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Oil price shock, geopolitics, and Swiss stability

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The escalation in the Middle East and restricted oil flows through the Strait of Hormuz are noticeably increasing market uncertainty. Why investors should keep a cool head now.

In our last *Thought of the Week*, we explained how things once considered “unthinkable” now occur much more frequently than a few years ago, and how investors are repeatedly confronted with challenging situations. The current conflict in the Middle East and the closure of the Strait of Hormuz is one such case. Who would have thought just a few weeks ago—when market attention was still focused on the US Supreme Court’s decision on import tariffs or the AI-driven setback for software companies—that we could once again be facing an energy crisis in such a short time?

The situation regarding a possible reopening of the Strait of Hormuz remains unclear, and the rising oil price signals that markets are expecting further complications and a prolonged restriction of oil flows from the Gulf region. As the conflict enters its fourth week, and despite rerouting via pipelines, supply disruptions could worsen due to limited storage capacity.

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Geopolitical tensions are likely to remain high. It is still uncertain how soon the US and its allies will succeed in escorting tanker convoys through the Strait of Hormuz. Even the planned release of 400 million barrels from strategic reserves by OECD countries is likely to offset only part of the disruption, as the effects on markets in Asia and Europe intensify and refineries in the Middle East cut production. Against this backdrop, a further rise in oil prices is likely, with a new Brent forecast of USD 90 per barrel by the end of June—if disruptions persist, prices could rise significantly higher in the short term, especially if scarcity fears increase.

Despite the exceptionally challenging situation, we believe it is especially important for long-term investors not to be swayed from their investment plan by the current geopolitical turbulence. Our newly published *Global Investment Returns Yearbook* also shows which long-term performance trends are likely to be decisive for Swiss investors.

First, one should always keep in mind that equities have been the highest-returning asset class over very long periods. Over the long term, they have clearly outperformed bonds and money market investments. This also supports, from a Swiss perspective, the core message that wealth accumulation is achieved primarily through productive capital and not by holding nominal assets. Cash will likely remain important for liquidity and security, but in the long term, it is mainly a stability component, not a return driver. For Swiss investors, this means that equities should form the core of wealth accumulation over the long term. Even with current inflation rates near zero, inflation remains relevant over the long term: real returns count, not just nominal ones.

Second, geopolitical events are often not the main drivers of returns—more important is usually the resilience of countries and regions. While markets do react to extreme geopolitical shocks, economic factors are generally more important than geopolitical headlines in the long run. The implication: not every crisis justifies hectic portfolio shifts; instead, regional allocation should favor countries and markets that are better shielded thanks to high institutional stability and defensive market structures. Ultimately, in our view, a high degree of diversification remains crucial, especially as correlations have increased and risk diversification has become more difficult.

Third, Swiss investors should remain aware of the role of the franc as a “safe haven.” For them, the currency question is particularly important, as foreign currency risks can increase the volatility of those portfolio holdings that are primarily intended as stabilizers. Especially for defensive portfolio components like bonds, the logic of the available evidence argues for stronger hedging of currency risks, since the franc can primarily be seen as a stability anchor in the portfolio context.

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