The situation in the Middle East remains fluid and deeply concerning. The extension of the current ceasefire is unquestionably positive from a humanitarian perspective, allowing vital aid flows to continue and offering civilians a period of relative relief. However, there has been limited meaningful progress in diplomatic negotiations, underscoring how fragile the calm remains and how quickly conditions could deteriorate again.

Tensions have also increased beyond the immediate conflict zone. Iran's characterisation of the blockade as an act of war has heightened regional risk, while commercial shipping activity has been disrupted, with a noticeable reduction in the number of vessels transiting key routes. This has already contributed to higher insurance costs and has the potential to affect global supply chains should the situation worsen, particularly if disruption becomes more prolonged.

There is still understandable caution among investors, but equity markets appear to be looking through much of the current geopolitical noise as they price in a relatively quick resolution rather than a more structural disruption. That said, uncertainty of this kind can still trigger bouts of volatility, particularly across energy, commodities and freight-related assets, where headlines can drive short-term moves and make market timing both difficult and risky.

While there has been no sustained risk-off move to date, geopolitical uncertainty of this kind can lead to sudden volatility, especially in energy, commodities and freight-related assets. Headlines rather than fundamentals tend to drive short-term price movements in such environments, making market timing both difficult and risky.

In this context, we continue to believe that well-diversified portfolios are the most effective way to navigate periods of geopolitical strain. Diversification across asset classes, regions and risk factors helps reduce reliance on any single outcome and provides resilience when events are unpredictable. While heightened tensions can be unsettling, history shows that markets are best approached with discipline, a long-term perspective and a balanced exposure to risk. As investors adopt a degree of complacency around the impact from the Iranian war as they focus on the buoyant expectations from the current earnings season, we see greater risk of potential pull back in equity markets from current levels and have recommended more cautious positioning for the months ahead.

That said, we continue to believe that the most likely medium-term outlook for energy markets remains in our middle scenario in our table of probability – and this could continue for some time.

Scenario	Oil Price	Likelihood
Ceasefire / De-escalation: A ceasefire (or durable stand-down) keeps the Strait of Hormuz open with no material disruption to oil or LNG flows. Markets remain sensitive to headlines, military movements, and political statements, but there is no sustained interruption to	**<$80**	**30%**

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shipments. Energy prices continue to reflect a degree of geopolitical risk, though not one associated with a physical supply shock.		
Protracted escalation: The Strait of Hormuz remains open for limited transit, but repeated interference disrupts shipping for several weeks, reducing traffic and raising costs. This results in a modest supply loss that can be largely offset through storage drawdowns and alternative transport channels.	**$80-$100**	**50%**
Strait of Hormuz closure and escalation: Iran effectively halts transit through the Strait for a meaningful period, forcing large-scale rerouting and an acute energy supply shock. The shock is compounded by direct strikes on energy infrastructure. Inventories are depleted, policy responses intensify, and prices re-rate to reflect a true supply shock.	**>$100**	**20%**

We will continue to monitor developments closely and keep portfolio positioning under review. As always, we remain focused on protecting capital while seeking opportunities that align with long-term investment objectives, rather than reacting to short-term geopolitical noise.

Yours sincerely,

Patrick Farrell

Group Chief Investment Officer