(UBS)

Markets seeing heightened risk of continued volatility

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Global markets have come under renewed pressure amid an escalation in strikes against energy infrastructure across the Middle East. Crude oil prices surged after Iran struck major energy facilities in the Gulf, including Qatar's Ras Laffan LNG complex and the UAE's Habshan gas facility. That followed Israeli attacks on Iran's South Pars gas field.

President Trump overnight called for de-escalation but also threatened "massive" retaliation on Iran's South Pars gas field if Iran were to strike regional energy infrastructure again. The Wall Street Journal reported Trump does not want further strikes on Iran's energy sites, and indicated that "no more attacks will be made by Israel" if Iran halts its own strikes. Separately, Saudi officials cautioned their patience with Iran is "not unlimited," raising the specter of a more direct response.

Our base case remains for an eventual de-escalation and subsequent resumption in tanker flows through the Strait in the coming weeks. Even in this scenario, we anticipate crude prices would likely remain elevated, trading around USD 90/bbl into end June. However, these latest developments are pushing markets to price in a higher risk of prolonged conflict, deeper infrastructure damage, and higher-for-longer crude prices. President Trump's calls for an international naval convoy to help reopen the Strait have so far failed to gain much public traction. In a risk scenario along these lines, we believe Brent crude could overshoot in the short term to USD 150/bbl or higher.

With markets pricing an outcome somewhere between our two primary scenarios, we lay out our latest thinking below:

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Infrastructure damage risks closing the door on benign energy price outcomes. QatarEnergy has reported "extensive damage" at Ras Laffan, the world's largest LNG hub and responsible for 15% to 20% of global supply. Details are still unclear, but the damage from a missile strike could be much harder to repair than that from a drone attack, pushing out the timeline for a full resoration of output and exports. In a risk case where repairs are not completed before the peak demand season in winter, the hit to supply could be even more substantial than when the Nordstream pipeline for Russian gas went offline in 2022.

Markets with energy import dependence may take the brunt. Asian risk assets have shown relative resilience amid the ongoing Strait of Hormuz crisis, and if oil were to stabilize in line with our base case, we think Asian equities could recover and deliver double-digit returns. However, a longer Hormuz deadlock could have a more significant impact than what is priced in, with high-beta markets and cyclical sectors (such as industrials, consumer discretionary, and materials) likely to face the sharpest drawdowns. Within Europe, consumer cyclicals—particularly luxury, airlines, hotels and autos—should rebound once there is further clarity on the resumption of energy flows, while defense, health care, and telecos should exhibit defensive features if the conflict escalates further.

Policymakers face a tightrope on inflation, growth risks. Central banks have mostly been looking past inflationary pressure, but higher energy costs could push up prices, squeeze consumer spending, and force a rethink on rates. The Federal Reserve left rates on hold on Wednesday but raised its inflation projections. Chair Powell stressed the need for more progress on US inflation before easing further, and indicated he may stay on past his chair term if its serves the Fed's interests. The Bank of Japan also held rates steady but warned higher crude prices may accelerate inflation. The European Central Bank has signaled a wait-and-see stance, keeping its options open for now on how to respond to the energy surge.

While a less damaging outcome in the Strait of Hormuz remains possible, recent events have narrowed that path and heightened the risk of continued volatility. In this environment, we believe investors should maintain diversified exposure across asset classes and regions, with selective allocations to energy, gold, fixed income, and alternatives as portfolio hedges and diversifiers. Active management within commodities may be prudent, given elevated price swings at present. If the crisis persists further, investors may consider gradually derisking portfolios by reducing exposure to cyclical sectors, such as consumer cyclicals, industrials, and manufacturing, and to energy-importing markets, particularly in parts of Europe and Asia.

Original report: **Escalating gulf conflict: How to position amid two-way risk, 19 March 2026.**

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