

# How a War with Iran Could Affect the Economy and Markets

## My High-Level View

Geopolitical shocks typically move markets most when they **change economic fundamentals**, and in this situation the main fundamental channel is **energy**: conflict risk can raise **oil and shipping costs**, which can feed into **inflation** and **growth expectations**.

This commentary is for *informational purposes only* and does not constitute a *recommendation* to buy or sell any security or adopt any investment strategy.



## Base Case

Tensions elevate risk premiums, but energy flows remain largely intact.

### What I'd expect in this base case:

- **Oil prices** may remain choppy with a “**risk premium**,” but spikes are more likely to fade if there’s no sustained disruption to supply or shipping.
- **Inflation impact** is modest and temporary; it doesn’t meaningfully alter the longer-term inflation trend.
- **Stock markets** may see short-lived volatility, but typically stabilize as investors differentiate headlines from fundamentals.
- **Leadership rotation**: sectors tied to energy/defense can outperform for stretches, while broader markets remain driven by earnings and rates.

### How I'd generally think about positioning:

- I prioritize **diversification** and **risk controls** over “headline trading.”
- I focus on **quality balance sheets** and **durable cash flows** while volatility is elevated.



## Downside Case

A sustained disruption to oil supply and/or shipping through the Strait of Hormuz.

### What I'd expect in this downside case:

- **Oil and refined product prices rise meaningfully** and stay elevated longer due to supply/shipping constraints (not just fear).
- **Inflation re-accelerates**, which can pressure consumer spending and business margins.
- **Growth expectations weaken** as energy acts like a tax on households and firms.
- **Rates may become less “helpful”**: central banks have less flexibility if inflation is rising, which can compress equity valuations.
- **Equity volatility increases**, with potential drawdowns driven by higher discount rates, weaker forward earnings expectations, and reduced risk appetite.

### How I'd generally think about positioning:

- I would emphasize **resilience**: maintaining appropriate asset class diversification, avoiding concentrated risk, and keeping exposures aligned to my economic outlook – see 2026 Global Market Outlook.
- I would be cautious about overreacting, but I would reassess if the indicators below show the downside case is becoming more likely.



## Indicators I'm Watching Closely

These are the signals that tell me whether this stays “risk premium” or becomes “real disruption”:

### Energy and shipping

- **Crude oil level and shape of the curve** (spot vs. forward): backwardation can signal tight near-term supply.
- **Shipping/insurance costs** and reported disruptions (delays, rerouting, cancellations).
- **Strait of Hormuz transit conditions** and credible reports of impediments to vessel movement.
- **OPEC+ messaging and actual production response** (capacity and willingness matter).

### Inflation and policy

- Market-based inflation expectations (breakevens) and real yields.
- Fed communication: whether officials treat energy-driven inflation as transitory or problematic for policy.

### Market “stress gauges”

- **Credit spreads** (particularly high yield): a clean read on risk appetite.
- **Equity volatility** (VIX) and breadth: whether weakness is broad-based or sector-specific.
- **USD strength**: persistent USD spikes can tighten financial conditions.



This situation may create periods of **short-term market volatility**. The key question, in my view, is whether the conflict leads to a **sustained disruption in energy supply or shipping routes** (*the downside case*) or remains primarily a **geopolitical risk premium that markets ultimately absorb** (*the base case*). While Iran has the ability to generate **headlines and temporary disruptions**, **how long that pressure can actually be sustained remains an open question**. Ultimately, markets tend to move most when **underlying economic fundamentals change**. Importantly, I am **not making binary predictions about geopolitical outcomes** and **not placing concentrated bets based on headlines**.

I am **monitoring developments closely**, particularly how they affect **energy markets, inflation expectations, and overall equity sentiment**. My **portfolios are not designed to rely solely on U.S. equity market performance for returns**. **Diversification across asset classes and global opportunities** remains a **central part of the strategy**. I am also **not assuming short-term market moves will persist without confirmation from the indicators discussed above**, and I will continue **adjusting portfolios as needed** in response to **evolving global economic conditions**.

-Scott Tremlett CEO/Chief Investment Officer