

Whiplash

24 March 2026

Trading of threats between the US and Iran over the weekend sent equities falling, before they reversed sharply as US rhetoric softened. No real clarity has emerged, but we don't want to miss any opportunities that might open up when hostilities do eventually settle down.

No sooner had the ink dried on some comments I had prepared for our investment managers on Monday, than markets enjoyed a dramatic reversal. They shifted from negative to positive in the blink of an eye, following the announcement of a softening of the US bombing campaign on Iran. Even so, it feels premature to get carried away about the latest development.

By the close of play on Monday, the Euro Stoxx 600 index (which comprises many UK-listed companies) had rallied 4% from its earlier lows to finish the day higher; government bonds had jumped too. This latest episode perfectly illustrates the market timing risks that I've been talking about in recent weeks.

Tacos are off the menu

Over the weekend, inflammatory threats from both sides pointed to the potential for further escalation this week. Traders

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Quick take:

- Equities lurched down and back up amid conflicting headlines on Iran.
- Meanwhile, supply constraints will linger beyond any claim of 'victory'.
- Still, this could open future opportunities as the world addresses a new set of risks.

and investors have become used to President Trump's tendency to 'escalate to de-escalate' and shown less inclination to reduce risk on each new occurrence, even using them as another reason to 'buy the dip'. This mindset is one reason we haven't seen an even more adverse reaction.

Wild swings in sentiment



Source: FactSet, set to 0 from 31 Dec 25

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But this is not a Taco ('Trump always chickens out') situation. Trump could wash his hands of the whole affair, declare a concocted victory and organise a ticker-tape parade, but the mess he would leave behind is huge. To some degree, we've been lulled into a false sense of security by the reversing of 'liberation day' tariffs, the agreements with China over rare earths, and the fact that Greenland is no longer in the news, etc.

Although the world was subtly changed by all those events, they had limited short-term real economic effects (yes, we can argue about the tariffs, but global growth hardly saw a blip). In this case, we have genuine supply-chain risks, which are going to be felt more widely. Probably fairly soon, and they could get even worse.

Off-ramps

The US appears to have misjudged Iran's response, making it increasingly difficult to know how Trump will declare the victory he so desires. However, there are grounds for hope. There will be a pain threshold that will eventually force either the US or Iran to back down.

But what would that look like? For Trump, it seems to be primarily domestic political blowback, especially as his popularity is not getting the usual bump that US presidents get from engaging in warfare. The 40% rise in average gasoline prices is

not winning him any new friends – and is losing him some old ones. The price has not been up year-on-year since 2022 and so has been consistently contributing to a decline in headline inflation. Not anymore.

I don't think anyone can say where Iran's pain threshold is with precision. My sense is that they can take the pain longer than Trump can and might well end up dictating the terms of a ceasefire. But whatever agreement is reached, I can't really see that 'peace' is going to be the right word in this context.

It's about more than oil

While the market focus has been on oil supply disruption for now, there is plenty of oil in the system and some ability to release strategic reserves. The Saudis are also able to pump oil west to the tune of around 7m barrels a day. In effect, the shortfall in global supplies is closer to 10mn barrels than the widely quoted 20m.

But the real problems are with natural gas and refined oil and gas products. These are already in short supply. For oil products, Gulf refining capacity has been reduced through a combination of physical damage and storage facilities being full (owing to the inability to ship these products). Commodities such as diesel and jet fuel have seen even sharper price increases than oil and petrol/gasoline. In Asia, jet fuel has more than

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doubled from \$93 per barrel to \$229, a record high.

These are essential to travel and transportation and users are willing to bid up what supplies there are to keep the wheels turning. As we saw during the covid era with things like lumber prices, it can make more commercial sense to bid up the cost of an input and take the margin hit than to shut down completely.

Perversely, supply shortages are more of a risk in Asia and Europe than in the US.

Natural gas is another problem. Not only is it used for heating and electricity generation – it is also an essential feedstock for things like fertiliser. Whether it's 'merely' going to be more expensive or, more probably, unavailable in the quantities required, it's going to mean higher food prices.

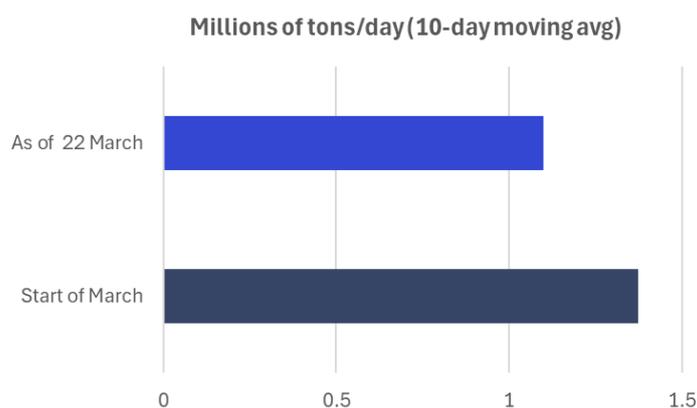
Sulphur is another key export from the Gulf that relies on natural gas as a feedstock. It, too, is used in agriculture but also in other industries – computer chip manufacturing and metal extraction, for example.

LNG supply risk

The other main issue here, apart from the closure of the Strait of Hormuz, is the damage to Qatar's natural gas liquefaction trains. The latest reports suggest that around 17% of its capacity

has been damaged and could remain offline for 3-5 years. So even if the Strait is re-opened, there will not be as much liquefied natural gas (LNG) to ship as before. The cost of rebuilding stores in Europe for next winter could be very high again. The irony is that this could be countered by increased Russian supplies.

Global LNG shipments curtailed



Source: Bloomberg analysis of Kpler ship-tracking data

Another longer-term factor to consider is that Qatari plans to increase LNG output later this decade will have to take a back seat to rebuilding existing capacity. Add that to the need to rebuild strategic reserves of oil and that suggests a higher floor for energy prices when they do eventually fall back.

Upside-down opportunities

This is an odd period for equity investors, when the normal state of affairs is turned on its head.

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In normal circumstances, equity markets tend to drift up with the attendant risk of sharp drawdowns (the classic ‘equities go up the stairs and down in the lift’ metaphor). Now, for every day that this situation is not resolved, markets will tend to grind lower, but with the attendant risk of a massive squeeze higher if there is a credible cessation of hostilities. As we saw on Monday.

‘Upward drift’ in global equities reversing



Source: FactSet, set to 0 from 24 Mar 24; *including reinvested dividends

At the same time, these events could open the door for more investment in renewables as well as greater impetus behind improving supply-chain security. The world has already had three massive supply-chain alarm bells this decade: covid, the invasion of Ukraine, and the tariff wars. This is the fourth and probably not the last. We have hit the snooze button three times so far. Maybe we’ll get out of bed this time. There should be investment opportunities in that.

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Regional highlights

UK. The Bank of England left its policy rate unchanged at 3.75%, as expected, and signalled continued caution rather than outright opposition to possible future rate cuts. While higher energy prices remain a near-term inflation risk, weaker growth and easing domestic price pressures would normally put downward pressure on rates. Crucially, this episode is viewed as very different from 2022: inflation is less broad-based, fiscal support is constrained, and financial conditions are already relatively tight. Before the Iran war, markets were pricing in as many as three quarter-point base rate cuts this year. Now three increases are expected. To be sure, the BoE will want to maintain its inflation-fighting credibility. But that's a massive shift in expectations that we think has gone too far.

US. The Federal Reserve kept their target Fed Funds rate on hold at 3.75%, with a subtly hawkish tone. The emphasis was firmly on reinforcing a commitment to keeping longer term inflation expectations anchored. While energy prices have prompted a shift in expectations, US markets are not pricing in any rate rises. This reflects growing sensitivity to slowing growth and slowing growth in jobs. The Fed appears determined to avoid repeating the policy errors of 2022 by over-reacting to supply-driven inflation shocks. For now, growth risks remain the key constraint to any sustained tightening.

Europe. The European Central Bank (ECB) also held rates steady at 2%, with communication rather than action doing the heavy lifting. Recent volatility in European bond markets had as much to do with fiscal developments – particularly in Germany – as any change in ECB intent. Policymakers continue to walk a narrow line: maintaining inflation credibility while remaining alert to a fragile growth backdrop. The message is one of patience rather than urgency. Markets are pricing in at least two quarter-point rate increases. Although the ECB hasn't ruled it out, we think any such tightening is unlikely unless inflation pressures broaden materially beyond energy.

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