Market Flash

2 March 2026

Over the weekend, the Iran conflict escalated into a full-blown war involving Israel, the United States and Iran. The US and Israel carried out coordinated military strikes on Iranian strategic and military targets, resulting in the death of Supreme Leader Ayatollah Ali Khamenei and several top officials. Iran has responded with ballistic missile and drone attacks across the region, with rockets falling not only on Israel but on the Arab peninsula, raising fears of a broader Middle East conflagration. Iran has also signalled the possible restriction of shipping through the Strait of Hormuz which is a vital artery for global energy supply.

Geopolitical Situation

The Mullah regime is cornered and fighting for survival. Unlike Iraq or Kuwait, Iran is not led by a single individual: the regime is deeply embedded in Iranian society, and the US has no clear plan for how air strikes alone will bring it to fall.

Although no critical oil infrastructure has been destroyed to date, the conflict has entered a more intense phase. Energy markets have reacted swiftly, with oil and gold moving higher. The geopolitical risk premium has shifted from a theoretical consideration to a tangible market factor, and Iran's rhetoric surrounding the Strait of Hormuz has further increased uncertainty across global energy markets.

The big question is how much oil supply will actually be affected. Iran can close the Strait of Hormuz at great financial cost to itself and to other Gulf states. Hubert Marleau of Palos outlines three scenarios:

> *"A true Hormuz disruption would constitute a tail scenario, which could easily increase the price of Brent to $125 a barrel, whereas a quick regime change would oppositely restore normalcy and bring oil prices back to $60 a barrel. There is a third scenario, where oil flows under threat not in an apocalyptic manner as OPEC+ increases production at an accelerating pace — nonetheless in an escalating one, constraining supply and running the price to an $80 peak."*

The West is today less reliant on Middle Eastern oil than in the past. Asia, however, is a different matter: emerging markets will feel the pressure most acutely should supply be disrupted. If the Strait of Hormuz remains largely open and any oil disruption is short-lived, the impact on equity markets should be limited. Should the conflict be resolved within a few weeks, markets are likely to revert to earlier levels.

Market Reaction

Equity markets opened down 2–2.5%; oil prices have spiked sharply. US 10-year Treasury yields have fallen below 4% for the first time since last October, once again demonstrating their role as safe-haven assets during periods of heightened uncertainty. The USD is stronger this morning. On a longer time horizon, equity markets have had varied reactions to similar geopolitical shocks in the past: recoveries have generally followed once the scale of the disruption became clearer.

The short-dollar trade has become increasingly crowded and could reverse quickly should Middle East tensions persist longer than currently anticipated.

Positioning

Unless and until the scale of the operation becomes clearer, we remain confident in our neutral positioning on equities and bonds overall. In our allocation, we continue to highlight the importance of diversification.

Our overweight on gold has paid off: the precious metal has once again fulfilled its role as a geopolitical hedge, helping to cushion portfolio volatility as investors rotate into safe-haven assets. We may consider gradually increasing this allocation as part of a broader resilience strategy.

On fixed income, our focus remains on high-quality investment-grade corporate bonds with moderate duration. Although credit spreads are relatively tight, we believe this segment continues to offer an attractive balance between income generation and resilience in a more uncertain macroeconomic environment.

We see the biggest threat to broad markets in renewed inflation caused by a prolonged spike in oil prices. This risk is compounded by the fact that a new Federal Reserve Chair will take office in approximately two months and is likely to be tested by markets at an early stage.

In summary, geopolitical risks have risen meaningfully, but our portfolios are structured with diversification and downside protection in mind. We continue to monitor developments closely and remain vigilant in assessing their evolving impact on markets, policy and global trade flows. As always, we stand ready to adjust positioning where necessary in line with both risks and emerging opportunities.
