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Quick Thoughts

Investment Implications of Iran and “Epic Fury”

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Overnight **February 27–28**, the United States and Israel launched coordinated air strikes inside Iran under **“Operation Epic Fury.”** President Trump’s overt **regime-change messaging** raises the odds we’re looking at a sustained **campaign**, not a contained exchange. For markets, the swing factor is whether escalation stays **military-to-military** or migrates into **energy + logistics disruption**, embedding a higher (and stickier) risk premium.

- **No consensus on “post-Islamic Republic Iran” is a real complication:** Even if pressure on the regime mounts, there’s no clear, widely legitimate successor coalition—raising the probability of fragmentation and governance gaps (the scenario regional players fear, Iraq-style).

- **First-order—oil and gas reprice higher:** The immediate impulse is higher crude and natural gas prices—don’t ignore liquified natural gas (LNG). Qatar has the world’s **third-largest LNG export capacity**, and **~20% of global LNG trade** transits the Strait of Hormuz (primarily Qatari volumes), which makes shipping risk a gas-market event as much as an oil-market event.
- **The Strait of Hormuz is the macro circuit breaker:** Full closure of Hormuz is existentially risky for Tehran, but Iran can still cause harassment, seizures, drones, cyber or proxy pressure that keeps the risk premium elevated. In 2024, flows through Hormuz averaged ~20m b/d (~20% of global petroleum liquids consumption)—so even partial disruption (slower transits, reroutes, seizures) reprices via *risk premium* well before physical shortages show up. (Source: [US Energy Information Administration](#))

- **Shipping costs are already moving—insurers are the accelerant:** Insurers are issuing **cancellation notices** and repricing Gulf war-risk coverage; reported increases are **up to ~50%** for some voyages, and prior escalations have seen **~60%+** jumps in key lanes. This is how “effective supply” tightens without wells going offline.
- **Regional spillover risk is rising:** Iran’s retaliatory strikes across the region (including Gulf basing footprints) raise the odds that Arab neighbors get pulled in, unwillingly expanding the theater and making de-escalation harder.
- **Cross-asset—risk premium first, fundamentals later:** The initial market reaction for this type of event would typically see **Treasury yields move lower** and **equities lower**—mostly a risk-premium repricing. Impacts on activity/earnings may be delayed and uneven. The US dollar reaction is not guaranteed; **gold** tends to benefit while **bitcoin** has been trading like a risk asset (i.e., down with equities), reinforcing that it’s not typically a reliable hedge/diversifier in geopolitical drawdowns.
- **Markets often learn “this is short-run” (we are not calling for buy-the-dip yet):** Historically, geopolitics often produce an initial jump in risk premia before investors conclude the aggregate earnings hit is modest. We would not yet label this a clean **buy-the-dip** setup—duration, shipping/insurance mechanics, and the endgame matter more than the first headline.
- **China dimension—and why this doesn’t change Taiwan calculus:** China is central to the Iran story (oil flows, sanctions enforcement, and the geopolitics of regime change and energy prices), but it’s unlikely Beijing’s Taiwan decision-making will pivot simply because the United States is engaged elsewhere. China’s Taiwan calculus is driven by its own strategic “dashboard,” not opportunism off a single external conflict.
- **Investment impact:** Near term, we have a bias toward **energy beta and shipping/insurance beneficiaries** (freight + war-risk repricing) and **defense**, while staying cautious on **energy-import dependent emerging market** exposure and **fuel/logistics-sensitive cyclicals** (airlines, select industrials). For protection, we prefer **oil upside/volatility structures** and selective **gold exposure** over broad equity shorts—the path will be driven more by shipping/insurance reality than by the new cycle.

We will update our Quick Thought as the situation develops. We will also host a webinar on Monday, March 2, with experts to discuss the conflict.

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