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War, oil, inflation – and the impact for banks

So, what now?

Middle East escalation weighs on capital markets

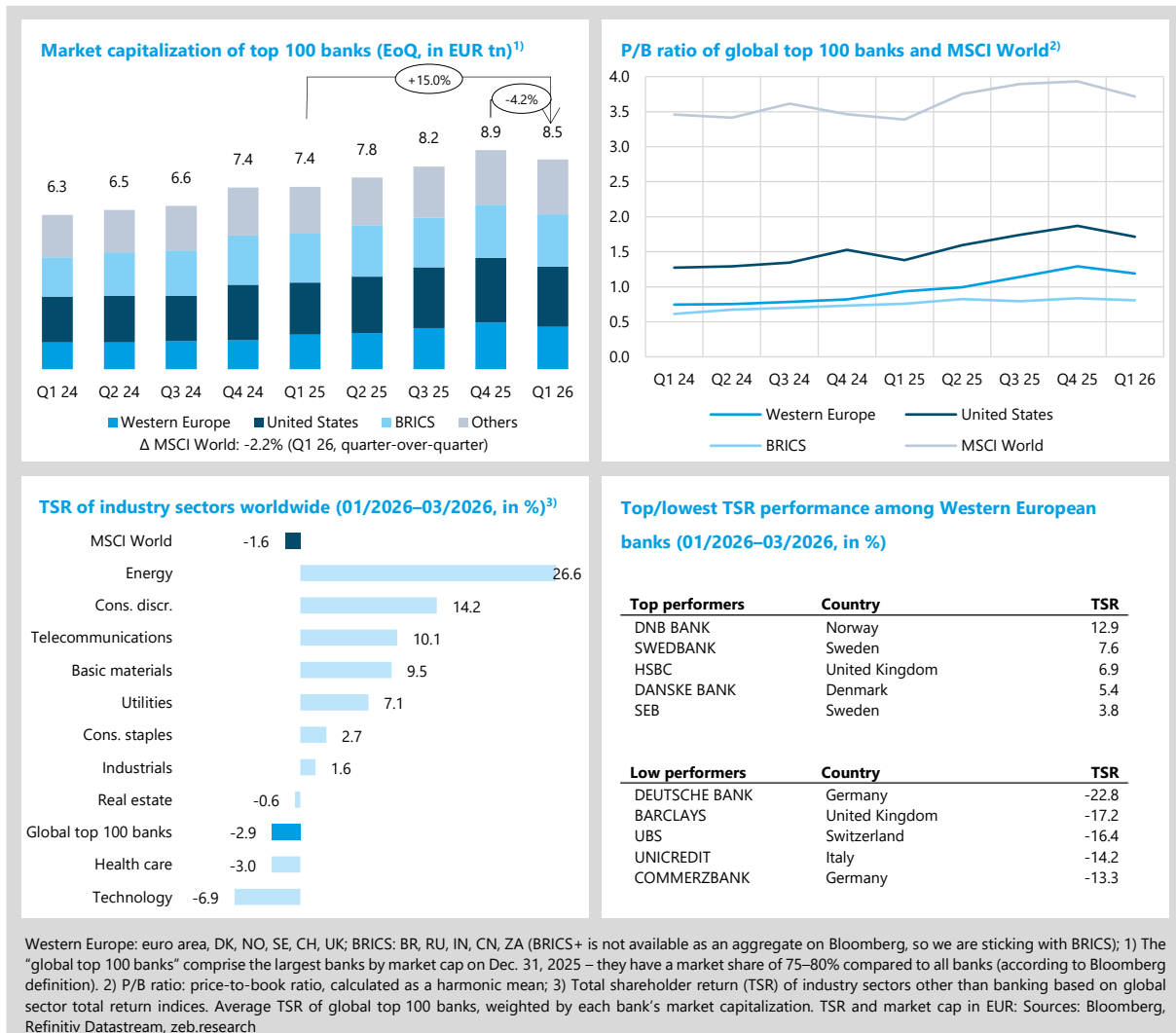
- After a good start to the year, the financial markets tipped into a new shock regime of rising energy prices, inflationary pressure and greatly increased uncertainty in Q1 2026 due to the escalation in the Middle East and the de facto closure of the vital global shipping route Strait of Hormuz (MSCI World market capitalization -2.2% QoQ).
- For banks, the negative factors predominated in the new market environment: the global top 100 banks lost -4.2% QoQ in market capitalization, the first QoQ decline in eleven quarters.

High profitability comes with increasing risks

- After a slight decline in inflation in Western Europe in Q4 2025 (-0.08 pp QoQ to 2.17%), upside risks are once again emerging for 2026. Higher energy prices and potentially rising food prices as a result of the war in Iran are reinforcing price pressure and exacerbating the ECB's monetary policy conflict of objectives in an already weak growth environment.
- The ROE of Western European banks rose year-over-year from 9.5% to 12.0% in Q4 2025, underlining their strong financial performance in 2025. However, Q1 2026 signals from the capital markets point to a normalization; under heightened geopolitical risks, the sustainability of the increased profitability is now being put to the test.

Capital markets caught between Iran war and inflation

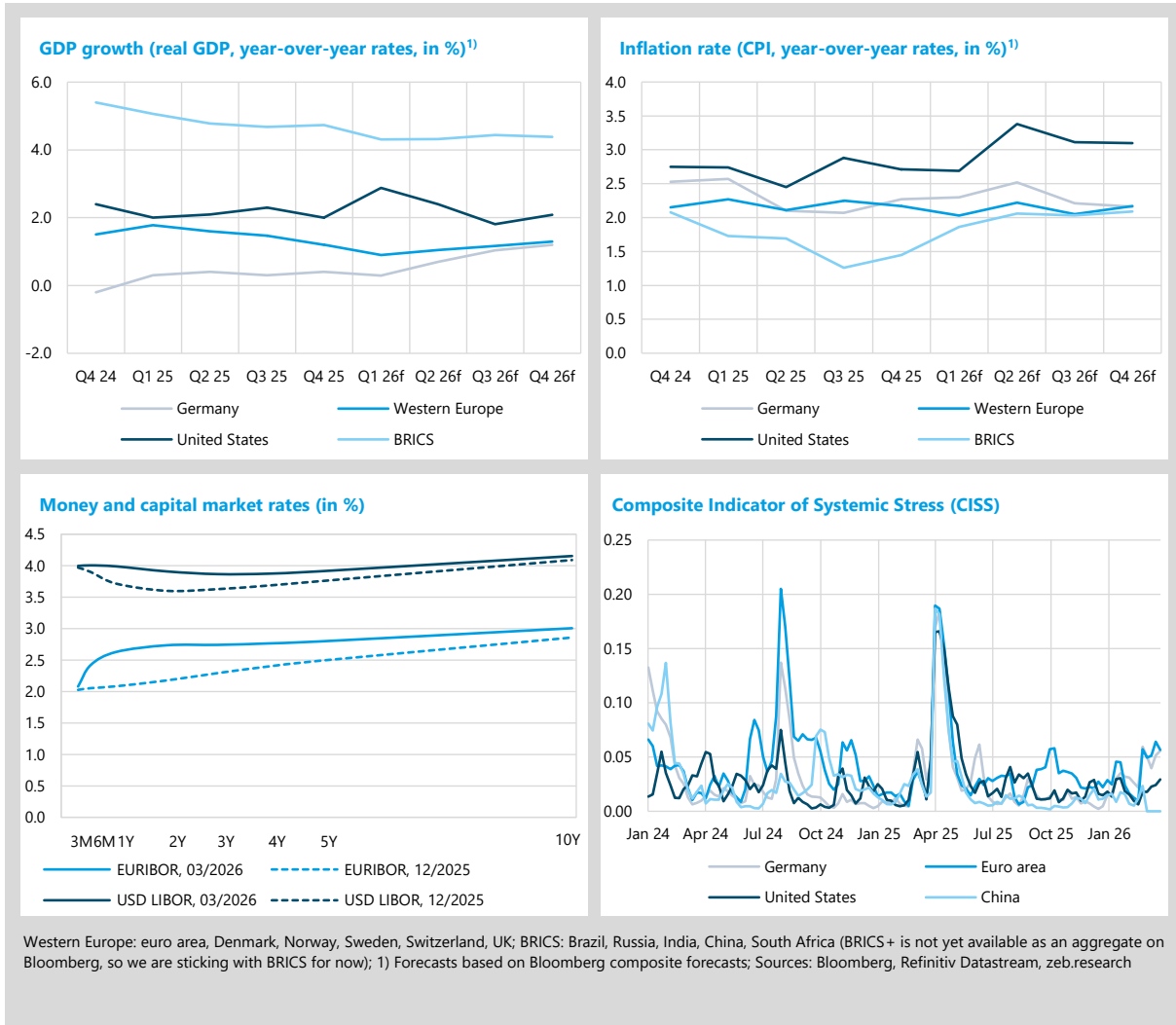
In Q1 26, after a good start to the quarter, the **global capital markets** saw a **geopolitically triggered energy and inflation shock** (MSCI World market cap. -2.2% QoQ) caused by the military escalation in the Middle East and the de facto closure of the Strait of Hormuz. The **acute supply shock on the oil market** led to the strongest inflation-adjusted increase in the Brent price since 1988 and was a **major driver of the energy sector's strong TSR performance (+26.6% QoQ)**. In contrast, the **global top 100 banks** recorded their **first QoQ loss in eleven quarters** (market cap. -4.2% QoQ). From an **investor perspective, the negative implications for the banking industry** – particularly stagflation risks, potentially weaker credit growth and rising cost of risk – **currently dominate over the potential positive effects** (“higher for longer” interest rates are bolstering deposit business; trading activities are benefiting from high volatility and trading volumes in the short term).



- Within the **top 100 sample**, the **PB ratios dropped broadly in Q1 26: US banks fell to 1.72x** (-0.15x QoQ) and **Western European banks from 1.29x to 1.19x** (-0.10x QoQ). Among the Western European banks, only three institutions managed to increase their PB ratio in the first quarter: **DNB** (+0.11x to 1.62x), **HSBC** (+0.05x to 1.28x) and **BNP Paribas** (+0.01x to 0.78x).
- Among the **sectors**, the **oil price shock, higher real interest rates** and a **reassessment of the AI narrative** are driving performance – **energy (TSR +26.6% QoQ)** is benefiting from tight global supply, strong margins and persistent geopolitical risks. **Technology (TSR -6.9% QoQ)** is bringing up the rear.
- TSR top performers among Western European banks were **DNB with +12.9% QoQ** (share buyback program in March, strong capitalization and relatively resilient domestic market) and **Swedbank with +7.6% QoQ** (DOJ money laundering investigation closed and released capital).

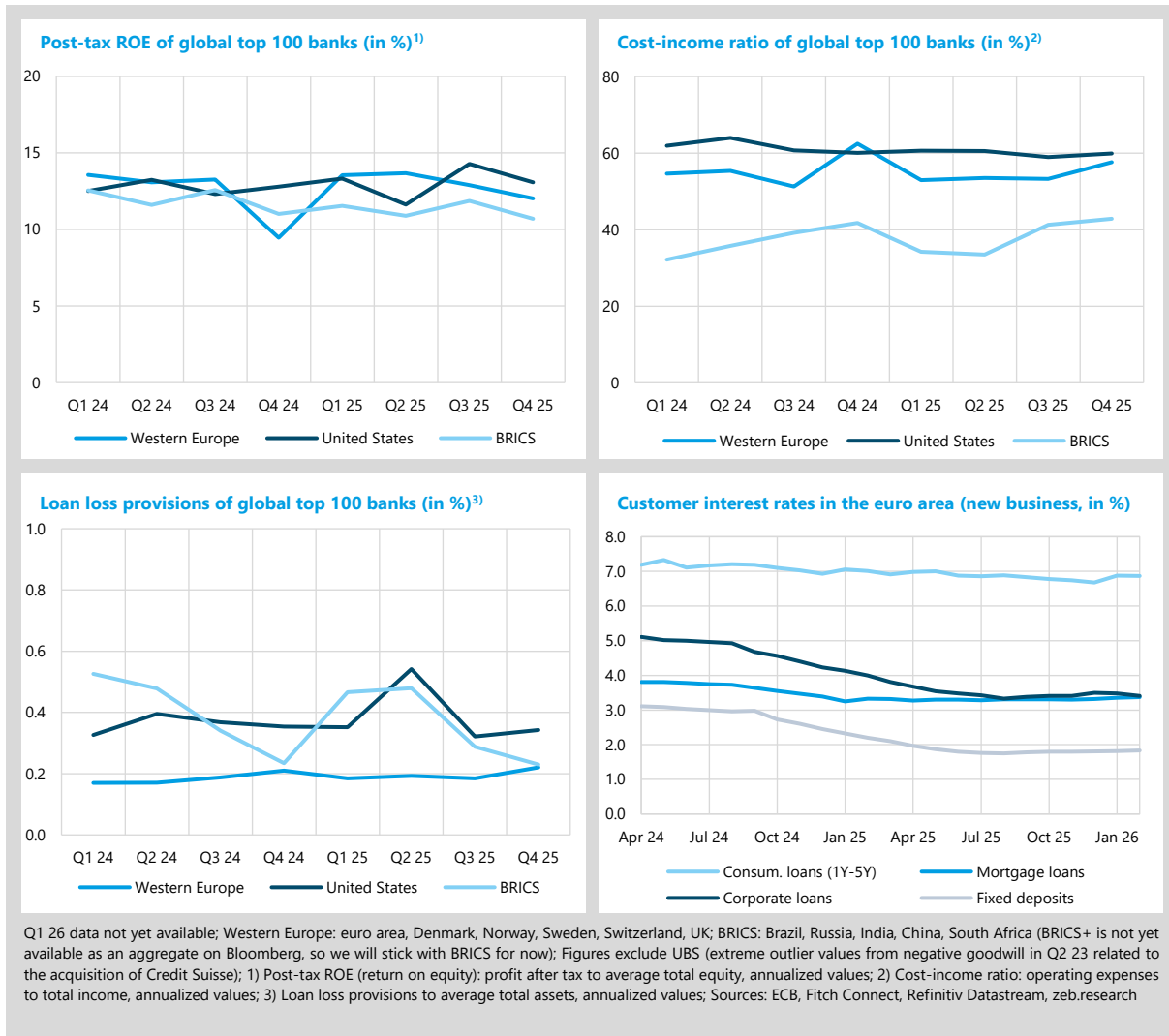
Macroeconomic headwinds for Europe's banks

Inflation in Western Europe in Q4 25 was slightly below the previous quarter at **2.17%**. For Q1 26, however, **inflation risks** have increased again on both sides of the Atlantic. Rising **energy prices** due to the **war in the Middle East** and additional upside risks for **food** and **goods prices** are once again boosting **price pressure**. The **inflation and growth forecasts** shown in the charts are therefore likely to be too low, as the consequences of the conflict – due to the **time lag in analysts' forecasts** – have not yet been fully taken into account. This is also indicated by the **yield curves in Europe** and the **US**, which flattened significantly again in Q1 26. Higher **inflation expectations** put pressure on the **short end** in particular; in the **US**, the curve at the short end turned **inverse** again, while the **10Y-2Y spread** remained positive at around **25 bp**. **Central banks** thus remain caught between already subdued **growth** and the **fight against inflation** – interest rate cuts for 2026 have become much less likely.



- In **Western Europe**, **growth in Q4 25 remained moderate at +1.2% YoY**, but the outlook has deteriorated noticeably due to the Iran war. The **US** grew significantly more strongly at **+2.0% YoY**, but the conflict is also likely to dampen growth prospects there – despite robust expectations for the first quarter so far.
- The **CISS index** measures the **systemic stress** in the financial system using 15 market-related indicators from **money, bond, stock, foreign exchange** and **banking markets**. In **Europe, Germany** and the **US**, the indicator has recently picked up again slightly in the context of the **war in the Middle East**. However, the swings have **so far** remained well below the level of **2025**, when the markets came under noticeable pressure in the wake of **President Trump's tariff announcements** and the resulting increase in trade tensions.

Profitability showed a mixed picture in a **year-over-year comparison**. In the **US**, **ROE** rose slightly from **12.8%** to **13.1%**, while net income fell by **-4.5% YoY**. In **Western Europe**, **ROE** improved significantly from **9.5%** to **12.0%**, accompanied by an increase in **net income** of **+38.3% YoY**. The Western European institutions thus once again confirmed their **strong banking year 2025**. By contrast, the **ROE** of the **BRICS** banks fell from **11.0%** to **10.7% YoY**. However, the weaker **capital market data** in **Q1 26** suggests that the **banking market** is gradually **normalizing** after the strong (Western European) year before. It should now become clear how sustainable the institutions' profitability is under **less favorable conditions**. **Additional uncertainty** is brought about by the **conflict in the Middle East**, as geopolitical tensions are exacerbating market conditions and putting **further pressure on the risk environment for the banking industry**.



- In **Western Europe**, the **cost-income ratio (CIR)** improved significantly by **-4.8 pp QoQ** to **57.6%**. Although **income fell by -2.6% year-over-year**, costs dropped even more sharply by **-10.2% YoY**, as efficiency programs and lower variable remuneration made an impact. In the **US**, the CIR in Q4 25 was **59.9%** and thus only slightly below the previous year's figure (-0.16 pp YoY); income and costs there declined almost in tandem at **-4.8% YoY** and **-5.0% YoY** respectively.
- **Loan loss provisions** were roughly constant year-over-year; in **Western Europe** they increased slightly by **+1 bp YoY**, while in the **US** they fell slightly by **-1 bp YoY**.
- **Customer interest rates** have remained largely **stable** in recent months. However, **consumer loans (1-5 years)** have recently shown signs of a slight **increase**, also against the backdrop of higher **inflation expectations** as a result of the **Iran war**. In the future, this upward pressure is also likely to become increasingly noticeable in the other **customer interest rates**.

About zeb.market.flash

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Every quarter, zeb.market.flash provides an overview of the performance of the world's largest banks (measured by market capitalization). The relevant factors are briefly and concisely described, analyzed and classified by our experts. For our analyses, we take a close look at the relevant indicators for the valuation of the capital market, such as stock returns, as well as macroeconomic and bank-specific drivers. These include return on equity, yield curves, or growth of the gross domestic product. One focus is on the performance of the top banks in Europe in our sample. How does their development compare to that of the largest banks worldwide? Which European bank shows a particularly good, which a particularly weak capital market performance? What could be the reason for this? Our background knowledge from 30 years of financial services consulting rounds off these assessments. This gives you an exclusive and compact insight into the global banking market. The zeb.market.flash is available on our websites and sent free of charge as a newsletter to all interested parties.

Disclaimer

All data and calculations in this issue are based on the date of April 2, 2026. The global top 100 banks cluster contains the largest banks by market capitalization on December 31, 2025, and is updated on an annual basis. Data is subject to ongoing quality assessment. As a consequence, minor adjustments could be applied to historical data as well as forecasts shown in previous issues of the zeb.market.flash. No representations, warranties or undertakings are given as to the accuracy or completeness of data contained in the zeb.market.flash.

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