

GLOBAL MARKETS



EXECUTIVE OVERVIEW

The dawn of March 2026 has brought a paradigm shift in global geopolitics and financial markets. The initiation of Operation Epic Fury—a joint U.S.-Israeli kinetic campaign against the Iranian regime—has transitioned from a “simmering” regional risk to an “active” global shock. Advanced stealth aircraft, missile barrages, cyber warfare, and low-cost drone swarms have redefined escalation dynamics, while the soft disruption of the Strait of Hormuz introduces a persistent geopolitical risk premium into global energy markets. Against this backdrop, portfolio construction must be adaptive, volatility-aware, and duration-sensitive. Tactical commodity positioning, longer-duration U.S. Treasuries, selective defense exposure, and a cautious stance on overextended AI-linked equities define the core strategy.

1. Economic Outlook: The Iranian Implosion

The Iranian economy is no longer merely struggling; it is in a state of terminal contraction. Following the “decapitation strikes” on February 28, which resulted in the death of Supreme Leader Ayatollah Ali Khamenei, the fiscal and monetary foundations of the Islamic Republic have dissolved.

- **GDP & Inflation:** The World Bank and IMF have revised 2025–2026 projections to a 2.8% contraction from 1.7% previously. Inflation has officially breached 42%, though “street” rates for staple foods like bread and cooking oil have surged by 142% and 207% respectively.
- **Currency Collapse:** The Iranian Rial (IRR) has hit a historic nadir of ~1.5M per USD. The planned tax hikes for March 21, 2026, intended to fund the Islamic Revolutionary Guard Corps (IRGC), are now largely unenforceable due to infrastructure damage.
- **The China Factor:** China remains the primary sink for Iranian energy, but at a punishing 20–30% discount. With 40% of China’s oil passing through Hormuz and Qatar halting LNG production at Ras Laffan, the “energy bridge” to the East is fracturing.

From a macro perspective, USD-positive bias against EM currencies - especially frontier currencies like the Kenyan Shilling (KES) - is justified during escalation phases.

2. Strait of Hormuz: The Global Chokepoint

Approximately 20% of global oil transits through the Strait of Hormuz. Roughly 40% of China’s oil imports pass via this corridor. Qatar and the UAE represent a substantial portion of China’s LNG imports, and disruption risks compound supply fragility. Even a “soft closure”—insurance surcharges, tanker delays, naval escorts—raises freight and insurance costs. The Baltic Dry Index (BDI) and freight benchmarks (FBX) have spiked in response but historically mean-revert once supply chains normalize. Analysts estimate that Brent crude could spike toward \$100–130 per barrel in a full closure scenario. However, re-integrating Iran into the global energy grid could lower long-term Brent prices to a stable \$60–\$70 range, easing global inflationary pressures.

From a local perspective, elevated Brent prices translate into:

- Higher fuel import bills
- Current account pressure
- KES depreciation risk

3. Asset Class Guidance

The present geopolitical landscape—defined by elevated Middle East tensions, hybrid warfare, shipping disruption risk, and macro fragility—requires disciplined cross-asset positioning. Asset allocation must separate tactical shock trades from structural regime shifts, while preserving convexity in tail-risk scenarios.

Commodities: Inflation Hedges and Event Convexity

1. *Precious Metals - Gold, Silver*

In conflict-driven regimes, gold benefits from both risk-off flows and inflation expectations. If oil spikes trigger cost-push inflation while growth weakens, gold outperforms both equities and cyclical commodities.

2. *Oil Futures*

Roughly 20% of global oil transits through the Strait of Hormuz. Even partial disruption elevates Insurance costs, Freight rates and Risk premium embedded in futures. In a full disruption scenario, Brent could reach \$100–130. If either a regime change occurs or sanctions ease and Iranian production returns to market, then global supply may exceed demand, particularly if global growth slows. That creates a powerful reversal trade.

Fixed Income: Duration as Shock Absorber

1. *U.S. Treasuries (Long Duration)*

Longer-duration Treasuries act as portfolio ballast in Equity drawdowns and Risk-off liquidity events. If oil spikes tighten financial conditions and suppress growth expectations, bond yields fall even if inflation temporarily rises.

2. *Emerging Market Debt*

Iran itself is inaccessible in sovereign markets due to sanctions. Thus, contagion expresses through African and frontier eurobonds. However, such near-term shocks provide excellent entry opportunities particularly in commodity-linked sovereigns.

Equities: Defense, Cyber, and AI Fragility

Defense spending rarely contracts quickly once it escalates. Multi-year procurement cycles create durable revenue visibility. Major U.S. defense contractors anchor U.S. military supply chains. At the same time Israeli defense firms are central to missile defense systems such as Iron Dome and Arrow 3. At the same time, cyber warfare is now a permanent domain. Therefore, cybersecurity companies benefit from rising enterprise and government cybersecurity budgets. Critical infrastructure protection becomes essential in wartime. Spending in zero-trust architecture and cloud defense tends to accelerate during geopolitical instability.

Stock Highlight:

A critical “black swan” for equity markets is the sudden termination of the Anthropic-Palantir partnership after the company refused to allow its AI to be used for autonomous lethal targeting or mass domestic surveillance of American citizens. Palantir (PLTR) has historically relied on Anthropic’s “Claude” models for natural language processing within its defense platforms. However, in February 2026, the U.S. Department of War designated Anthropic a “Supply-Chain Risk” after the company refused to allow its AI to be used for autonomous lethal targeting.

Other Assets to Note

Volatility instruments spike reflexively during escalation. However, once immediate fear subsides, short volatility becomes attractive. In a similar way, volatility is expected in shipping futures. This volatility tends to be event-driven, not structurally persistent.

On the currencies front, the U.S. dollar strengthens when risk aversion rises and oil prices increase. Meanwhile, frontier currencies are particularly vulnerable due to oil import dependence and external debt exposure.

4. Forward Guidance: The Three Scenarios

A. Bull Case (Regime Change)

In this scenario, the transition from the Islamic Republic to a secular, pro-market administration (potentially led by the National Council of Resistance or a restored, constitutional monarchy) triggers a 50-year investment super-cycle. The removal of the “sanctions discount” would allow Iran to export its 1.7M–3.5M barrels per day at market parity. Re-integrating Iran into the global energy grid could lower long-term Brent prices to a stable \$60–\$70 range, easing global inflationary pressures.

B. Base Case (Short Conflict)

This assumes kinetic operations conclude within 4–6 weeks. The Islamic Revolutionary Guard Corps (IRGC) is degraded but not destroyed, and the regime “retreats” into a strategic gray zone. While a full closure of the Strait is unlikely to last months due to U.S. Navy dominance, the “fear of closure” becomes a structural part of the market. Oil prices would likely settle at \$80 as the market gains confidence that the U.S. can protect 50%–75% of the flows through “shadow convoys.”

C. Tail Risk (The Great Blockade)

A multi-month closure of the Strait. This triggers global fiscal shocks, necessitating a permanent move into hard commodities and Defense-Prime equities. Brent prices would be expected to spike above \$130 per barrel.

In conclusion, the goal is not to predict escalation paths, but to construct a portfolio resilient across inflation spikes, risk-off deleveraging, reconstruction booms and oversupply reversals. In conflict-driven markets, convexity, duration, and disciplined mean-reversion strategies separate durable returns from reactive speculation.

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