



# When the unthinkable becomes thinkable

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**In a volatile and polarized world, things that seemed impossible just yesterday can quickly become reality. Blocked sea routes, massive oil price shocks, and armed conflicts are increasingly testing markets and investors, demanding effective investment strategies. As long as the conflict continues, market and energy risks will stay elevated. In the long term, the battle for energy and resources is likely to move to the center of attention.**

In spring 2020, COVID-19 brought the world to a standstill, and oil demand fell by 20 million barrels within days. The price of crude oil virtually collapsed, even turning negative. What was considered an extreme case at the time can now serve as a reference point. Right now, the market once again faces a shock of comparable magnitude, but this time in the opposite direction. The Strait of Hormuz, through which around 20 million barrels of crude oil flow per day, has been effectively blocked for days. In our base case, we assume that this disruption will be significantly shorter than during the pandemic, but uncertainty is high and seems to be increasing.

In recent years, investors have repeatedly had to learn how deceptive apparent certainties can be. Oil prices can turn negative. Russia can invade Ukraine. Markets are questioning the independence of the Federal Reserve. Artificial intelligence is forcing us to fundamentally rethink the future of individual companies, even entire sectors. A strait considered systemically relevant can be blocked. What do all these shocks have in common? Many investors considered them unthinkable—until they, often overnight, became reality.

Back to the present: The risk of a prolonged supply chain disruption has increased in recent days. The economies most exposed geographically are in Asia and Europe, as they rely on energy deliveries from the Middle East. Initial signs indicate

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that oil exporters are reducing production because of limited storage capacity. And as long as the Strait of Hormuz remains effectively impassable, a lack of storage capacity could lead to further production interruptions. If this happens, prices are likely to rise further, and the initial supply shortage will force a drop in demand, potentially leading to an economic recession.

Against this backdrop, the decisive variable from an economic perspective is not the question of war or peace, but the fluctuation of oil and gas exports. In our base scenario, flows normalize within the next two weeks. In that case, the shock would be severe, but could probably be cushioned by inventories and operational flexibility. Energy prices would normalize and markets would recover. If exports only partially return, the market is likely to remain structurally undersupplied. The missing barrels would lead to structurally higher prices, and levels above USD 100 per barrel would no longer be outliers, but a necessary mechanism for demand rationing. In such a scenario, financial markets would likely correct even more sharply.

How should investors position themselves? Historically, the answer is clear: Markets often recover quickly from geopolitical shocks. In around two-thirds of all conflicts over the past decades, US equities traded at higher levels three months after the conflict began. This is likely to be the case again, especially since both the US and Iran have valid reasons to end the conflict soon. At the same time, there are scenarios in which the war lasts longer, with correspondingly negative effects on oil and gas supplies, and thus on global inflation and growth prospects.

Accordingly, investors should also be prepared to realize losses if necessary. Historical analysis shows that the chances of success are higher with a systematic, disciplined investment process than with a strategy based on forecasting binary geopolitical events. And for those investors who find it difficult to realize losses or make purchases during periods of heightened uncertainty, it may be worthwhile to delegate such decisions.

In addition to these tactical considerations, it is also important to highlight structural insights. On the one hand, the struggle for access to resources is likely to intensify further. This includes not only electricity and energy, but also raw materials, food, and fresh water. As a result, supply security is likely to become more important both politically and economically in the future. This provides an opportunity for investors to position accordingly. On the other hand, this conflict once again teaches us that issues that seem unthinkable can quickly become reality. Sometimes, such developments can be anticipated, but they often come as a surprise. We think this makes a diversified portfolio, combined with a systematic, disciplined investment process, the most effective strategy for investors to insulate themselves from such surprises. This also includes using structured strategies in a targeted way to either hedge portfolio risks or to generate income.

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