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How a prolonged Hormuz blockage shapes the outlook

Disruptions to Middle Eastern energy routes, production and infrastructure – most critically around the Strait of Hormuz – have tightened supply and pushed prices higher. While risks remain elevated, major powers and regional actors have strong incentives to contain the crisis and restore flows. Timing matters: oil supply is being lost every day, rerouting capacity is limited and strategic oil reserves can cushion the shock only temporarily. In our base case, we expect conditions to remain tight but manageable, with a prolonged outage the key risk to growth and inflation.



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Key takeaways

- As the conflict in the Middle East continues, the duration of the disruption will be key to determining how long oil prices remain elevated – and, ultimately, how large the impact on the global economy becomes.
- The Strait of Hormuz remains a key artery for global oil and liquefied natural gas (LNG), and any prolonged restriction here would keep supply tight and amplify price pressures.
- Infrastructure damage is a growing risk the longer the conflict lasts, and outages can have longer-term effects on regional production capacity.
- Supply tightness could build if outages persist, but strategic reserves, demand adjustment and producer responses provide buffers; the risk escalates with duration, not with short lived spikes.
- We have tactically adjusted asset class preferences given the high uncertainty, yet we remain constructive on the overall risk environment.

HOW A PROLONGED HORMUZ BLOCKAGE SHAPES THE OUTLOOK

Conflict in the Middle East has pushed oil prices close to their 2022 peaks, and unlike that earlier episode – triggered by Russia’s invasion of Ukraine – the current crisis affects a larger share of global supply and is creating more complex strain across energy supply chains.

But there are clear geopolitical incentives for key players to stabilise the situation quickly and ensure it does not evolve into a prolonged supply shock. Major global powers, including the US and China, have strong incentives to prevent a lasting blockage of energy flows, given the consequences for growth and inflation. Middle Eastern producers, including Iran, similarly rely on stable oil revenues, creating aligned interests to restore export routes quickly. These political and economic incentives form an important stabilising force.

To frame the dynamics of this crisis, we are monitoring four key areas where stress is most evident:

1. Logistical constraints and the “Hormuz bottleneck”

Historically referred to as the world’s most important oil chokepoint, the Strait of Hormuz handles approximately one-fifth of global oil supply, amounting to around 20 million barrels a day (mb/d). Currently, transit through this corridor is effectively paralysed, despite US plans to escort tankers and provide emergency insurance frameworks.

The gravity of this situation lies in the lack of viable “Plan B” options. According to recent analyst reports, efforts to reroute shipments last week successfully moved only about 0.9 mb/d. Industry estimates suggest that even if all available pipelines and alternative land routes (such as those across Saudi Arabia to the Red Sea) were used at maximum capacity, they could accommodate only 3-4% of the global volume.

2. Targeted risks to vital energy infrastructure

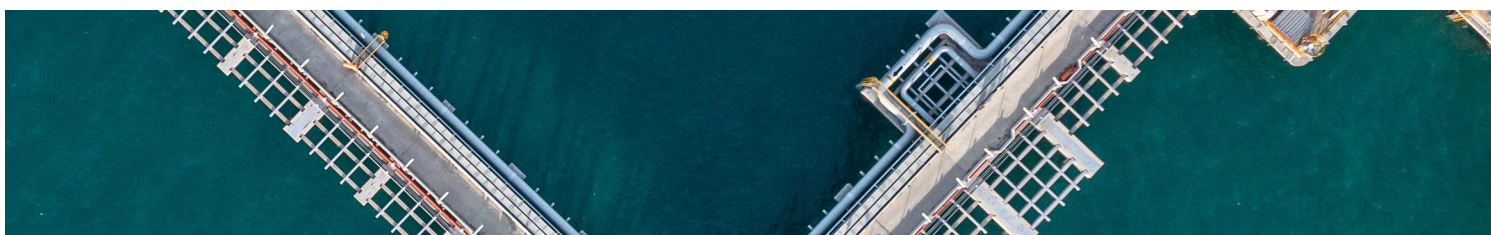
In contrast to earlier shocks where energy infrastructure was mostly avoided, the current conflict has already placed direct strain on several core assets. We have moved from the threat of disruption to a period of sustained operational loss, with key facilities in Iraq, Qatar and the wider Gulf experiencing temporary outages. For the time being, neither the US nor Israel have targeted Iran’s main export terminal at Kharg Island, and Iran has avoided striking its neighbours’ major oil fields or export hubs. The key risk is an escalation that brings these critical sites into the conflict, potentially resulting in longer-lasting damage.

3. The crisis of storage and the physicality of production halts

Storage limitations – regional capacity averages approximately 15 days – are contributing to production cuts across several producers, reflecting the physical constraints of slowing output when export routes are restricted. Without access to the Strait of Hormuz, tanks fill quickly, forcing gradual reductions in output. If the blockage persists for three weeks, many countries will have to halt production entirely.

4. Countermeasures including the Strategic Petroleum Reserve (SPR)

As a countermeasure, the international community is considering the release of emergency oil reserves. According to International Energy Agency (IEA) standards, most countries hold more than 90 days of typical imports in reserves, while highly affected countries like China and Japan hold even larger buffers. Even so, strategic reserves can only dampen short-term volatility if disruptions to Middle East supply persist; they remain a meaningful yet finite tool. And any barrels released will eventually need to be replenished, adding to future demand.



Asset class implications: constructive but selective

For financial markets, the impact depends largely on the duration of the disruption. A sustained supply shortage could keep headline inflation elevated and potentially delay central-bank easing, although underlying demand remains supported in many economies. Equity market impacts are diverse: energy, infrastructure and defence sectors may benefit, while energy-intensive sectors face cost pressures.

We think commodities remain an attractive asset in the current environment, including gold and copper. Elsewhere, we remain constructive on global equities in

multi asset portfolios due to the risk premium linked to the conflict, with a preference for Europe, Japan and emerging markets. In fixed income, we are optimistic on UK Gilts and euro zone sovereigns, while remaining nimble given geopolitical and inflation risks. In FX, our expectation for a lower US dollar has been tempered by conflict-driven dollar strength and we remain tactically flexible.

In summary, although the Middle East conflict has prompted us to adjust some asset class preferences, we continue to see a supportive – albeit more selective – environment for risk assets.

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