

Flash commentary: Iran

Views from our traditional investment teams

UBS Asset Management



Current situation

Heightened tensions in Iran have reintroduced geopolitical uncertainty to global markets. While markets had anticipated potential strikes on Iran, the scale of the weekend's operations was broader than expected.

While the immediate market reaction has been contained, the near-term risks to supply routes and broader implications for oil prices and inflation trends are key macro concerns. The death of senior political and military figures – including Supreme Leader Ayatollah Ali Khamenei – has prompted renewed scrutiny of the country's internal stability and its potential impact on regional dynamics, particularly energy markets. Iranian strikes have targeted US bases and regional infrastructure while largely sparing oil production, even as tanker traffic through the Strait of Hormuz has slowed amid warnings and reports of one tanker hit, with no evidence so far of mining that would pose a far greater threat to global supply.

The situation underscores the importance of monitoring developments across the Middle East, where shifts in political leadership or security conditions often carry implications beyond the region itself. The focus remains on how prolonged instability could influence commodity pricing, safe-haven flows and risk sentiment more broadly across emerging and developed markets alike.

Active Multi-asset

While markets had anticipated potential strikes on Iran, the scale of the weekend's operations was broader than expected – though still short of the worst-case scenario. US and Israeli forces have intensified efforts to weaken Iran's internal security apparatus and limit its retaliatory capacity. Iranian responses have targeted US bases and regional infrastructure but have so far avoided causing major damage to oil production assets. Tanker traffic through the Strait of Hormuz has slowed, with reports that the Iranian Revolutionary Guard Corps has issued warnings against passage. One tanker has reportedly been hit, though there is currently no evidence that the strait has been mined – a development that would represent a far greater risk to global oil supply. AMA portfolios have no direct exposure to the region or energy-linked assets. The main transmission channel is through overall market risk: we remain overweight equities and underweight the US dollar, with an overweight position in gold serving as a partial hedge. We expect the magnitude and timing of any risk-off moves to depend largely on the extent to which oil supply is disrupted as the conflict evolves. Key questions include whether oil infrastructure will be targeted, whether the Strait of Hormuz will remain navigable, and how new Iranian leadership interacts with the US and Israel.

Active Equities

Global equities have moved into a more cautious, risk-off footing following coordinated US-Israeli military action against Iran. Initial market responses have been concentrated in higher oil prices and strength in defensive and value-oriented exposures, while broader equity moves have remained relatively contained. Despite the clear rise in geopolitical uncertainty, volatility measures have so far stayed surprisingly muted, underscoring a market response that remains selective rather than systemic.

Our positioning reflects this dynamic:

- EM portfolios remain underweight the region, with only modest positions in a Saudi Arabian bank and a UAE real estate company.
- We maintain a neutral allocation to the oil sector.
- Offsetting exposures that may benefit in the current environment, including two gold-levered companies in South Africa, a defense manufacturer in Korea, and a Brazilian aerospace company with partial defense exposure.

We believe that emerging markets retain strong medium-term potential, with diversified structural drivers that help offset limited direct exposure to the current geopolitical conflict.

Fixed Income

Our EMD hard-currency portfolios have a sizable underweight to GCC countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) and to Israel relative to the benchmark. There is no exposure to Iran given existing sanctions.

Overall, GCC sovereigns have higher credit ratings and significant reserve buffers, suggesting that market impact on the fixed-income side should be contained. Our EMD funds remain long duration which should benefit from a rally in US rates.

For global professional / qualified / institutional clients and investors.

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Americas

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