InCred Global Wealth

InCred Insights

Middle East update: From shock to prolonged disruption? Energy logistics now the central risk

5 March 2026

Executive summary

- The conflict appears to be moving from an **initial geopolitical shock toward a phase of potential prolonged disruption**, as continued attacks and widening regional involvement reduce the likelihood of a rapid resolution.
- **Energy logistics - not immediate supply destruction - are the primary transmission channel to global markets**, with shipping through the Strait of Hormuz (roughly one-fifth of global oil consumption and over a quarter of seaborne oil trade) representing the key vulnerability.
- The disruption currently resembles a **logistics shock rather than a supply shock**: shipping risk, insurance withdrawal and asymmetric drone attacks can interrupt flows even without major infrastructure damage.
- **Market pricing still assumes disruption will prove temporary**, but that view would likely change quickly if tanker traffic fails to normalise or if attacks begin to affect energy infrastructure more directly.
- For diversified portfolios the main risk is **greater dispersion rather than a single directional market move**, with energy exporters benefiting from higher prices while energy-importing economies and energy-intensive sectors face increasing pressure.

When we wrote to clients on Sunday, oil and equity futures were reacting sharply to the sudden outbreak of conflict between Israel, the United States and Iran. At that stage the central question was whether the event represented a short-lived geopolitical shock or the beginning of something structurally more disruptive.

Several days later, the nature of the conflict appears to be changing. What began as a sudden geopolitical shock now increasingly resembles a slower phase of **prolonged disruption and economic pressure**. The scenarios outlined in our note on Sunday remain the appropriate framework for analysing events (see Appendix 1). What has changed is the balance of probabilities between them.

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outcomes remains wide, but in each case the **primary transmission channel for markets is energy**.

From shock to prolonged disruption

In the immediate aftermath of the opening strikes, markets appeared to assume a relatively brief exchange of retaliation. That assumption now looks less certain.

Iran has continued missile and drone attacks across the region, including against US military facilities and Gulf infrastructure. Israel has widened operations against Iranian-aligned forces in Lebanon while continuing strikes on missile infrastructure and military installations inside Iran.

Neither side has yet signalled a clear off-ramp. Political rhetoric reflects this uncertainty. President Trump has indicated that military operations could continue for several weeks, while Iranian leadership has continued retaliatory strikes despite suffering significant losses to military infrastructure.

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Energy remains the transmission channel

As in most Middle Eastern crises, the economic consequences will be determined primarily through energy markets.

The Strait of Hormuz remains the central point of vulnerability. Roughly one fifth of global oil consumption, more than one quarter of seaborne oil trade, and a similar share of liquefied natural gas exports pass through this narrow waterway.

Oil prices have risen since the conflict began, reflecting the geopolitical risk premium associated with potential disruption to these flows. At present markets appear to be pricing uncertainty rather than confirmed supply losses. The key variable is therefore **duration**.

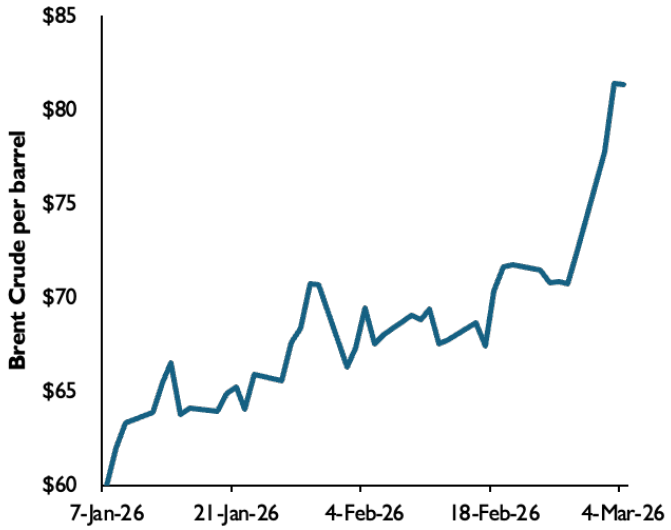


Figure 1: Price of Brent Crude oil per barrel since January 2026
Source: Bloomberg

Temporary disruption can produce sharp price spikes that fade quickly. Sustained disruption eventually affects inventories, inflation expectations and global growth. For that reason, energy markets often react to disruption in logistics well before production itself is materially affected.

This is currently a logistics shock

One important feature of the current situation is that disruption can occur even without significant physical damage to energy infrastructure, although there has been some. Shipping through the Strait of Hormuz has slowed noticeably not because oil production has collapsed, but because the risks of operating in the region have increased dramatically. When insurers withdraw war-risk cover and shipping crews face the possibility of attack, vessels simply stop sailing.

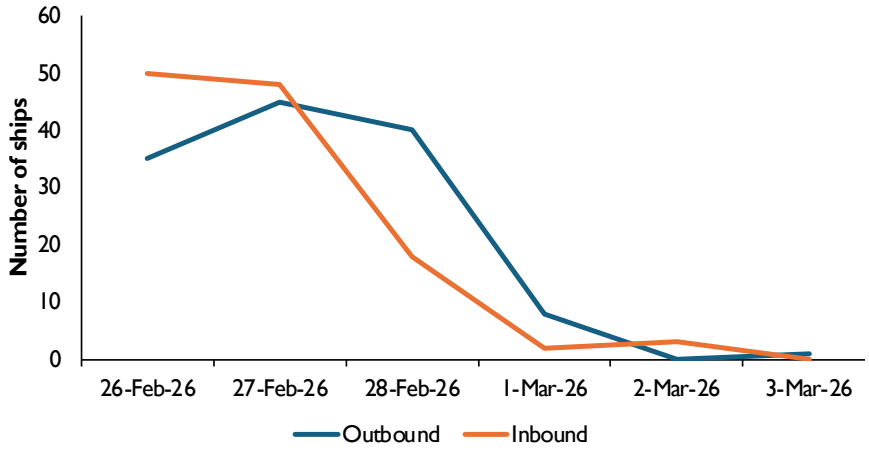


Figure 2: Sharp decline in traffic through the Strait of Hormuz
Source: Bloomberg

In modern energy markets, financial and logistical disruption can halt flows almost as effectively as physical destruction. In this sense the current disruption resembles a **logistics shock rather than a supply shock**.

Logistics shocks can disrupt markets quickly but may also reverse quickly if shipping conditions normalise. Restoring normal flows typically requires either naval escort operations or the re-establishment of commercial insurance coverage, both of which can take time even after the immediate military threat has passed. For now, markets appear to be pricing the former rather than the latter.

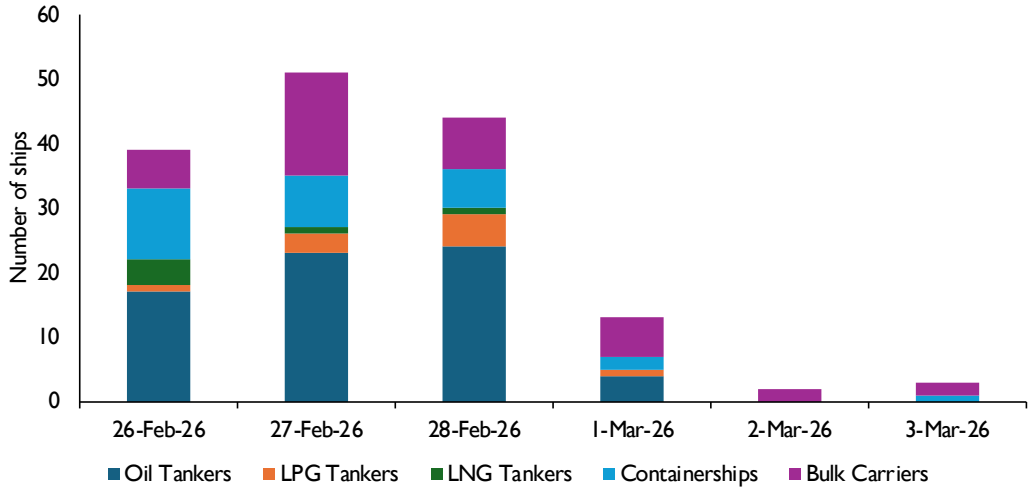


Figure 3: Strait of Hormuz outbound ship traffic collapses
Source: Bloomberg

Fragility in global logistics

This dynamic highlights a broader feature of the modern global economy. Globalisation has created highly efficient but tightly interconnected logistics systems. Energy supply depends not only on production capacity but also on the smooth functioning of shipping networks, insurers, ports, financing arrangements and trading systems. Disruption to a small number of nodes - such as maritime insurance or tanker security - can interrupt flows even when physical supply remains available. This makes the system more efficient in normal times, but also more fragile when shocks occur.

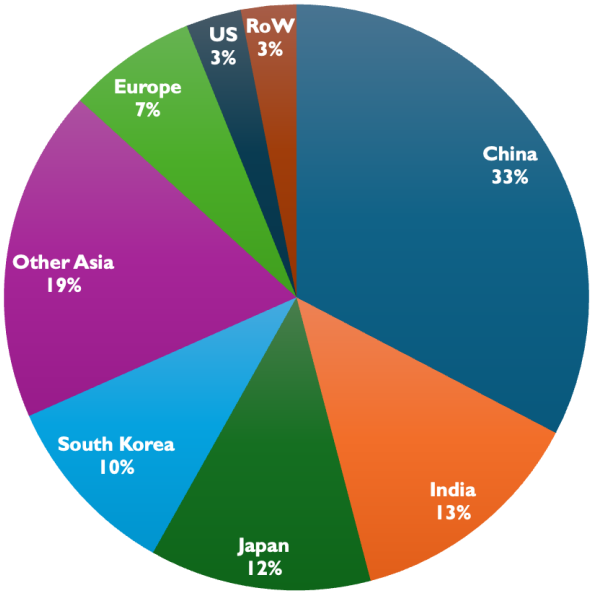


Figure 4: Asia is the primary destination for oil transported via the Strait of Hormuz
Source: Bloomberg

A new economic asymmetry

Another structural feature of the conflict deserves attention. The economics of modern drone warfare favour the attacker. Relatively inexpensive drones can force defenders to deploy multi-million-dollar interception systems to protect infrastructure and cities. This creates a cost asymmetry that allows disruption to continue even when the physical damage inflicted is limited.

Energy infrastructure in the Gulf is particularly exposed to this dynamic. This asymmetry is one reason disruption may persist even without major escalation - the attacker can impose repeated logistical interruptions at relatively low cost, while defenders face significantly higher costs to maintain protection.

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Constraints on escalation

Despite these risks, several structural constraints remain important. Iran depends on the same shipping routes through the Strait of Hormuz to export its own oil. A prolonged closure would therefore impose severe economic costs on the country itself, despite limited alternative export routes that bypass the strait. This creates a natural ceiling on how much disruption Iran can rationally impose. If energy flows stop entirely, Iran loses export revenues alongside its competitors.

Major energy consumers in Asia - particularly China and India - also have strong incentives to prevent sustained disruption to Gulf shipping routes. China's role is especially important. As the largest buyer of Iranian oil and a major importer of Gulf energy, Beijing has a clear interest in keeping shipping routes open while avoiding direct involvement in the conflict.

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These dynamics explain why the Strait of Hormuz has historically been threatened but rarely fully closed. More limited disruption, however, remains plausible.

Iran's leadership transition

Another uncertainty shaping events is Iran's internal leadership transition following the death of the Supreme Leader. Leadership succession introduces an additional layer of unpredictability.

The identity of the eventual successor - and whether power consolidates quickly or fragments across factions - may shape Iran's willingness either to stabilise the situation or to escalate externally during the transition. At present it is too early to determine which path will prevail.

What if the consensus is wrong?

Market pricing currently appears to assume that the conflict will remain contained and relatively short-lived. That assumption may prove correct. Most geopolitical shocks historically fade more quickly than initially feared. However, several less comfortable possibilities deserve consideration.

The United States could escalate further if continued drone attacks threaten Gulf energy infrastructure or US personnel. Internal succession dynamics in Tehran could produce leadership incentives favouring confrontation rather than restraint. And while China has a clear interest in stability, it is far from obvious that Beijing could translate that interest into effective diplomatic leverage.

If markets begin to price these risks more seriously, the shift would likely appear first in tanker charter rates and energy option volatility before spreading to broader asset classes.

What markets are signalling

Market behaviour currently suggests that investors still view the situation primarily as a volatility shock. Energy prices and tanker insurance premia have risen, reflecting logistical disruption. Charter rates for Gulf tankers have increased sharply, while oil option markets continue to imply disruption measured in weeks rather than months.

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However broader indicators such as credit spreads, equity markets and safe-haven flows remain far less stressed than during systemic crises. At present this pricing appears broadly consistent with a logistics disruption rather than a structural energy shock, although that assessment would change quickly if tanker traffic fails to normalise.

What we are watching

Several indicators will determine which scenario ultimately unfolds.

- First, whether tanker traffic through the Strait of Hormuz begins to normalise or remains constrained.
- Second, whether attacks on energy infrastructure become more frequent or more damaging.
- Third, whether additional regional actors become directly involved in the conflict.
- Fourth, how Iran's internal leadership transition evolves in the coming weeks.

Each of these factors could materially change the balance of probabilities between the scenarios outlined earlier this week.

Implications for investment portfolios

For investors, the central question is whether the conflict remains a volatility event or evolves into a structural energy shock.

Energy prices and shipping insurance costs have risen, but broader financial conditions remain relatively stable. Credit spreads have widened only modestly, and equity markets remain close to recent highs. Forward indicators currently suggest markets expect disruption to resolve in weeks rather than months - an assumption that would need to be reconsidered if tanker traffic through the Strait of Hormuz fails to normalise. If disruption proves temporary, the investment consequences are likely to remain limited. Historically, geopolitical shocks that do not materially affect energy supply tend to produce short-lived volatility before markets refocus on underlying economic conditions.

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The implications change, however, if disruption to energy logistics proves more persistent. In that environment the primary impact on portfolios tends to emerge through **dispersion across regions, sectors and currencies**, rather than through a single directional market move.

For **global equities**, sustained increases in energy prices act less as a universal negative and more as a redistribution of income across the global economy. Energy producers and commodity-exporting economies benefit from improved terms of trade, while energy-importing economies face higher costs and margin pressure. Europe and parts of Asia are structurally more exposed to sustained increases in oil and gas prices than the United States. Within equity markets this dynamic tends to produce greater sector dispersion, with energy producers and commodity-linked industries benefiting while energy-intensive sectors such as transport, chemicals and manufacturing face the opposite pressure.

Currencies reflect a similar pattern. In the early stages of geopolitical energy shocks the US dollar typically strengthens as investors seek liquidity and safety. The United States' position as the world's largest oil producer can reinforce this dynamic when energy prices rise. If higher energy prices persist, however, currency performance increasingly reflects terms-of-trade dynamics, benefiting commodity exporters while weighing on energy-importing currencies.

Gold plays a different role within portfolios. Its performance during energy shocks depends on the balance between inflation expectations and real interest rates. While a stronger dollar and higher yields can sometimes limit immediate gains, sustained geopolitical uncertainty and rising inflation expectations historically reinforce gold's role as a portfolio hedge against systemic risk.

Periods in which geopolitical risk affects energy logistics rather than economic fundamentals also tend to increase **volatility across markets**. In such environments maintaining exposure to assets or strategies that benefit from higher volatility can provide useful portfolio convexity.

Sustained uncertainty around energy logistics also highlights the strategic role of **real assets** within diversified portfolios. Infrastructure linked to energy transportation and storage, along with other assets whose cash flows are linked to inflation or commodity activity, often becomes more valuable when energy systems experience disruption.

For diversified portfolios the most important implication is therefore **greater dispersion and higher uncertainty rather than immediate systemic stress**. In such an environment liquidity and diversification become particularly valuable. Maintaining flexibility allows portfolios to respond if disruption to energy logistics begins to affect economic conditions more materially than markets currently expect.

Conclusion: Will disruption fade or persist?

The key question now is whether disruption fades quickly or becomes more persistent. If it does persist, the economic consequences will emerge gradually through higher energy prices, increased inflation uncertainty and widening dispersion across global markets.

For now, markets assume a temporary disruption. If that assumption changes, energy will again become the decisive variable for global portfolios.

About the author

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Appendix 1: Illustrative scenarios

Scenario 1: Contained disruption (oil below $90) Probability: 50%?

What happens
Shipping continues despite higher insurance costs. There is no sustained physical damage to major Gulf energy infrastructure. Escalation remains limited in scope and duration.

Impact on economics and markets
Energy prices rise temporarily but do not establish a new structural range. Growth slows modestly. Inflation edges higher but does not fundamentally alter central bank behaviour.

Equity markets may fall by mid-single digits before stabilising. Energy-related businesses hold up better than transport and consumer sectors. Government bonds initially benefit from investors seeking safety. Credit spreads widen somewhat but remain contained.

How to respond in portfolio
Tolerate volatility, avoid forced selling, and make no structural changes to long-term allocation.

Scenario 2: Prolonged impairment (oil $100-120) Probability: 35%?

What happens
Shipping through Hormuz remains constrained for months. LNG flows into Europe and Asia tighten materially. Insurance remains expensive and restrictive. The conflict does not spiral globally, but it does not settle quickly.

Impact on economics and markets
At these price levels, energy becomes a sustained drag on growth in importing economies. Households face higher costs. Corporate margins compress in energy-intensive sectors. Central banks become more cautious about reducing interest rates.

This is where the central banker's dilemma sharpens. A supply-driven energy shock forces policymakers to choose between tightening policy - which risks intensifying the slowdown already caused by higher energy costs - and holding steady or easing, which risks allowing inflation expectations to drift higher. Either path is uncomfortable for traditional balanced portfolios.

Equity markets could fall by 10 percent or more, with meaningful dispersion across regions and sectors. Energy producers and defence-linked sectors may fare better. Transport, industrial and consumer businesses face pressure. Energy-importing countries - particularly in Asia - would see strain on currencies and trade balances. Long-term borrowing costs could rise if investors conclude that inflation will prove more persistent. Credit markets would demand greater compensation for risk, especially where refinancing depends on stable conditions.

How to respond in portfolio
Review leverage, refinancing exposure and energy-sensitive concentrations - including private credit reliant on rolling bank facilities - and ensure liquidity is sufficient for a more volatile environment. Identify entry points for building exposure to equities.

Scenario 3: Systemic shock (oil above $120)
Probability: 15%?

What happens
This scenario requires sustained physical impairment of Hormuz or significant damage to major Gulf processing facilities. In practical terms, it would represent one of the most material disruptions to global energy flows in recent decades.

Impact on economics and markets
Energy becomes an availability issue rather than merely a pricing issue. Asian importers scramble for alternative supply. Trade patterns shift abruptly. Insurance and shipping restrictions expand. Sanctions and counter-sanctions affect not only physical flows but also trade finance and payment channels.

Equity markets could fall by 15 percent or more. Businesses reliant on stable global trade and low borrowing costs would be most exposed. Credit conditions would tighten materially, and refinancing would become more difficult. Long-term borrowing costs could rise if investors question whether inflation will remain contained.

Central banks would face a credibility test. Tolerating higher inflation risks unsettling expectations - tightening into weakness risks deepening contraction. Either path implies a more fragile backdrop for asset prices.

How to respond in portfolio
Prioritise structural resilience - liquidity, prudent leverage and diversification - to ensure the portfolio can withstand extended stress without forced decisions. At the same time, systemic repricing historically creates some of the most compelling long-term opportunities. The goal is to remain financially secure enough to act when others cannot.

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