KEY MARKET DEVELOPMENT

US, Israel Strike Iran

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Key insights

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Energy prices see greatest impact as traffic slows through Strait of Hormuz.

02

Iranian attacks on regional oil assets limited, so far.

03

Natural gas prices surge as insurers cancel insurance on tankers.

04

Watch for potential diplomatic off-ramps as a new regime takes shape.

On February 28, US and Israeli armed forces launched a large-scale attack on Iran. In the initial wave of the assault, Israeli forces struck a meeting of Iran's top leadership, killing Supreme Leader Ayatollah Ali Khamenei. Iran responded by launching missile and drone strikes against Israel and on neighboring countries near the Persian Gulf. So far, those attacks have been focused on military and civilian targets and have largely steered clear of energy infrastructure. US President Donald Trump and Israeli Prime Minister Benjamin Netanyahu have each called on the Iranian people to rise up and topple their government. With Iran's leadership in flux, the composition and orientation of a new cadre will play a decisive role in determining the prospects for renewed diplomatic engagement.

European gas prices impacted

In the wake of Russia's invasion of Ukraine four years ago, Europe turned to the Middle East for much of its natural gas imports. This recent outbreak of hostilities, including Iranian attacks on four tankers near the Strait of Hormuz — the choke point leading from the Persian Gulf — has prompted global insurers to drop war coverage on ships in the region. This has resulted in a surge in natural gas prices in Europe at a point in the season when inventories are typically low. About one-fifth of the world's crude oil passes through the strait every day; should the supply disruption prove persistent, inflationary pressures may rise. Indeed, sovereign bond yields have risen in the wake of this weekend's events, an unusual market reaction to a geopolitical event.

Length of disruption will be critical

Geopolitical events tend to have limited market impact over time unless they disrupt economic fundamentals. In this context, the length of the current conflict will play a pivotal role in determining its enduring effects on the global economy, particularly on the flow of energy from the Gulf region.

Global diversification is key

History has shown that hedging geopolitical risks in advance is challenging. Therefore, recent events underscore the importance of global diversification. Employing a balanced portfolio across asset classes, regions, currencies, and sectors is potentially an effective strategy for addressing the complexities of global markets. Furthermore, given the significance of risk management, we believe an active management approach is essential.

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