

# Market Flash

## US-Israel-Iran conflict: investor considerations

March 2026

We do not see the US-Israel-Iran conflict as a trading event, and would seek to avoid knee-jerk reactions based on short-term market movements. However, the conflict does represent a structural geopolitical risk. Below, we aim to provide some long-term investment risks and considerations, with a focus on portfolio resilience, governance and strategic oversight, rather than short-term market movements.

The escalating conflict re-emphasises the need for portfolio construction to focus on resilience – via diversification and scenario/stress testing, rather than prediction and short-term tactical positioning.

### Primary investment considerations:

- ◆ Global energy markets and inflation: 20% of daily global oil production and over 30% of global seaborne crude passes through the Strait of Hormuz.
- ◆ Volatility and risk premia across asset classes
- ◆ Diversification and portfolio protection

Investors should view this as part of a broader trend of persistent geopolitical instability, rather than an isolated episode.

The primary transmission channel to the global economy and markets is via energy and inflation risk: the Middle East remains critical to global oil and liquefied natural gas supply, particularly via the Strait of Hormuz. Even limited disruption, shipping delays or higher insurance costs can embed a persistent geopolitical risk premium into energy prices.

While a one-off rise in oil/energy prices is a supply-side shock, which monetary policy can do little about, central banks will be acutely aware of second-round effects of any passthrough and any impact on longer-term inflation expectations. While a supply-side shock is, to some extent, self-correcting – and could theoretically call for interest-rate cuts rather than hikes – central banks may proceed very cautiously, particularly with the post-2022 Russia-Ukraine conflict fresh in mind.

More broadly, the conflict may increase the geopolitical risk premium, resulting in both equity and credit volatility. We suggest longer-term investors maintain rebalancing discipline and follow valuation frameworks in place, eg spread and equity triggers. As we saw in 2022, geopolitical shocks can cause correlations to rise, reducing the effectiveness of traditional diversification. Assets typically relied on for protection may behave differently in an inflation-driven shock. Liquidity becomes more valuable during periods of geopolitical stress. As noted above, we should highlight inflation-linked bonds and real assets as permanent features of a portfolio to hedge long-term inflation. The ability of commodities to effectively hedge short-term supply shocks may increasingly enter the conversation. It's true that commodities have one of the highest betas to inflation; however, they offer poor long-term real returns and our clients are mostly concerned about hedging long-term inflation.

In terms of ESG, stewardship and reputational considerations – including increased scrutiny of companies linked to conflict zone and defence, technology, logistics and dual-use activities – we would highlight the need for clear governance frameworks for engagement, exclusions and disclosure decisions.

In summary, the US-Israel-Iran conflict reinforces the need to focus on resilience over prediction. For long-term investors, the priority is governance, diversification and scenario robustness, rather than short-term tactical positioning.

For context, we've been advocating a moderate underweight risk-asset position versus the benchmark, given elevated equity valuations and thin credit risk premia, against a backdrop of materially positive real bond yields.

## Contact us

**If you'd like to discuss our market views in the context of your portfolio, please don't hesitate to contact the author or your usual Hymans Robertson consultant.**



**HYMANS ROBERTSON**

# Looking past volatility - to diversification and scenario testing

January 2026

The risk of an escalating trade war between the US and Europe over Greenland poses downside risk to the outlook for global growth. That said, talks are being held to defuse the situation in the short term. Although we acknowledge the relatively supportive near-term outlook - excluding the renewed US-EU-UK trade war - for risk markets, we are already cautiously positioned because of elevated equity valuations and thin credit spreads. Within equities, we also prefer an underweight to the US, due to relatively high US valuations and market concentration.

To some extent, geopolitical uncertainty is constant, but empirical evidence suggests that it's rarely game-changing from an economic and markets perspective. In our view, geopolitical events will have a sustained effect only if they profoundly and persistently impact commodity prices or lead to broader market contagion.

Recent events in Venezuela do not pass muster on either of these fronts. Despite having the world's largest proven reserves, Venezuela is currently a small producer, and US intervention is only likely to increase supply over the longer term. Iran is a different story: the Strait of Hormuz is a significant enough chokepoint to have a profound and persistent impact on oil prices. Meanwhile, escalating tensions over Greenland between the EU and the US have scope to cause both economic and financial-market contagion - particularly if trade disputes spread to the weaponisation of markets.

However, it's important to note that managing a portfolio for a single upside or downside scenario is often suboptimal. Investors must also weigh the long-term opportunity cost of diversification, striking the right balance between near- and long-term returns, as well risk-adjusted and absolute returns. Scenario-testing helps to identify portfolio vulnerabilities under different conditions and to uncover untapped diversification opportunities.

Echoing economist Harry Markowitz's maxim that "diversification is the only free lunch" in finance, we recommend scenario-testing portfolios against varied growth and inflation outcomes to uncover vulnerabilities and diversification opportunities.

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**Chris Arcari**  
Head of Capital Markets  
chris.arcari@hymans.co.uk  
0141 566 7986



**Elaine Torry**  
Partner, Investment DB  
elaine.torry@hymans.co.uk  
0141 566 7952

London | Birmingham | Glasgow | Edinburgh

T 020 7082 6000 | [www.hymans.co.uk](http://www.hymans.co.uk)

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