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UOB Investment Insights

Market Update

15 April 2024

Key takeaways

- Iran launched a retaliatory attack on Israel on 14 April 2024.
- The most immediate impact is higher oil prices due to the risk of oil supply disruption from the Middle East.
- Focus on meeting long-term financial goals by building a resilient portfolio with Core investments such as multi-asset strategies and investment grade bonds.

Impact on investments as Middle East tensions escalate

In retaliation to Israel's airstrike on the Iranian consulate in Syria on 1 April, Iran launched more than 300 ballistic and cruise missiles as well as attack drones at Israel on 14 April 2024. The vast majority of missiles and drones were intercepted by Israel and its allies. Even though damage was minor, the attack raised concerns of broader and deeper conflict in the Middle East.

Symbolic retaliation did minimum damage

- The attack was widely expected over the past week, with the United States (US) warning of Iranian retaliation, while the Wall Street Journal reported a strike was imminent.
- Considering these early warnings, it appears to be a symbolic message of retaliation that did minimum damage as the well-choreographed move enabled Israel and its allies to prepare for the attack.
- Iran also hinted it does not wish to escalate tensions further, saying the matter "can be deemed concluded" after the attack though warned the US to stay out of the conflict.

Will the tense situation worsen?

- This depends on Israel's response.
- Early indication is that Iran does not wish to escalate tensions further.
- It has also been reported that the US will neither participate in nor support offensive operations against Iran, preferring to ensure regional stability by protecting Israel's defence.

Immediate impact on investments

- Investor caution has risen and market volatility is expected in the short-term.
    - Immediate impact is higher oil prices due to the risk of oil supply disruption from the Middle East.

    - Should Iran block the Straits of Hormuz, it could potentially choke off twenty-one million barrels a day or approximately 21% of the world's consumption.

    - Investors seeking safety will initially boost the price of Gold, US Treasury bonds (UST) and support the US dollar (USD).

- A sharp increase in oil prices could reignite expectations of inflation and see rate cuts postponed.
- However, risk aversion is likely to be short-lived and market sentiment is expected to stabilise if the conflict does not escalate.

What you can do

- Review your portfolio for risk if you hold outsized and concentrated Tactical allocations.
- Focus on meeting long-term financial goals by building a resilient portfolio of Core investments.
- This includes multi-asset strategies which diversify investments across different asset classes, regions, and sectors. They can also help lower portfolio volatility.
- Consider bond funds and investment grade bonds that can stabilise portfolios during market volatility. They also pay attractive yield and can offer potential capital appreciation when central banks start to cut interest rates later this year.
- If you are willing and able to take risk, consider Tactical ideas in global healthcare, Asia ex-Japan and ASEAN. Accumulate quality growth and dividend-paying stocks when they are cheaper.
- Speak to a UOB Advisor to build a portfolio that meets your investment goals.

Right By You

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