

Iran Escalation

KEY TAKEAWAYS AND INVESTMENT IMPLICATIONS

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By &Partners Investment Team

Summary of the military escalation in Iran

The United States and allies, notably Israel, have launched major coordinated military strikes against Iran. According to U.S. and Israeli leaders, the offensive, involving airstrikes on Iranian military infrastructure and leadership targets, was necessary to counter threats from Iran's nuclear and missile programs and to pressure regime change.

Iran's Supreme Leader Ayatollah Ali Khamenei perished in his office on Saturday morning, and a number of top military officials are also confirmed dead. Iran has responded with its own missile and drone attacks on U.S. military bases and regional states, raising fears of a wider conflict and prompting global calls for deescalation.

We note this is a highly volatile and evolving situation.

View of the &Partners Investment Team

The events so far may have been largely anticipated, explaining to a large degree the relatively modest market reactions (at time of writing). The looming question is how Iran will respond — as this will largely determine short- and medium-term market reactions.

Here are three potential investment implications:

1. Higher oil prices and energy market risk premiums

Geopolitical tensions in the Middle East, a region critical to global oil supply, have already put upward pressure on crude prices and increased the risk premium on oil prices. Consensus estimates suggest Brent crude could rise \$5–\$10 per barrel above recent levels, with some institutions (including Barclays) projecting prices could approach \$100 per barrel in a worst-case scenario. Supply disruptions, or even fears of them, typically *lift crude, gasoline, and energy-related assets* as markets price in reduced availability.

Activity in the Strait of Hormuz has ground to a halt following attacks on vessels in the region as of Sunday morning. Approximately 20% of the global oil supply is shipped through these waters, making the route strategically critical to energy markets. In the short term, any prolonged disruption could intensify market reactions and push oil prices toward the upper end of potential outcomes (approximately \$90+ per barrel). In response, OPEC+ has announced plans to increase oil output in an effort to stabilize markets and offset potential supply constraints.

2. Short-term upward pressure on inflation expectations

Higher oil prices feed directly into consumer and producer energy costs, potentially lifting *headline inflation* in the near term as input costs rise. This dynamic could complicate central bank policy, particularly if elevated energy costs delay anticipated rate cuts or keep inflation above target levels.

3. Greater uncertainty and risk premia

The magnitude of market impacts depends on how Iran responds and whether broader escalation unfolds. If Iran's actions remain limited to contained or symbolic actions, markets may settle quickly. However, a wider regional conflict or direct threats to major energy export infrastructure would deepen risk aversion and heighten volatility across major asset classes.

Broader market implications

Global equity markets are modestly lower. Although recent events were broadly anticipated, near-term uncertainty surrounding Iran's response remains elevated. Higher oil prices — and the associated inflationary risks — could weigh on broader economic activity and corporate fundamentals if sustained.

That said, most scenario analyses suggest impacts to equity and fixed income markets are likely to be modest and short term. Fixed income markets appear to be balancing upward pressure from inflation expectations with a countervailing “flight to quality” dynamic, as investors gravitate toward government securities. These opposing forces have, so far, largely offset one another.

Specific areas of attention if the conflict escalates:

- **Energy sector:** May benefit from elevated oil prices and price risk premia
- **Equities:** Defensive positioning and sector rotation could outperform in the short run
- **Fixed income:** Safe-haven demand could place downward pressure on yields, particularly if equities weaken. Spreads could widen, especially among lower quality issuers
- **Safe-haven investments:** In a prolonged or intensifying conflict, traditional safe havens such as gold and government bonds could benefit
- **Inflation exposure:** Commodities and inflation-linked assets may provide a hedge against near-term price pressures

Geopolitical shocks often drive short-term repricing rather than lasting structural change. In periods like this, diversification and disciplined portfolio construction matter most. For investors with diversified and risk-appropriate portfolios, our recommendation is to maintain a long-term approach and not make sudden changes.

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