manufacturing sectors, such as fertilizers, chemicals, and plastics, will face direct impacts from the Iran war on both ends. On the negative side, surging input material prices will put pressure on profit margins. If the Strait of Hormuz disruption persists, businesses could face the risk of raw material shortages, forcing them to cut capacity or temporarily halt production, especially those directly or indirectly dependent on materials imported from the Middle East. However, the context of rising input prices also pushes up output selling prices, creating opportunities for businesses with outstanding competitive advantages. Specifically, enterprises that have a high rate of input material autonomy and maintained abundant raw material inventories prior to the conflict. These enterprises can not only mitigate the negative impacts but also benefit significantly thanks to the spread between selling prices rising faster than actual input costs.
- **Logistics costs and Inflation:** Rising global fuel prices are putting direct pressure on logistics costs and input prices, especially as Vietnam still has to import roughly 30% of its petroleum demand, while the two domestic oil refineries still depend significantly on imported crude oil. If fuel prices remain high coupled with prolonged supply disruptions, businesses will face a two-way squeeze, having to absorb a portion of the increased transportation costs, which compresses profit margins; while simultaneously passing on a portion of the costs into selling prices, putting pressure on consumer demand. If energy tensions persist, the impact could spread to the petrochemical value chain - the source of raw material inputs for many key manufacturing sectors such as construction materials, textiles, plastics - packaging, and electronic components. Any disruptions in this sector group are likely to cause a ripple effect on downstream production.
- **Consumption:** High gasoline and oil prices could exert a significantly negative impact on the purchasing power and consumption activities of the population. As analyzed above, when fuel costs rise, transportation and goods production costs also rise accordingly, causing the prices of many essential items to be adjusted upwards. As a consequence, households must allocate more money for basic needs like commuting and energy, and tend to cut spending on non-essential goods and services, thereby affecting aggregate demand in the economy.

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In this context, the Government has very swiftly and timely rolled out solutions to alleviate fuel price pressures, including (1) proactively seeking alternative supply sources early and increasing inventories to limit the risk of petroleum shortages, (2) cutting petroleum import taxes from 10% to 0% effective until the end of April. Additionally, thanks to the focus on developing renewable energy in recent years, Vietnam has significantly reduced its reliance on fossil fuels in power generation. By the end of 2025, renewable energy - including hydropower, wind, solar, and biomass - accounted for approximately 56% of total installed capacity across the system, creating a substantial buffer that helps limit the pass-through of imported fuel prices into domestic electricity production costs. Thereby, the pressure of rising input costs for manufacturing enterprises as well as household living expenses will be controlled at a moderate level, instead of bearing the full brunt of global energy price volatility. Furthermore, boosting public investment, the execution of private economic development policies, and newly issued state economic development policies have partially contributed and will continue to contribute to improving the financial health of enterprises, enhancing their resilience to overcome external shocks, thereby supporting growth stability.

Major long-term opportunities

Enhancing energy autonomy and accelerating renewable energy development: The conflict in the Middle East makes the issue of national energy security more pressing than ever. This backdrop will prompt the Government to intensify and accelerate domestic upstream oil and gas exploration and extraction activities, while heavily investing in associated energy infrastructure - from LNG terminal systems and gas pipelines to strategic petroleum reserves - in order to elevate supply autonomy capacity. Concurrently, high volatility in fossil fuel prices and the risk of import supply disruptions will generate extra momentum for the transition to renewable energy. Consequently, the Government will deploy numerous promotional measures and incentive policies, thereby opening up major opportunities for enterprises in the renewable energy value chain.

Attracting FDI and expanding export market share: Escalating geopolitical tensions will further propel the trend of diversifying global supply chains. As multinational corporations become more acutely aware of the risks of concentrating production in areas with high geopolitical risks or relying on easily disrupted shipping routes, the demand to shift production bases to countries with stable socio-political environments, competitive costs, and favorable geographical locations will continue to rise. This is an opportunity for Vietnam - leveraging its balanced international relations, an abundant young labor force, competitive production costs, a vast network of free trade agreements, and a strategic position in the Asian supply chain - to boost the attraction of FDI flows, particularly in the manufacturing, processing, and electronics sectors.

Increasing international tourism market share: The Iran war could cause a short-term decline in international tourist arrivals to Vietnam, as many international flight routes are disrupted and aviation service costs surge in tandem with fuel prices. However, military conflicts in various regions around the world recently will prompt international tourists to prioritize safe and politically stable destinations. Tourists initially choosing the Middle East or the U.S. will also seek alternative travel destinations. In that context, Vietnam, with its excellent and friendly security environment, competitive travel costs, and diverse tourism ecosystem, will have the opportunity to attract a large influx of tourists diverting from traditional destinations affected by instability, thereby expanding its market share on the global tourism map in the long run.

STOCK MARKET REACTIONS AND VCBF'S ACTIONS

In the first trading week of March, amidst the tense situation in the Middle East, the Vietnamese stock market performed negatively as the VN-Index dropped by 112.5 points, or 6.0%, to 1,767 points. The climax was on March 9, when the VN-Index witnessed the sharpest correction session in history in terms of points, plummeting by 115.1 points, or 6.51%, bringing the index down to 1,652 points, with market liquidity soaring to 41,000 billion VND, an increase of over 30% compared to the previous week's liquidity. The VN-Index recovered by 73 points to 1,728 points over the following two sessions, quite a positive gain; however, market liquidity exhibited a declining trend, indicating that investors' cash flow remained rather cautious.

Looking back at financial market history, periods of strong volatility driven by external factors are not actually rare. For example, the U.S.-China trade tensions during 2018-2019, or the Covid-19 pandemic in 2020. During those periods, both global and Vietnamese stock markets experienced very sharp short-term declines. However, taking a longer view, the market typically recovers quite rapidly once the economy stabilizes. For instance, following the Covid shock in 2020, the VN-Index more than doubled within less than 18 months, reflecting the recovery of the economy and corporate earnings.

Understanding that sentiment-driven volatility is an inevitable part of the market, VCBF always focuses on the economic fundamentals as well as the long-term health of businesses to construct its portfolios. In the face of political and macroeconomic volatility, VCBF's investment team consistently formulates scenarios ranging from worst-case to best-case to re-evaluate investments, aiming to determine whether, under the latest economic developments, is the current price still a good price to hold the business? Does the sharp decline in stock prices fully price in the risks the business must bear, or is the market overreacting? Is the strong surge in stock prices because the business truly benefits from macro factors, or are investors being overly optimistic? These are the questions that VCBF's investment team constantly raises and collaboratively seeks answers to, in order to achieve the most optimal portfolio a portfolio capable of firmly weathering market volatility and aimed at generating sustainable, long-term returns for long-term investors alongside VCBF.

Disclaimer:

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