

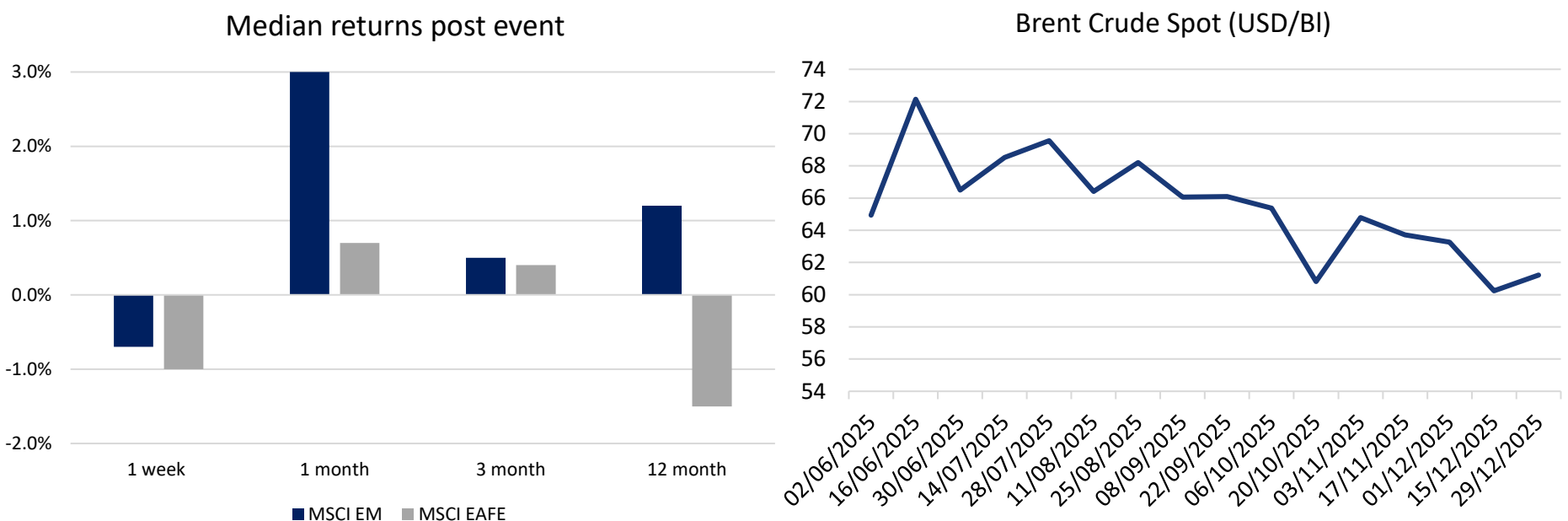
Global and Indian Market Implications

Executive Summary

This decade is increasingly defined by geopolitical volatility. While history shows that most such episodes have had only brief market consequences—with equities typically weakening for a few days before stabilising within a week—the Iran–Israel–US conflict presents elevated energy-supply risks through the Strait of Hormuz, making it potentially more consequential for India than prior episodes.

Based on the last 15 years of geopolitical events, the MSCI EM index drops by an average of **0.6%** in the week immediately following a shock but recovers sharply within a month, with median returns of **+3%**. Over a 12-month horizon, MSCI DM (ex-US and Canada) has outperformed EMs: the average drawdown for EMs is 14% versus 6% for DMs, while the average upside is 10.5% and 10% respectively.

Exhibit 1: DM (ex-US & Canada) vs EM Performance Around Geopolitical Events



Source: Elara Capital

Historically, Indian equity markets react sharply but briefly to geopolitical shocks. Markets often decline during the first week of a man-made crisis but recover within weeks once uncertainty stabilises. The duration of elevated oil prices, rather than the immediate spike, is usually the critical factor for sustained market impact. In eight similar geopolitical incidents, the Nifty 50 saw an average immediate decline of 6%, with recovery taking approximately 31 days. Furthermore, one-year returns remained positive in double digits for most instances

The Conflict: Escalation Timeline

On 28 February 2026, Israel, backed by the United States, launched coordinated military strikes across multiple Iranian cities. The operation targeted key military installations and leadership structures, including the decapitation of Supreme Leader Ayatollah Ali Khamenei.

Iran responded with retaliatory strikes not only on Israel but also on US military bases in neighbouring countries, transforming the confrontation into a broader regional conflict. While direct attacks on energy infrastructure remained limited in the first week, hostilities escalated materially this week, raising the risk profile for global energy markets significantly.

Energy Shock Risk: The Strait of Hormuz

The key risk is not merely Iranian production but the strategic vulnerability of the **Strait of Hormuz**—the world’s most critical energy chokepoint. **Nearly 20% of global crude oil supply and 20–25% of global LNG trade** transit through this narrow corridor. Even a partial disruption could trigger a significant global energy shock.

By the end of last week, Tehran had effectively blockaded the Strait of Hormuz, disrupting one of the main arteries of global energy trade. More importantly large insurance companies have refused to provide cover for any ship going through the Strait of Hormuz.

Exhibit 2: Crude Oil Flows Through the Strait of Hormuz (million barrels/day)

Crude supplier		Crude consumer	
Country	Volume (mb/d)	Country	Volume (mb/d)
Saudi Arabia	5.29	China	5.35
Iraq	3.24	India	2.09
UAE	1.83	South Korea	1.7
Iran	1.51	Japan	1.55
Kuwait	1.43	Europe	0.53
Qatar	0.63	US	0.36
Others	0.28	Others	2.63
Total	14.21	Total	14.21

Source: EIA (data for 2025)

Iran itself produces roughly 3.4 million barrels per day, exporting about 1.6 million barrels—largely to China. However, the bigger concern is structural: how global supply chains adjust if this production remains disrupted for an extended period.

Strategic reserves provide some cushion. China holds roughly **465 million barrels**, while the US Strategic Petroleum Reserve still contains **over 400 million barrels**. OPEC also retains limited spare capacity that could offset part of the disruption. But these buffers are designed to smooth shocks, not replace sustained supply losses.

Unsurprisingly, oil prices have already begun trending higher, accompanied by heightened volatility with Brent already trading up by 30% and trading around 92\$ per barrel.

Exhibit 3: Brent Crude Oil (USD/Bbl)



Currency Implications: Dollar Strength and EM Pressure

Rising oil prices, risk aversion in global equities, and delayed interest-rate cuts could support a stronger US dollar. Historically, energy shocks tend to weaken currencies of large energy importers. The Euro, Japanese Yen, Chinese Yuan and INR therefore faces pressure given their economies' heavy reliance on imported energy.

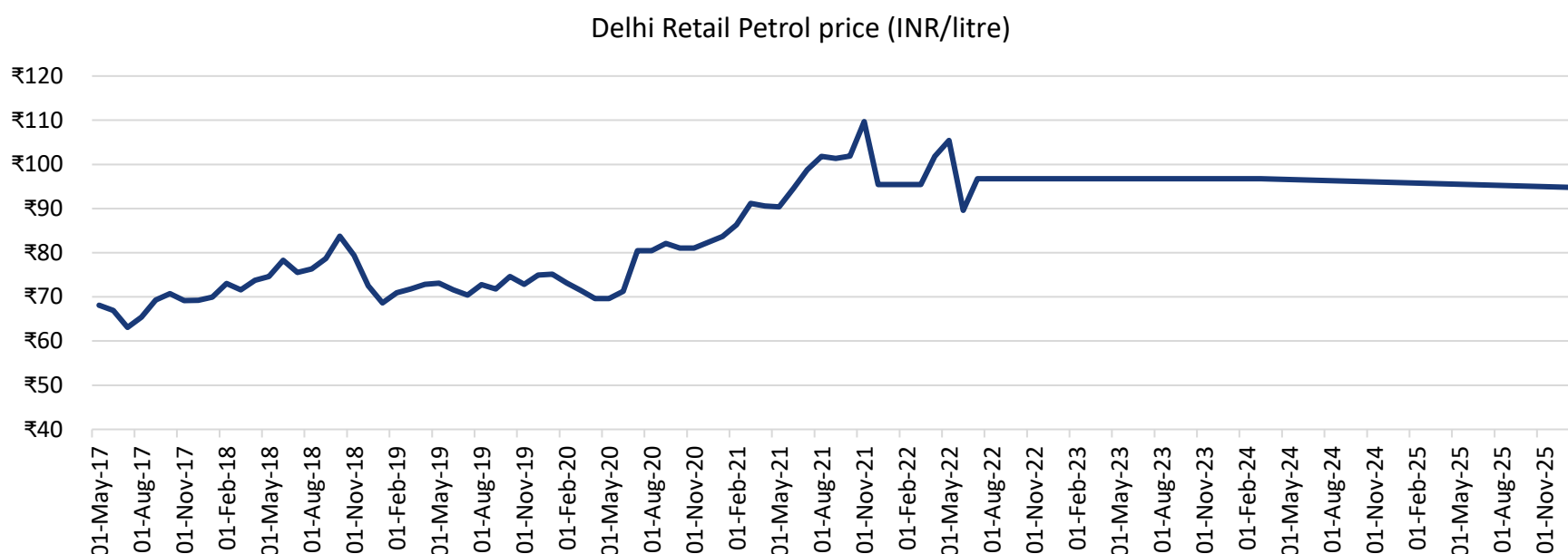
India: Macro Impact Through Energy Dependence

India's direct trade exposure to Iran is relatively small (bilateral trade of roughly \$1.7 billion, of which India exports ~\$1.2 billion). **The real vulnerability lies in oil dependence.**

Every \$10 increase in crude oil prices raises India's import bill by roughly \$12 billion, putting pressure on the current account deficit and inflation.

In recent years, the government has stabilised retail fuel prices by adjusting excise duties and windfall taxes while crude prices remained within a manageable range.

Exhibit 4: Delhi Retail Petrol price (INR/litre)



However, nearly half of India's oil imports transit through the Strait of Hormuz. Its closure significantly raises supply risks. In response, procurement restrictions on Russian oil have reportedly been relaxed for 30 days—a move that could be extended if the conflict persists.

Exhibit 5: India Energy Dependency Snapshot

India Energy Scenario	Crude Oil	LNG	LPG
Import dependency (%)	87	50	67
Through Strait of Hormuz (% of above)	54	60	90
Storage capacity (days)	40–50	<5	15–20

Unlike after the Ukraine war, India is unlikely to benefit from large price discounts this time around.

Currency and FX Reserve Implications

Higher oil prices typically put downward pressure on the Indian rupee, which has already been among the weaker major currencies over the past two years.

While India's foreign exchange reserves stand at around \$726 billion, part of this increase reflects the sharp rise in gold prices—gold now accounts for roughly 18% of reserves. Once adjusted for gold valuation effects, the underlying growth in reserves appears more modest, particularly amid persistent FII outflows. India's ability to maintain currency stability could come under pressure if the current account deficit rises sharply.

Indian Markets: Historical Behaviour During Crises

Exhibit 6: Nifty 50 and NSE 500 Performance During Major Geopolitical Events

Event	Date	Nifty 50 Fall	Recovery (days)	1Y Return	NSE 500 Fall	Recovery (days)	1Y Return
Kargil War	03-May-99	-1%	1	36%	0%	1	46%
9/11	09-Sep-01	-17%	69	-4%	-19%	69	9%
Indian Parliament Attack	13-Dec-01	-8%	27	-3%	-9%	27	2%
Iraq War	20-Mar-03	-8%	72	71%	-4%	55	97%
26/11 Mumbai Attack	26-Nov-08	-3%	12	86%	-3%	12	100%
Pulwama Attack	14-Feb-19	-2%	8	13%	-2%	8	13%
Ukraine–Russia War	24-Feb-22	-6%	22	3%	-7%	22	1%
Israel– Hamas Conflict	07-Oct-23	-4%	40	27%	-4%	37	36%
India–Pak Conflict	22-Apr-25	0%	21	NA	-1%	21	NA

Historical trends suggest that equity markets price in geopolitical risks in the very near term, but from a medium- to long-term perspective, such events have consistently provided attractive buying opportunities.

Quest Portfolio Positioning

Quest portfolios remain largely oriented toward domestic demand themes, which limits direct exposure to Middle Eastern geopolitical risks. Key allocations include:

- **BFSI (~26% of portfolio)** — lenders and capital market businesses
- **Consumer Discretionary (~33% of portfolio)** — autos, auto ancillaries, platform companies, retail, hospitality, and real estate
- **Industrials (~15% of portfolio)** — power, power T&D, and EPC players focused on the power sector
- **Pharma and Chemicals (~10% of portfolio)** — some impact possible via crude-linked input costs and freight, partly cushioned by INR depreciation

Among portfolio holdings, **Kalpataru Projects** has approximately 10% of its order book exposed to the Middle East, representing the only meaningful regional linkage.

Overall, the portfolio's domestic orientation should mitigate direct geopolitical exposure. Crude oil dependence within the portfolio is also relatively limited, meaning energy shocks are unlikely to have a meaningful business-economic impact on our portfolio companies. Moreover, history suggests that markets usually recover within weeks. That said, a sustained rise in global energy prices for longer period could continue to influence broader macro conditions and market sentiment.

Disclaimer:

The purpose of this Letter is to provide general information of the market and the house view of Quest Investment Managers Pvt Ltd. to existing and prospective investors in a manner to assist them in understanding the market and equity products. The Letter is purely for information purposes and should not be construed to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. This letter is for the personal information of the authorized recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without prior permission of Quest Investment Managers Pvt Ltd. While reasonable endeavors have been made to present reliable data in the communication, but Quest PMS does not guarantee the accuracy or completeness of the data in the same. Quest Investment Managers Pvt Ltd or any of its connected persons including its subsidiaries or associates or partners or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this Presentation. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this Presentation reflect a judgment of its original date of publication by Quest Investment Managers Pvt Ltd and are subject to change without notice.

This Letter is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to local law, regulation or which would subject Quest Investment Managers Pvt Ltd and its affiliates to any registration or licensing requirement within such jurisdiction. The product described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this Report/Presentation may come are required to inform themselves of and to observe such restrictions.

This letter is qualified in its entirety by the Terms of Agreement and other related documents, copies of which will be provided to prospective investors. All investors must read the detailed Terms of Agreement including the Risk Factors and consult their tax advisors, before making any investment decision/contribution to be managed under the Portfolio Management Services offered by Quest Investment Managers Pvt Ltd.

Stock names / Sectors in your portfolio could have a few names different from the list discussed herein.