



GLOBAL MARKET INTELLIGENCE

The World in 5 Minutes

"The Strait of Hormuz closes de facto after a tanker sinks and Trump threatens to "obliterate" Iran's energy infrastructure; Brent tops \$110 for the first time since May"

The Strait of Hormuz closed de facto: a tanker sank on October 14 after a fire and two more vessels were damaged or caught fire. On the 17th, the IRGC declared it "closed." Trump threatened to "obliterate" Iran's energy infrastructure; Iran offered to reopen it within seven days, with no deal yet.

Saudi Arabia's Operation Dawn of Yemen entered its 14th day: the Houthis struck Riyadh with missiles for a third straight day and hit the Aden presidential palace during the prime minister's visit —5 dead, 16 wounded—, while the government loses Jabal Han in Taiz despite advancing in Marib.

Russia struck Kyiv and Kharkiv with 39 ballistic missiles and 128 drones —6 dead, 600,000 without power— and hit nine other regions on the 17th, leaving a million people without electricity. Ukraine resumed its strikes on Russian refineries. The EU approved its largest sanctions package against Russia to date and Washington imposes 500% tariffs on Russian products from the 18th.

With no central bank meetings —Warsh, at the IMF in Bangkok, gave no hints on rates and warned of a possible AI "shock"— the relevant data point was September CPI: it rose to 3.7% year over year, the highest since May, published on the 14th ahead of the October 27-28 FOMC.

The Washington-Beijing trade truce, extended to January 10, 2027, remained incident-free. Beijing held live-fire exercises near Taiwan and sanctioned ministers from Paraguay and Belize over their ties to Taipei; the U.S. responded with the "Keen Sword" exercise alongside Japan.

Markets felt the blow: Brent topped \$110 for the first time since May (+4.9%); the VIX jumped 21% on Friday; HY widened another 12 bps, to 323; and the Baltic Dry fell 13.9%, its lowest since June. The S&P 500 gave up 1.9%, its worst week in two months, also hit by the semiconductor slump (KOSPI -6%).

RESEARCH TEAM VIEW

What to watch in the days ahead

- Whether Iran follows through on its offer to reopen Hormuz within seven days, with the IRGC still declaring it "closed."
- Reeves's U.K. budget, October 28, with fiscal headroom cut to 8,500-16,000 million pounds.
- Whether Operation Dawn of Yemen extends beyond Aden and Taiz.
- The entry into force of the U.S.'s 500% tariffs on Russian products and Moscow's response.
- The October 27-28 FOMC, with September CPI (+3.7% year over year) already known.

QUANTITATIVE MODEL

Knightford Global Risk Index - as of 2026-10-16



The de facto closure of Hormuz, the escalation in Yemen and the wave of sanctions against Russia push the KGRI to the edge of the elevated range, with credit and financial stability adding to the deterioration

WEEK

+4.3

4 WEEKS

+5.9

INTERNAL DISPERSION

48%

CONFIDENCE SCORE

72/100

Why this reading this week?

The KGRI rises 4.3 points to 58.2, already 5.9 above four weeks ago, driven above all by the geopolitical block (84.5 out of 100): Hormuz closed de facto, the Saudi offensive hitting the Aden palace and the EU's largest sanctions package against Russia to date. Markets deteriorate to 37.5 on the S&P 500's drop and the VIX's jump, and credit rises to 40.5 with HY at 323 bps. Only activity and monetary policy hold steady.

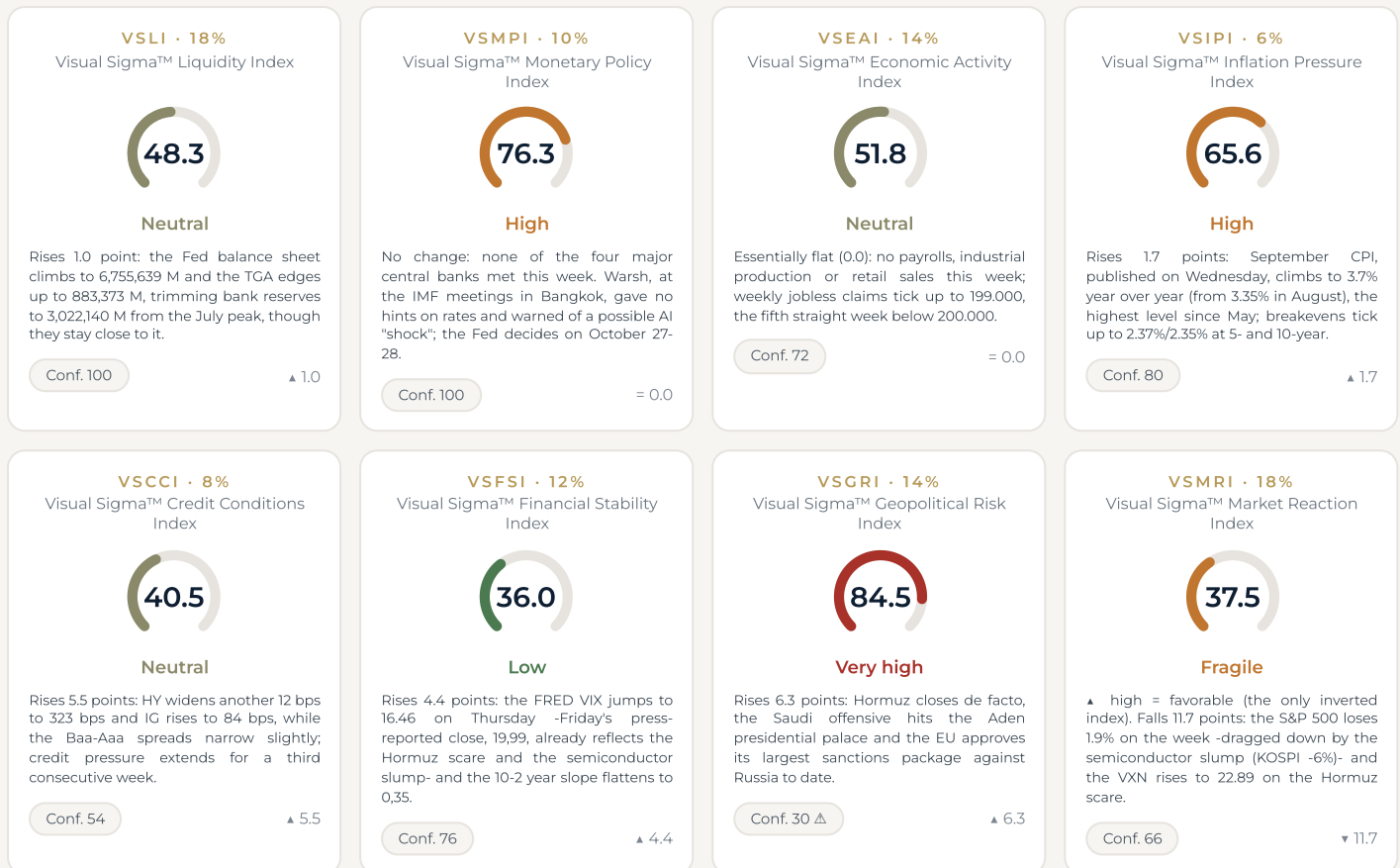
Technical note: weighted average of the eight sub-indexes with VSMRI inverted - confidence 72/100 reflecting indicators without a free data source.

What is the KGRI? A 0-100 index that summarizes global market risk by combining eight Visual Sigma™ "thermometers" (liquidity, monetary policy, activity, inflation, credit, financial stability, geopolitics and markets), weighted by relative importance and compared with their own history.

POSITIONING FRAMEWORK

Research team view: what to do at each KGRI range, reviewed weekly

0-20	Very low	Overweight risk, maximum exposure to equities and cyclical, minimal hedging.
20-40	Low	Maintain full exposure, favor quality, no additional hedging needed.
40-60	Neutral	Neutral exposure with quality selectivity; partial tactical hedging against surprises. ◀ we are here (58.2)
60-80	Elevated	Reduce beta, add quality and duration, activate hedges (options, gold).
80-100	Extreme	Defensive mode, maximum cash and hedging, minimize risk exposure.

THE EIGHT VISUAL SIGMA™ · KGRI COMPONENTS Level 0-100 and weight in the KGRI. Color follows the direction of risk.

What do these numbers mean? Every indicator runs from 0 to 100 on actual data; in the seven risk blocks a high number is bad news, but in market reaction it is the reverse, so always read the color, not just the figure. Confidence shows how much of the block is covered by free official sources: paid indicators (CDX, MOVE, Citi, Conference Board, ISM) are not estimated, they are deducted from confidence.

RESEARCH TEAM VIEW · QUALITATIVE

Not model output; analyst judgment, reviewed weekly

BASE CASE

45%

Iran partially reopens Hormuz within its seven-day deadline, with no U.S. strikes; the Saudi offensive advances slowly in Yemen. Brent trades between 100 and 120 dollars and the KGRI moves between 55 and 65.

BULL CASE

15%

Iran reopens Hormuz unconditionally and Riyadh and the Houthis accept a truce before the U.K. budget. Brent falls below 95 dollars and the KGRI drops below 55.

BEAR CASE

40%

Hormuz stays closed beyond the deadline, the U.S. responds militarily or the Saudi offensive triggers a broader escalation with Iran. Brent tops 130 dollars and the KGRI enters the elevated range, above 65.

GLOBAL GEOPOLITICAL RISK MAP Research team view. List curated manually each week; not VSGRI output (see next page).

● Very high ● High ● Medium

● Middle East · Strait of Hormuz **VERY HIGH**

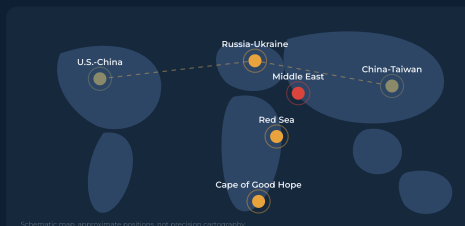
The strait closed de facto: a tanker sank on October 14 after a fire and two more vessels were damaged or caught fire; the IRGC declared it "closed" on the 17th. Trump threatened to "obliterate" Iran's energy infrastructure; Iran offered to reopen it within seven days, with no deal yet.

● Red Sea · Bab el-Mandeb **VERY HIGH**

Operation Dawn of Yemen entered its 14th day: the Houthis struck Riyadh with missiles for a third day and hit the Aden presidential palace (5 dead, 16 wounded), while the government loses Jabal Han in Taiz despite advancing in Marib.

● Routing · Cape of Good Hope **HIGH**

The detour worsens: the Baltic Dry falls another 13.9%, to 2,511 points, its lowest since June 30, with the Capesize segment plunging another 25%, its lowest since April.

● China-Taiwan **MEDIUM**

Beijing holds live-fire exercises from October 10 to 20 and sanctions ministers from Paraguay and Belize over their ties to Taipei; the U.S. responds with the "Keen Sword" exercise alongside Japan.

● Russia-Ukraine **VERY HIGH**

Russia launched 39 missiles and 128 drones at Kyiv and Kharkiv (6 dead, 600,000 without power) and hit nine other regions on the 17th (a million without electricity). The EU approved its largest sanctions package to date and the U.S. imposes 500% tariffs on Russian products from the 18th.

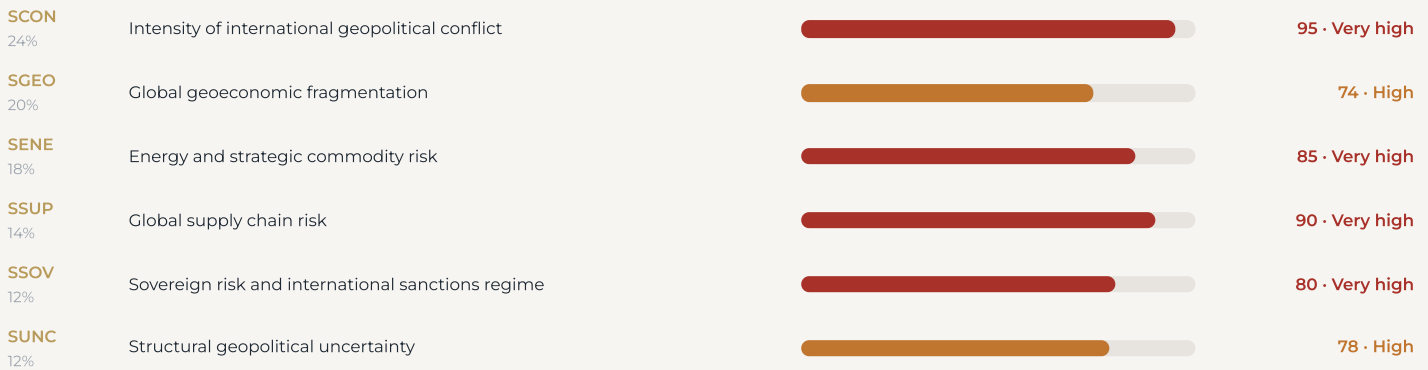
● U.S.-China trade **LOW**

The truce extended to January 10, 2027 remains incident-free; the White House detailed its "30-for-30" tariff relief product lists on October 14.

Context for the week under review, updated manually by the team. Not VSGRI output (see the quantitative breakdown on the next page).

QUANTITATIVE MODEL

VSGRI, breakdown of its six components (as of 2026-10-16)



0-100 scale; a higher value means greater risk pressure. The percentage shows its relative weight. Block scored by the team from verified facts of the week; with no freely available quantitative source, its confidence is 30/100.

OUR READ · RESEARCH TEAM VIEW

"This week Hormuz closed de facto for the first time in this crisis: one vessel sank, two more caught fire or were damaged, and the IRGC ended up declaring it closed. Brent topped \$110 for the first time since May. And yet money did just the opposite of what you would expect given all that risk: 53,100 million left money-market funds for equities, which took in 64,500 million globally. BofA remains in cautious mode despite the rotation: Hartnett warns that this combination—rising risk and cash draining into risk—is typical of a market chasing returns, not hedging against them."

MARKET DATA · WEEKLY CLOSE Live from FRED, the ECB Data Portal and Japan's Ministry of Finance, with no analyst intervention.

S&P 500

7,659.44

▼ -1.9%

Worst week in two months: the semiconductor slump (KOSPI -6%) and the Hormuz scare outweigh the bank earnings.

STOXX EUROPE 600

644.74

▲ +2.7%

Best week since late June; rises despite the geopolitical scare, unaffected for now by the Middle East escalation.

VIX

19.99 (e)

▲ +5.15 (e)

FRED stops on Thursday (16.46); the press-reported close is used, after jumping 21% on Friday on Hormuz and semiconductors.

UST 10-YEAR

5.10% (e)

▼ -0.12 (e)

FRED had not yet posted Friday's reading, Thursday the 15th is used; CPI surprises to the upside but the market prioritizes geopolitical risk.

EURO AAA CURVE, 10-YEAR

3.42% (e)

▼ -0.07 (e)

The ECB Data Portal remains unstable; the German bund is used.

HY CORPORATE SPREAD

323 bps (e)

▲ +8 bps (e)

Third consecutive week of widening; FRED stops on Thursday; IG rises to 84 bps.

DOLLAR (DXY INDEX)

101.84 (e)

▼ -0.4% week over week (e)

Eases from last week's 18-month high; the Fed's broad index (H.10) still does not cover this week.

EUR/USD

1.1232 (e)

▲ +0.2% week over week (e)

First rebound after five straight weekly declines, with the dollar on the defensive.

GOLD (SPOT)

\$4,156.46 (e)

▼ -0.6% week over week (e)

Eases modestly after last week's jump, though it stays close to record highs.

BRENT

\$109.86 (e)

▲ +4.9% week over week (e)

Tops \$110 for the first time since May after Hormuz's de facto closure; Goldman Sachs estimates a risk premium of \$24 a barrel.

JGB 10-YEAR

2.93% (e)

▼ -0.09 (e)

Japan's MOF fails again; a second consecutive weekly decline, sourced from press reports.

BALTIC DRY INDEX

2,511

▼ -13.9% week over week

Lowest since June 30; the Capesize segment plunges another 25%, its lowest since early April.

"Dollar" uses the DXY, not the FRED broad index. The ECB Portal, Japan's MOF and the U.K. DMO all failed this week: the euro AAA curve, the gilt curve and the JGB curve are estimated (e); UST 10-year, the VIX and the HY/IG spread on FRED also did not yet reflect Friday, also (e). Brent uses press sources, not FRED's DCOILBRENTU, given the known divergence between the two series.

MONETARY POLICY AND LIQUIDITY

FED

3.75-4.00%

target rate

no meeting this week; Warsh, at the IMF, gave no hints; next meeting October 27-28

BCE

2.50%

deposit facility

no meeting this week

BOE

3.75%

bank rate

no meeting this week; Reeves's budget, October 28

BOJ

1.25%

policy rate

no meeting this week

Fed balance sheet: 6,755,639 M (Oct 14); the TGA rises to 883,373 M and bank reserves ease to 3,022,140 M, still close to the July highs.

WHERE DID THE MONEY GO THIS WEEK? Week closed October 14 (BofA Global Research, Michael Hartnett).

INFLOWS

Equity funds (global aggregate)

+\$64,500M

U.S. Treasuries

+\$3,600M

OUTFLOWS

Money-market funds (cash)

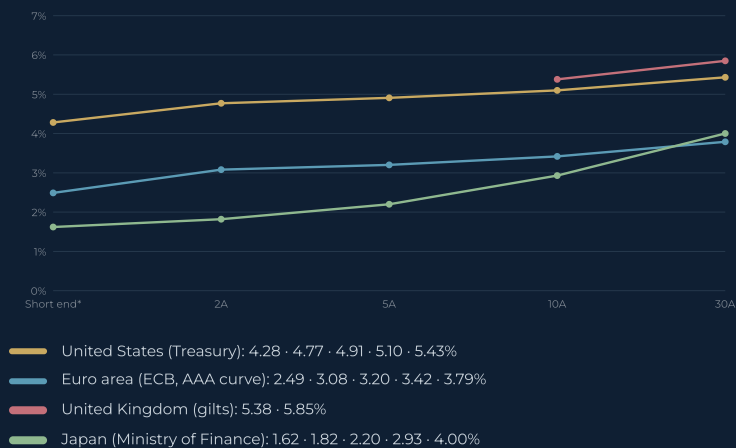
-\$53,100M

Money does a full turnaround: \$53,100M leave money-market funds -the first meaningful cash outflow in weeks- for global equities (+\$64,500M, of which \$39,100M to the U.S. and \$10,000M to tech) and, to a lesser extent, U.S. Treasuries (+\$3,600M, the 16th consecutive week of inflows). Hartnett keeps his caution: the combination of rising geopolitical risk and cash draining into risk, he warns, is typical of a market chasing returns.

YIELD CURVES, CROSS-COUNTRY COMPARISON United States, euro area, United Kingdom and Japan; official data from each treasury or central bank.

Full curve · U.S., euro area, U.K. and Japan

Yield (%) by maturity



*The short end is not the same maturity across the four regions; from two years onward the tenors are identical. The ECB Portal, Japan's MOF and the U.K. DMO had no stable access: the euro curve uses the bund and the Japan and U.K. curves use press sources, flagged (e).

► Research team read

The sovereign curve eased last week's scare without undoing it. The gilt fell to 5.85%/5.38% at thirty and ten years (from the previous 1998/2007 highs), with the British economy growing a modest 0.1% in August and Reeves's fiscal headroom cut to 8,500-16,000 million pounds ahead of the October 28 budget. The American Treasury fell sharply (10-year at 5.10%, -14 points) even though September CPI surprised to the upside (3.7%), a sign the market is prioritizing geopolitical risk over inflation. The JGB posted its second straight weekly decline (2.93% at ten years, 4.00% at thirty) and the bund fell slightly (3.42%). The team keeps its underlying read—the United Kingdom as the sovereign stress focus—with one nuance: this week it has been oil, via Hormuz, that has been the dominant channel of contagion.

What is the yield curve? The interest government debt pays by maturity. Normally the long end pays more than the short end (a positive slope); when it inverts, the market is usually pricing a slowdown.

RESEARCH TEAM VIEW · QUALITATIVE

Recommendation, idea selection and scenario probability; analyst judgment

Current KGRI range. Neutral (40-60), at 58.2. The recommendations below develop the page 1 positioning framework for this range, for equities and fixed income.

Equities

The market buys the geopolitical scare instead of hedging against it

The S&P 500 gave up 1.9%, dragged down by Hormuz's closure and the semiconductor slump (KOSPI -6%), while the Stoxx 600 rose 2.1%, unaffected for now by the escalation. Despite the drop, 64,500 million dollars flowed into global equities, per BofA. The team keeps the neutral stance with a preference for quality, but warns that this inflow, right as money leaves cash and credit tightens, looks more like a chase for returns than conviction.

Fixed income and credit

Credit widens for a third week as cash drains into risk

Corporate HY widens another 12 bps, to 323, its third straight week of widening, just as 53,100 million leave money-market funds for equities, per BofA. The team trims its conviction in high yield further and keeps its caution on long-duration sterling debt, with the gilt pulling back only partially from its previous highs.

TRADE OF THE WEEK

High yield · cash drains into risk just as credit tightens

The high-yield spread widens for a third week, to 323 bps. What stands out is the direction of the money: 53,100 million dollars left money-market funds this week, but not toward credit—which keeps tightening—rather toward equities (64,500 million globally, per BofA). The team turns its tactical caution on high yield into the trade of the week: with Hartnett warning that this combination is typical of a market chasing returns, lower-quality credit remains the first place to look for cracks if risk appetite reverses.

Note on this edition. Covers the week of October 12-18, close on Friday the 16th. The VIX, UST 10-year and the HY/IG spread on FRED stop on Thursday the 15th (Brent and WTI, Wednesday the 14th): the press-reported close or Thursday's reading is used, flagged (e). FRED's Brent diverges from the press price: the Brent row uses press sources, not FRED. The ECB Portal and Japan's MOF had no stable access: the euro AAA curve uses the bund and the JGB curve uses press sources, flagged (e). The broad dollar index and EUR/USD on FRED also do not cover this week: the DXY and press sources are used, also (e). The gilt curve uses press sources, with some dispersion across them. Flows from BofA (Hartnett), week closed October 14.

Sources. Federal Reserve Bank of St. Louis (FRED): policy rates, the Treasury curve, VIX, ICE BofA spreads, financial conditions indexes, monetary aggregates, CPI/PCE and the S&P 500. U.S. Bureau of Labor Statistics: September CPI (3.7% year over year) and weekly jobless claims. Baltic Exchange: freight index. BofA Global Research (Michael Hartnett, "The Flow Show"): weekly fund flows, week closed October 14. Trading Economics, Investing.com, CNBC, Bloomberg, Reuters, Yahoo Finance and goldprice.org: closing levels for the STOXX Europe 600, gold, Brent, VIX, EUR/USD, DXY, the U.K. gilt, the German bund and the JGB, given the failure of the ECB Data Portal, Japan's Ministry of Finance and the U.K. DMO, and the known divergence in FRED's Brent. Federal Reserve, ECB, Bank of England and Bank of Japan: no policy meetings this week; Warsh (Fed) spoke at the IMF meetings in Bangkok; the Fed's next decision is October 27-28. CNBC, Al Jazeera, Bloomberg, CBS News, Euronews, US News, Reuters, RFE/RL, ABC News and NPR: Hormuz's de facto closure, tanker incidents, the Saudi "Dawn of Yemen" offensive, Russian bombardments of Ukraine, EU sanctions and U.S. tariffs on Russia, and maneuvers in the Taiwan Strait. Visual Sigma™ engine (KGRI and the eight sub-indexes), computed under the methodological catalog (Volume II) using ten-year historical percentiles. Indicators without a free public source (CDX IG and HY, MOVE, Citi Economic Surprise, Conference Board LEI, ISM) are neither estimated nor interpolated: they reduce the block's confidence, as the methodology requires. Figures flagged with (e) are estimates or press-sourced substitutes pending official confirmation.

The views expressed herein are based on data collected from sources believed to be reliable; neither the analyst nor the firm is responsible for their accuracy. This report is for informational purposes only and does not constitute investment advice or a personalized investment recommendation.



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