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# Iran update: Straitjacket of Hormuz.

**While there are a significant number of risks associated with military conflict in the Persian Gulf region, the closure of the Strait of Hormuz has policymakers, economists, investors, and other observers very much on edge. Bracketed by Iran to the north and Oman to the south, the 24-mile-wide body of water is a key choke point for roughly a quarter of seaborne global crude oil and a fifth of liquefied natural gas (LNG), according to recent estimates from the International Energy Agency.[1] The temporary loss of a fifth or more of global energy supplies, plus derived products, has suddenly raised the specter of stagflation, or low-to-negative growth combined with rising inflation – a hallmark of the oil embargoes of the 1970s.**

While various technologies have shifted the energy-production mix in recent decades, oil is still characterized (correctly, in our view) as the lifeblood of the global economy. With that metaphor in mind, we can view the closure of the Strait as akin to an arterial blockage. Like healthy blood flow, the movements of oil and natural gas provide many downstream benefits beyond just basic energy, including distillates and other downstream products critical to many economic activities. A 20-25% blockage may not be life threatening to the global economy, but it is certainly going to cause some damage, and the extent of that damage will only increase the longer it remains closed.

**Exhibit 1: Brent crude oil, front month future prices**

*Source: Bloomberg. As of 3/9/2026. Prior high represents past three-year period. Prices in USD.*

[1] https://www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz

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Sharp spikes in energy prices are a well-known and closely studied risk factor for recessions and equity bear markets. A rough rule of thumb holds that a spike in spot crude oil prices above the highest level of the prior three years has typically preceded past recessions. We are at that point now. Higher energy prices also raise the risk of accelerating inflation, although those dynamics are more complicated to model and measure than data around employment and incomes, and are also subject to other important factors such as exchange-rate fluctuations. As concerning as the risks to growth and inflation have become, it's important for investors to remember that market dynamics are still quite volatile and the geopolitical outlook highly uncertain, with far more unknowns than knowns. As a result, we can't place explicit odds on any of the scenarios in front of us and would not counsel making significant, emotionally driven changes to strategic portfolios. We believe a well-designed, diversified portfolio should help investors weather multiple economic, inflation, and market regimes.

Nonetheless, there are a wide range of potential downstream effects for investors to keep in mind as we navigate these choppy waters:

- In many areas, energy storage is reportedly at capacity (arising from a lack of movement, not a lack of inventories) and the resulting production shut-ins will take some time to get back online once traffic resumes.
- There have been some hopeful assertions around alternative shipping routes and supply sources, but these are likely overly optimistic in the near term. Tankers involved in rerouting still require bunker fuel, and a blocked Strait of Hormuz limits supply. Furthermore, some of those alternative routes are still exposed to the Iranian regime's Houthi proxies in the Gulf of Aden and the Red Sea. And while, for example, North American production may be able to pick up some slack (and provide relative insulation for the Canadian and U.S. economies), it won't be nearly enough to replace flows currently frozen in the Gulf. The heavy reliance of many Asian economies on energy exports from the Persian Gulf is likely to bring them into direct competition with other countries (e.g., those of Europe) for other supplies.
- Unlike previous eras, the post-shale-drilling era U.S. dollar is behaving like a petrocurrency in addition to its safe-haven role. Unfortunately, this could exacerbate inflation pressures in countries for which currencies have weakened against the U.S. dollar during the conflict.
- Bond market reactions have been interesting but should be interpreted with care. Shorter-term government yields have moved higher as expected central bank rate cuts have been pushed further into the future. Longer-term yields have risen but had fallen heading into the conflict and are near where they started the year (U.K. gilt yields are a bit higher).
- In addition to risks associated with military conflict and potential terrorism, downstream impacts are numerous and complex.
    - There are worries about fertilizer production and food crops.
    - To the extent Persian Gulf economic activity takes a hit, there will be fewer remittances from expat laborers to other countries, especially in emerging and frontier markets.
    - If the security picture in the Gulf doesn't improve, there could be a loss of human capital within the energy industry.
    - Important manufacturing industries, including semiconductors, could face severe input shortages and experience time offline.
    - Numerous supply chains are likely to be snarled and experience persistent volatility for a time, reminiscent of the uncertainties and upside inflation risks caused by COVID-19-era asynchronous shutdowns and reopenings and Russia's invasion of Ukraine.
    - Republican control of the U.S. House of Representatives and Senate are at risk in this fall's midterms, which could create additional U.S. policy uncertainty.

Of course, this laundry list of bad and worst-case outcomes is by no means guaranteed, and the possibility that things could take a surprisingly positive turn reinforces the importance of not making fear-driven bets with a strategic portfolio. While political views of the Gulf conflict certainly vary, there's near-universal agreement that the Strait of Hormuz can't reopen quickly enough, and it's reasonable to assume that intense diplomatic communication is occurring behind the scenes. There are also strong incentives for many of the nations involved to bring the Strait closure and the broader conflict to a less volatile place.

From an economic standpoint, while sharply higher energy prices are a burden for businesses and consumers, price signals are critically important, as are revenue and profit motives, and consumer flexibility and resilience. Government policymakers and central bankers will have to weigh inflation risks against risks to labor markets, but that's been true since 2020, and has remained the case across a number of global supply shocks in recent years. And for investors, the wisest course of action remains the same—stick with an investment strategy that is well-suited for one's goals and unique constraints and is designed to navigate diverse economic and market environments.

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## GLOSSARY AND INDEX DEFINITIONS

For financial term and index definitions, please see: https://www.seic.com/ent/imu-communications-financial-glossary

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