

Navigating Geopolitical Uncertainty in the Middle East

Recent geopolitical developments have introduced a new layer of uncertainty to global markets, primarily through their impact on energy prices and interest rate expectations. While markets have shown periods of stabilization, underlying conditions remain fluid as investors assess the potential for a more prolonged disruption.

The rise in energy prices has become the key transmission mechanism across asset classes, contributing to higher volatility and renewed concerns around inflation. This dynamic has led to a reassessment of the interest rate outlook, with central banks signaling caution and markets pricing fewer rate cuts in the near term. At the same time, financial conditions have tightened as front-end yields move higher.

Importantly, market behavior does not currently reflect systemic stress. Investment grade credit remains relatively resilient, supported by higher yields that are beginning to attract demand. Municipal bonds have experienced some pressure alongside rising Treasury yields and increased supply, though this has improved valuations and created more attractive entry points for long-term investors.

One notable feature of the current environment is the absence of a consistent “safe haven.” Traditional defensive assets have not provided the same level of protection, reflecting a market that is simultaneously adjusting to higher inflation risks and tighter monetary policy rather than a sharp deterioration in economic growth.

As we approach quarter-end, technical factors such as rebalancing and positioning may contribute to short-term market movements. While these can support risk assets temporarily, they are unlikely to resolve the underlying macro uncertainty.

At this stage, we continue to prioritize liquidity and flexibility within portfolios. Maintaining higher allocations to cash and short-term securities allows us to respond to potential dislocations and deploy capital more selectively as opportunities emerge.

The prevailing view is that this represents a meaningful but still developing macro shock rather than a structural breakdown. The key risk remains a sustained disruption in energy markets that would place additional pressure on inflation, interest rates, and growth.

Given the fluid nature of the situation, we are monitoring developments closely and remain prepared to adjust portfolio positioning as conditions evolve.

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