

Update on escalation in the Middle East

Escalation in the Middle East

Over the weekend the United States and Israel launched an attack on Iran. The initial attack killed a number of Iran's senior military and political leaders including Iran's Supreme Leader Ayatollah Ali Khamenei. Iran has since launched counter attacks across the Middle East, not just targeting Israel but also US military positions, oil infrastructure, airports and urban areas across Iraq, Bahrain, United Arab Emirates. Airports in Dubai, Abu Dhabi, and Doha, which are some of the busiest airports in the world, are largely closed at this stage.

Broader implications

One of the first focus points is the Strait of Hormuz. Some 20% of the world's oil and 25% of the world's liquid natural gas (LNG) passes through this narrow strait. Most of it destined for Asia and Europe. Whilst at the time of writing the Strait was not technically closed, much of the commercial shipping through the Strait has effectively stopped or slowed dramatically.

Market Reaction

Initial reaction has been muted. On Monday's trading the S&P/ASX 200 and S&P500 finished the day in green. Energy and defence shares gained. Of note was the recovery of several tech firms with solid balance sheets. Bond markets experienced volatility as investors tried to balance the flight to safety with renewed inflation fears. Rising yields reflect expectations that central banks may delay or forgo interest rate cuts if higher energy prices persist.

Oil and gas prices have predictably spiked, notably in Europe as Qatar shut the world's largest LNG plant. The US dollar was slightly higher, and gold prices rose modestly.

What happens next?

Much depends on the length of the escalation. Prior escalations have been relatively short, and markets have largely ignored geopolitical events. It is too early to say whether this will be the case this time.

Longer term supply issues with oil and gas will have flow on ramifications for much of the global economy. It is fair to say that the main transition mechanism of geopolitical shocks like this is through higher energy prices. Initial price reaction is to the escalation but will shift if supply continues to be disrupted.

Portfolio positioning

At the start of 2026 we favoured a diversified approach to global equities, with a dedicated emerging market exposure, and a preference for active management in fixed interest. At this stage we have not changed our view but are monitoring the broader market movements. Geopolitical events and volatility are a feature of the markets and reacting to short term volatility can lead to poor portfolio outcomes, noting that many clients are invested for the longer term. We will provide further updates as necessary.

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