

## Alpha Insights: What's Happening in Iran and What It Means for You

### Here's what's happening:

The escalation of military operations in the Middle East has introduced new uncertainty into global markets, with oil prices climbing in response. The primary concern centers on the Strait of Hormuz, a narrow waterway off Iran's coast through which roughly 20 percent of the world's daily oil supply flows. Any sustained disruption there could push energy costs higher, which might unsettle the markets and could trickle down to consumer prices.

### Here's what you need to know:

- Leadership Change & Instability:** Over the weekend, the U.S. and Israel conducted coordinated strikes across Iran, explicitly targeting senior Iranian leadership, including Ayatollah Ali Khamenei. Iran responded with missile and drone attacks against Israeli territory and U.S. positions in the Middle East region. Among other things, this raises the risk of regional instability, specifically in key oil markets.
- U.S. Exit Strategy:** The U.S. has indicated it has no intention of engaging in long-term nation-building or owning Iran's political future, preserving the option to declare "mission accomplished" quickly.
- Conflict Duration:** Experts suggest the conflict could last from a few days to a few weeks, likely determined by which side exhausts its munitions first.
- Oil Market Reaction:** While Brent crude prices rose to nearly \$79 per barrel, the market reaction is characterized as a response to uncertainty rather than panic selling.
- Shipping Vulnerability:** The Strait of Hormuz remains a critical choke point, handling roughly 20% of global petroleum consumption. Although shippers can choose to pass through at their discretion, global ships are likely to avoid traveling through this critical oil shipping area for the time being.
- Inflationary Impact on the U.S.:** As a net oil exporter, a spike in oil prices is expected to be more inflationary than recessionary for the United States. This may have a near-term impact on consumer spending.
- Market Resilience:** The global energy system is more flexible today due to non-OPEC supplies like U.S. shale and existing strategic reserves, reducing the likelihood of a long-term structural energy crisis.
- Broad Diversification Strategy:** With elevated uncertainty and "fat-tail" risks, investors are advised to focus on broad diversification rather than attempting to hedge against specific geopolitical risks.

### Here's what it means for you:

Market volatility during geopolitical events is expected. We've seen situations like this before, and markets adjust to the news over time. Your portfolio reflects your goals and time horizon, so reacting to short-term headlines can be a mistake. History has shown time and again that during periods of volatility, it's important to stay disciplined. However, we are monitoring the situation closely and reacting as necessary to protect client portfolios. If you have questions or simply want to talk things through, please don't hesitate to reach out.