Investor insights

Conflict in the Middle East and outlook

VINTAGE asset management

March 2026

Introduction and broader context

Recent developments in the Middle East come against a backdrop of evolving global political and economic policies, particularly in the United States which has increasingly favoured protectionism, supply chain realignment and revised national security priorities. While the precise path of future events is uncertain, our investment outlook has at its core the view that markets are adapting to a structurally higher cost of capital with inflation remaining above central bank targets.

Observations from the conflict

The conflict highlights several important structural trends already underway:

- Continued erosion of the rules-based international order leading to a reassessment of strategic priorities by major powers, particularly in China and Europe
- Growing need for investment in independent security capabilities
- Disruption to energy and commodity markets and adjustment of trade routes
- Acceleration of competition across defence, technology, space and resources
- Increasing self-reliance in energy and food production.

Implications for markets and the economy

These dynamics are likely to reinforce existing macroeconomic factors:

- Higher energy prices generally are likely to feed into higher levels of inflation than recently forecast
- Government finances will remain stretched with limited appetite for austerity given strategic priorities
- Sovereign borrowing costs will increase gradually
- Commodity markets will become more significant, if increasingly fragmented
- We will see increased state-directed investment into strategic sectors such as energy, defence, physical infrastructure and technology
- Capital will move to support domestic investment

The impact on longer-term economic growth will be dependent on how prolonged the conflict proves to be. If it is soon resolved we expect global economic growth, corporate activity and relatively robust liquidity to be supportive for markets generally, allowing for short-term disruption.

Portfolio positioning

Against this backdrop the portfolios we manage remain positioned with an emphasis on resilience and diversification:

- Fixed income: favouring short-dated, higher-quality and inflation-linked bonds
- Equities: neutral overall, with an underweight to the US and a preference for Europe and Emerging Markets set to be supported by trends in fund flows
- Sectors: focus on technology and natural resources
- Alternatives: preference for commodities, gold, trend-following and absolute return strategies
- Cash: still relatively modest

Key expectations and monitoring

Our central expectation remains one of a structurally higher rate of inflation and cost of capital, with price increases unlikely to return to central bank targets in the near term.

A more prolonged conflict would increase input costs, weaken demand and place greater pressure on corporate profitability and growth. Conversely, a quick resolution should limit longer-term economic disruption, as companies adapt, and given positive liquidity conditions.

We continue to monitor developments closely and will adjust portfolios as needed, while maintaining diversification across asset classes, regions and sectors as a core investment principle.

Your attitude to risk

We manage portfolios within a risk envelope and asset allocation framework that is appropriate for a client's risk profile.

Whilst we would countenance riding shorter-term volatility in the context of longer-term investment, should your circumstances or attitude to risk change, or you would like to amend the investment mandate, please do contact us or your financial adviser.