When the Strait is the story, don’t let headlines steer your portfolio

- **Control of the Strait of Hormuz is now the defining variable of the Middle East conflict and the primary driver of global macro volatility.**
- **A ceasefire without credible maritime normalization risks becoming simply a pause, not a pivot.**
- **Portfolios should emphasize diversification, liquidity buffers, and disciplined process over headline-chasing.**

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Strait of Hormuz as a global macro hinge

The Strait of Hormuz is one of the world’s most consequential energy chokepoints, funnelling nearly one-fifth of global oil exports and a major share of LNG flows. According to UNCTAD, around 15mbpd of crude and 5mbpd of refined products pass through this narrow corridor, with 80-89% of volumes heading to Asia. China and India alone absorb over 40%, while Japan and South Korea depend on the route for the vast majority of their crude imports. Even the US sources roughly 7% of its consumption through Hormuz. It is important to note that the Strait of Hormuz also serves as a critical maritime artery for a broader mix of Gulf exports. Any disruption to Hormuz affects not only hydrocarbons but the wider ecosystem of Gulf-linked trade – industrial inputs, petrochemical derivatives, and manufactured goods that rely on the same shipping lanes and insurance structures.

Disruptions over the past month have already contributed to soaring oil and gas prices, rising freight costs, and renewed inflation pressures. Control of the Strait is now central to the evolving Iran conflict, with markets likely viewing every single geopolitical headline through the Hormuz lens. As we have seen already, a closure – or even partial degradation – of the Strait of Hormuz would trigger a global stagflationary shock. Trade flows would slow as Asia – recipient of 80–89% of Hormuz crude – faces supply delays, rerouting costs, and higher insurance premia. Such disruptions weaken currencies and raise external financing costs, particularly for emerging markets. Growth would deteriorate globally as higher energy prices, if they persist for a prolonged period, compress real incomes and tighten financial conditions. So, violation of the ceasefire reached on April 8, 2026 or further escalation could exacerbate the ongoing global stagflationary shock, embedding structurally higher inflation and weaker output.

For Middle East and North Africa, a Hormuz disruption is a direct macro shock, transmitted through exports, fiscal balances, external accounts, and confidence. Pre-war, the GCC and Iraq exported 16.5mbpd of crude through Hormuz; by end-March, this had fallen to 8.25mn bpd (according to Bank of America Global Research). Saudi Arabia diverted 5mbpd via the East-West pipeline, the UAE 1.5mbpd via Habshan-Fujairah, and Iraq 0.4mbpd via Ceyhan – but these alternatives cannot fully replace Hormuz capacity. In case of a prolonged disruption to the Strait, GCC faces both growth and inflation shocks, with major economies in the region likely to experience sizable hits to their non-oil GDP through their vulnerable exposure to logistics, real estate, and transport. Fiscal pressures will rise as governments prioritize defense, food security, and bypass infrastructure costing. Countries with deep buffers are better placed to face this acute vulnerability.

Accordingly, we think the Strait of Hormuz has shifted from a background geopolitical variable to a front-line portfolio risk factor, and the change has been both sudden and structural. What makes Hormuz more important to portfolios now is not just the volume of throughput at stake, but the nature of the shock. As such the conflict has already entered a phase where control of the Strait becomes the determining variable. For investors, this transforms Hormuz from a tail risk into a central scenario driver. And tying this to the ceasefire agreement reached between the US and Iran on April 8, 2026, we formulate three scenarios on the potential near-term implications for macro and asset classes. Under all three scenarios one variable dominates – the speed and credibility of reopening the Strait of Hormuz.

Ceasefire scenario matrix centred around the Strait of Hormuz

Scenrio#1: Temporary Pause (probability: 40–55%)

A ceasefire holds, but Hormuz remains shut or partially restricted. Rhetoric cools, but structural risks stay elevated. Ceasefires are often used as tactical breathing space. Both sides gain time: the US to manage political pressure and Iran to preserve leverage via Hormuz. This scenario fits historical patterns of "pause without resolution." In our view, a pause without reopening Hormuz buys time but not stability. Here, markets should remain headline-driven and volatile - something we have experienced over the past five weeks.

Scenario#2: Partial Reopening of Hormuz (probability: 25-35%)

Iran agrees to a monitored safe-passage protocol; shipping resumes gradually under international supervision. Requires alignment among US, Iran, GCC states, and China at the UN. We assign lower probability because reopening Hormuz reduces Iran's leverage and requires verification mechanisms which may be difficult to put in place. However, this is the market's preferred scenario – likely to result in a clean relief rally with durable follow-through.

Scenario#3: Breakdown in Talks (probability: 20–30%)

Ceasefire collapses; US resumes strikes on Iranian power plants, bridges, or ports. Iran retaliates via proxies; Hormuz remains shut with the increasing risk of closure of the Bab al-Mandeb Strait. High-stakes brinkmanship carries real tail-risk. Markets often price this as a fat-tail scenario: not the base case, but too plausible to ignore given rhetoric, military posture, and incentives. This is the stagflation scenario – the one central banks fear most and markets are not priced for.

See exhibit 1 for the summary of the scenarios and our expected behaviour of macro and market variables under each.

Implications for investors

Even as markets oscillate between ceasefire headlines and shipping-lane speculation, the investment message is clear: geopolitical risk remains structurally elevated, and portfolios must be engineered for resilience rather than precision forecasting. Strait of Hormuz can quickly shift from "stable" to "stressed" (and perhaps back), with immediate spillovers into energy prices, freight costs, inflation dynamics and global funding conditions. In an environment where a few nautical miles can reprice macro variables, investors are better served by discipline over narrative-chasing. That means maintaining diversification across asset classes, geographies and risk premia; preserving adequate liquidity buffers; and avoiding concentrated exposures that hinge on a single geopolitical outcome. It also requires adherence to a repeatable investment process instead of reacting to every incremental headline. For our most recent strategic and tactical asset allocation, and cross-asset focus ideas, see Tactical Asset Allocation, March 27, 2026.

Exhibit 1: Our ceasefire scenario matrix is centered around how the Strait of Hormuz shapes the trajectory of global growth, inflation, oil prices, and various financial market variables

Asset Class / Macro Variable	Scenario 1 Temporary Pause (40–55%)	Scenario 2 Partial Reopening (25–35%)	Scenario 3 Breakdown in Talks (20–30%)	Probability-Weighted Impact
	Ceasefires are often used as tactical breathing space. Both sides gain time: the US to manage political pressure and Iran to preserve leverage via Hormuz. Fits historical patterns of “pause without resolution.”	Requires alignment among US, Iran, GCC states, and China at the UN. Lower probability because reopening Hormuz reduces Iran’s leverage and requires verification mechanisms to be put in place.	High stakes brinkmanship carries real tail risk. Markets often price this as a “fat tail” scenario: not the base case, but too plausible to ignore given rhetoric, military posture, and incentives.	
Global PMIs	Stabilize near 50-51	Rebound to 52-53	Fall to 48-49	**c50.5** Momentum soft but not collapsing
Inflation	Elevated; energy-driven	Peaks then moderates	Re-accelerates sharply	**Sticky** Energy shock dominates
Growth Outlook	Slows modestly	Rebounds	Contracts in Europe/Asia	**Weak but not recessionary**
Brent (USD/bbl)	105-115	90-100	130-150	**95-115** Elevated, volatile, skewed upside
US 10-year Yield (%)	4.30-4.45	4.00-4.20	4.50-4.80	**c4.35** Higher and volatile; cuts priced out
US 2-year Yield (%)	3.80-4.00	3.40-3.60	4.20-4.50	**c3.85** Fed on hold; inflation risk premium persists
Dollar Index (DXY)	99-101	96-98	102-105	**c100** Neutral to firm; mild safe-haven bid
Euro (EUR/USD)	1.15-1.17	1.18-1.21	1.12-1.14	**c1.16** Energy-sensitive; capped by inflation risk
Yen (USD/JPY)	158-161	152-156	165-170	**c159** Intervention risk remains elevated
Gold (USD/oz)	4,650-5,100	4,400-4,900	4,900-5,300	**c4,900** Inflation hedge + geopolitical premium
S&P 500	-2% to +2%	+5% to +10%	-10% to -15%	**Flat to slightly negative** Relief rallies capped by energy shock
MSCI EM (USD terms)	-3% to +1%	+6% to +12%	-12% to -18%	**Mildly negative** FX volatility + oil shock drag

Source: ADCB Asset Management

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