

Special Coverage

Middle East tensions escalate

Key takeaways

- ◆ Israel launched an assault on Iran and Iran has retaliated as a result. The situation continues to evolve. We do not take a view as to how the situation may develop.
- ◆ For markets, the immediate reaction is a spike in risk premia, though the moves were generally relatively mild. The biggest reaction was for Brent crude, which rose from USD70/bbl to USD78/bbl before easing somewhat to USD75/bbl at Friday's close on 13 June. Stocks were weaker, with only the energy sector rising. Gold benefitted, but government bonds were mixed (as higher oil prices lifted inflation expectations) and the currency markets saw a mild flight to quality.
- ◆ Markets may for now be taking comfort from the fact that the oil market is well supplied. However, a protracted and widening conflict, especially if oil supplies were interrupted, could lead to higher inflation and lower risk appetite and could negatively affect growth in the region and parts of Europe. If not, we think risk premia could fall back in coming weeks. We focus on diversification through multi-asset and active strategies to mitigate market volatility.



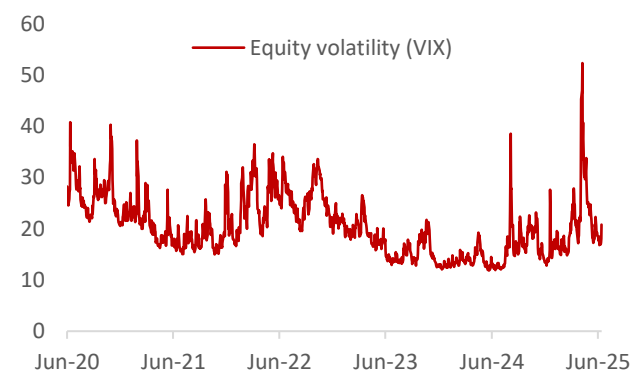
Willem Sels

Global Chief Investment Officer,
HSBC Private Bank and Premier
Wealth

What happened?

- After the Israel-Iran conflict intensified, the Brent crude oil price surged for a short period from USD70/bbl to USD78/bbl before easing somewhat to USD75/bbl at Friday's close on 13 June. The global oil market has been in a supply / demand deficit since early 2024, but weaker-than-average global economic growth, together with the accelerated output hikes by the Organisation of the Petroleum Exporting Countries (OPEC+) members (principally Saudi Arabia and Russia), are likely to lead to a small surplus in Q2, rising to a significant oversupply in Q1 2026. In August 2025, we may already see a 411k bpd increase in output, followed by 274k more production in September. In anticipation, oil prices have been falling, helping ease global inflation measures.
- Amid this context of oversupply, the conflict could raise some supply concerns, but OPEC+ members still have spare capacity of around 5mn bpd, which should ease those concerns. This is more than the entire current Iranian crude supply of 3.4mn bpd (almost all of it goes to China).

The spike in equity volatility has so far been mild

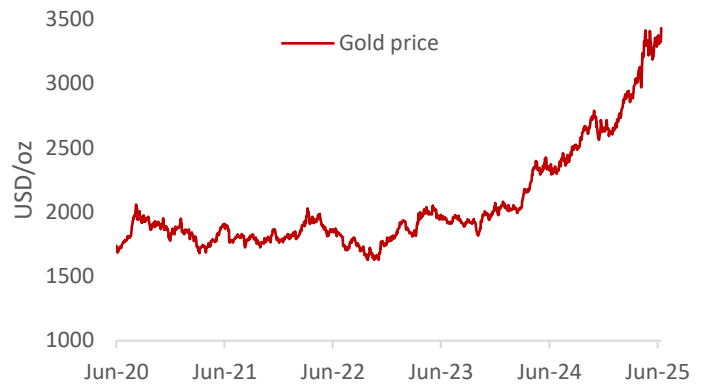


Source: Bloomberg, HSBC Private Bank and Premier Wealth as of 15 June 2025. Past performance is not a reliable indicator of future performance.

Investment implications

- Risk premia typically move very quickly, but the lasting impact on markets depend on whether global fundamentals are significantly affected.
- A primary concern will be the impact on global inflation. This would require an extended period of higher oil prices – for example as a result of a protracted conflict and an interruption in supply that cannot be offset by higher production elsewhere.
- While central banks usually look through oil price spikes and do not alter their policy, it could negatively affect consumers' purchasing power and confidence. That said, we think the tariffs, rent and services prices are other key factors that influence the inflation outlook.
- We expect the Federal Reserve to make only minor changes in its economic forecasts when it meets this week, lifting core PCE inflation forecasts to 2.8% this year and trimming GDP expectations to 1.5%. Although we expect no change in policy rates throughout the summer, policy rate cuts are likely to resume in September. As such, any spikes in government yields can be seen as buying opportunities and we maintain our preference for quality bonds to minimise spread volatility.
- We emphasise portfolio resilience and achieve this through portfolio diversification, active management, a focus on quality assets and long-term thematic investments, which help look through short-term volatility. It is no surprise that gold is benefitting from the uncertainty and we remain overweight on gold.

We maintain our overweight view on gold



Source: Bloomberg, HSBC Private Bank and Premier Wealth as of 15 June 2025. Past performance is not a reliable indicator of future performance.

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