

# Portfolio – Update

23 March 2026

**The escalating conflict between the USA plus its ally Israel and Iran has significantly exacerbated the geopolitical risks in the Middle East, causing noticeable volatility on financial markets in recent weeks. Joint air strikes have hit key military and political targets, including the country's leadership. So far, this has not resulted in a power vacuum. The leadership continues to function, and the government and military retain their capacity to act for the time being. At the same time the situation is escalating regionally, with Israeli operations against Hezbollah in Lebanon and drone attacks on other states in the Gulf by Iran.**

## **Expansion to civilian infrastructure and new targets in the Gulf**

In recent days the escalation has increasingly affected critical civilian infrastructure in the Gulf states. In Bahrain a water desalination plant was damaged by a drone attack. Targets in Saudi Arabia and Kuwait were attacked again at the same time. The attacks underline the fact that Iranian drones and missiles still have considerable potential to cause damage, and show how vulnerable supply and logistics centres in the region are. As long as the USA and the Gulf states affected can keep their defences up, the long-term impact of these interventions will remain minor.

## **The Strait of Hormuz: the eye of the needle for energy supply**

The Achilles' heel of the conflict remains the Strait of Hormuz. A significant proportion of global oil and gas shipments pass through this bottleneck, and even temporary disruptions trigger noticeable market reactions. Dependency is high, especially for the exporting Gulf states, and importers like India and China. It is these broad linkages that militate against a complete blockade for the long term. The international community is very keen to keep shipping lanes open. Nevertheless, temporary restrictions remain a realistic prospect and represent the key risk to energy prices and (depending how long they last) inflation. For Iran,

the Strait of Hormuz is its most important means of leverage in this war.

## **Major uncertainties**

The current uncertainty primarily stems from the asymmetric risks the conflict poses. These include a possible collapse of drone defence systems in the Gulf, and further attacks by the Iranian military on highly vulnerable infrastructure such as desalination plants or energy facilities and AI centres. This is the most difficult risk to assess. Even if the attacks by the USA and Israel calm down, it is not clear how the Iranian leadership will react. We continue to believe that sooner or later, all the parties involved will want to find a solution.

## **Equities and gold under pressure**

In the short term, the escalation in the Iran conflict has created an environment in financial markets like we saw in 2022. A diversified portfolio will have been briefly less stable over the past few days, but has still done its job overall. The way the oil price shot up acted as a catalyst for the movements we saw. The shock hit equities and bonds in equal measure. Stocks are reacting to the gloomier growth outlook and the anticipated rise in manufacturing costs. The strong dollar has also had a negative impact on equity markets in emerging markets, particularly those that depend heavily on imports. That supposed safe haven gold also took a tumble: higher interest rates and a

strong dollar are putting pressure on precious metal prices.

### **Bonds not a safe haven right now**

The market is exceptionally uncertain at the moment, and there is no trust in the traditional stabilisation mechanisms. Global bonds, both sovereigns and corporates, have failed to rise to the challenge recently. They have only offered a safe haven to a limited extent. This has been driven by rising inflation expectations and concerns that the central banks of the USA, the euro zone and the UK may be forced to raise interest rates again rather than cut them. Persistently expansionary fiscal policies, the resultant further rise in government debt in developed economies and additional political pressure are driving new spending, including through further fiscal packages in response to higher energy prices. Swiss bonds are much less affected. Inflation in Switzerland is at the lower end of the target range. An appreciating Swiss franc keeps imported inflation down, and there is hardly any pressure on the SNB to raise rates at present.

### **Trump's ultimatum**

On Saturday evening Donald Trump set Tehran an ultimatum that was due to expire tonight: if the Strait of Hormuz was not fully open within 48 hours the USA would attack Iran's power plants, starting with the largest. President Trump's announcement drew a red line that puts him under considerable pressure to act very quickly. We view this ultimatum as a further escalation of the conflict. On Monday he seemed to realise the gravity of his threat and spoke of constructive talks with Iran, which Tehran denied. In our view, the uncertainty is likely to persist for the time being.

### **Our baseline scenario remains constructive**

In our baseline scenario we assume the situation will remain tense, but do not see any major escalation. We expect further diplomatic efforts behind the scenes to find a solution. Tensions remain high, but the oil market will stabilise in the medium term. Iran is limiting its retaliation, and the USA and its allies are focusing

more on deterrence than large-scale action. If the current high-intensity war continues for a few more weeks, oil prices could remain high, with potentially negative consequences for global growth and inflation.

### **Robust starting position – low visibility**

Fundamentally, the environment remains very solid. The latest company figures have been very strong overall, underlining robust earnings growth, particularly in the USA. At the same time, ongoing and newly announced fiscal packages are supporting overall economic demand and stabilising the economy. These factors provide an important counterweight to the geopolitical risks and increase the resilience of equity markets.

### **Keep calm – reduce risks selectively**

Periods of heightened geopolitical uncertainty are normally accompanied by temporary pressure on the market as a whole and increased volatility. These movements are often short-term in nature and reflect positioning adjustments and deleveraging, which can help make the market more robust in the medium term. Historically, similar periods of stress have often been followed by rapid bounce-backs once sensitivity to risk has stabilised. Nevertheless, we think the current situation is exceptional. We are therefore reducing European and Swiss stocks slightly in portfolios to increase our room for manoeuvre in the medium term. Europe's economies are more dependent on energy imports, making them much more vulnerable to slowing growth and rising prices. In all other asset classes we feel the current positioning is appropriate. A disciplined, broadly diversified allocation remains key to withstanding short-term volatility, while at the same time participating in any normalisation of market conditions.

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