InCred Insights

Special update: Iran - energy shock or structural instability?

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The removal of Iran's Supreme Leader and the widening exchange of strikes across Israel and the Gulf represent a serious escalation. This is not another short-lived episode that markets quickly absorb and forget. A leadership transition in Tehran under direct military pressure alters incentives and raises the risk that the confrontation is framed as existential rather than tactical.

It is easy to focus on the impact on the oil price. For long-term investors, however, the more important question is whether this remains a temporary energy disruption - or evolves into something deeper: a period in which key energy routes, financial channels and regional stability assumptions become less reliable.

We examine some scenarios below - the probabilities used are indicative and are intended to inform decisions, rather than as precise forecasts.

Why the Strait of Hormuz matters

Around one-fifth of global petroleum liquids consumption and a similar share of liquefied natural gas move through the Strait of Hormuz.

Around one-fifth of global petroleum liquids consumption and a similar share of liquefied natural gas move through the Strait of Hormuz. More than four-fifths of the crude that transits this route is destined for Asia - primarily China, India, Japan and South Korea. Europe is more exposed through LNG pricing. The United States is far less physically dependent on Gulf energy than in prior decades but remains exposed through global benchmarks and financial markets.

The vulnerability is not Iran's own production. It is the concentration of global flows through a narrow maritime corridor. Shipping does not need to be formally "closed" to tighten supply. If insurance is withdrawn, or if the risk to crews becomes unacceptable, vessels pause. That alone can reduce effective supply and lift prices.

Strategic petroleum reserves and non-Gulf production provide a buffer against short-lived disruptions. They are unlikely to offset sustained impairment of Hormuz flows. Higher energy prices feed into inflation, confidence and policy decisions. The speed of transmission is predictable. The duration is not.

Three potential 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.

Structural consequences beyond oil

Erosion of the Gulf's stability premium
The Gulf's economic strategy - including Saudi Arabia's Vision 2030 and comparable diversification efforts in the UAE - rests on continued energy revenues, foreign investment and a reputation for stability. These development plans assume that the region can modernise while remaining insulated from sustained conflict. If that perception weakens, financing costs rise and foreign investment slows. The consequence is not immediate collapse, but a gradual erosion of long-term economic assumptions underpinning the region.

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Impact on Asia's strategic position
Because the majority of Hormuz crude flows to Asia, China, India, Japan and South Korea face the fastest transmission of disruption. Their response matters. They may apply diplomatic pressure for de-escalation, or they may prioritise securing supply through bilateral arrangements. Either path introduces geopolitical complexity and potential strain in international alignments.

Strain on trade finance and settlement systems
Sustained conflict increases the likelihood of friction in trade finance, insurance and cross-border payment systems. Once these channels tighten, stress migrates from commodity markets into credit and capital flows. That is when a price disturbance evolves into a broader challenge to financial reliability.

What would change the assessment

The base case remains contained disruption. Reassessment would be required if we observe:

- Sustained collapse in tanker traffic through Hormuz.
- Credible evidence of mining or effective closure of shipping lanes.
- Direct and repeated targeting of major Gulf processing facilities.
- Escalation that materially impairs trade finance or cross-border payment channels.

Absent these developments, the shock remains disruptive but absorbable.

Conclusion: Adopting a longer-term perspective

For wealthy families, the relevant question is not the next movement in oil prices. It is whether the architecture that supports global energy flows, trade and financial settlement becomes less reliable.

- If this remains contained, patience and liquidity are sufficient.
- If it evolves into prolonged impairment, resilience and diversification become more important than tactical positioning.
- If it becomes systemic, preserving optionality and ensuring that capital structures are robust under stress becomes decisive.

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Periods of uncertainty also create opportunity. When risk is repriced broadly, high-quality assets are often available on more attractive terms. The advantage of patient, well-structured capital is the ability to remain secure enough to act when others are constrained.

The coming weeks will determine whether this episode is remembered as a sharp but temporary disturbance, or as the beginning of a more durable shift in geopolitical and financial stability. Our role is not to predict the path with precision, but to ensure that capital remains resilient - and prepared - under either outcome.

About the author
Nick Perryman is Vice Chairman at InCred Global Wealth Limited and Chairman of its Investment Committee. He has over 25 years of investment and wealth management experience, holds advanced qualifications in investment management, financial planning and psychology, and was previously a managing director at UBS where he was head of its international business in London and before that head of investment products and services. He is a doctoral researcher at Durham University and an honorary fellow of Royal Holloway, University of London. He is co-author of the book, "Leadership in Wealth: Mastering the opportunities of wealth in your family, firm and society"

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