

Middle East tensions rise: What it means for you

June 2025

Tensions in the Middle East escalated sharply over the weekend, as the long-standing conflict between Iran and Israel intensified.

In a significant development, the United States launched airstrikes on three of Iran's nuclear facilities – Fordow, Natanz, and Isfahan – early Sunday morning. The operation, named "Midnight Hammer", involved the deployment of 14 bunker-buster bombs, targeting suspected underground nuclear infrastructure.

The strikes mark a major escalation in the region, with the US now directly involved in military operations. President Trump, in a series of social media posts, described the mission as a success. Iran's response so far has been limited, with a small number of missile and drone attacks launched against Israel.

The situation, however, remains fluid and we are monitoring developments closely for signs of further escalation or diplomatic resolution.

Oil, inflation and market sensitivity

Markets have responded cautiously to the news, with equity and bond markets weakening only modestly. Importantly, interest rate expectations in the UK, US, and Europe remain largely unchanged, suggesting central banks are not yet adjusting their outlooks in response to these events.

However, the most immediate risk is the potential impact on oil prices. A key concern is whether Iran may attempt to close the Strait of Hormuz, a vital shipping lane through which around 20% of global oil supply flows. A disruption here could significantly reduce global supply and push oil prices higher.

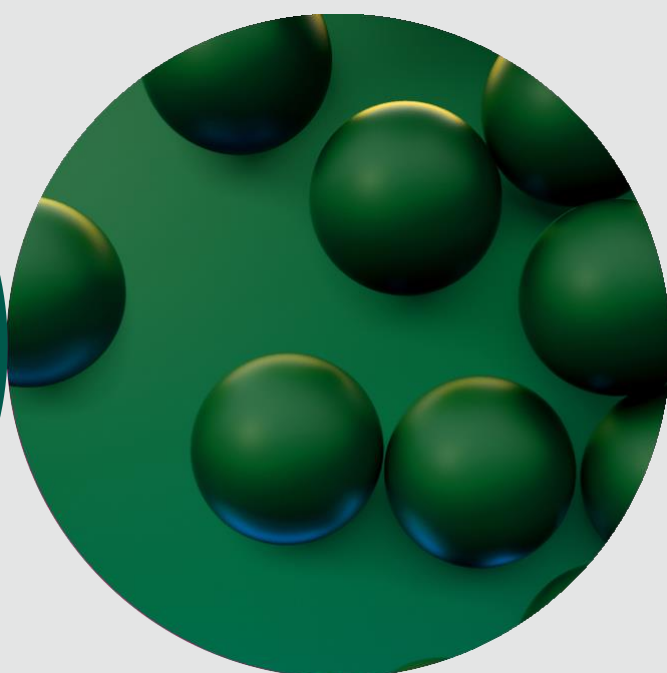
This, in turn, could fuel global inflation and lead to central banks to maintain interest rates at elevated levels for longer. A "higher for longer" scenario could weigh on global growth and put pressure on both equity and bond markets.

There are, however, important stabilising factors. China receives nearly 50% of its oil imports through the Strait, which may prompt diplomatic pressure from Beijing to keep the route open. The area is also a heavily-patrolled zone by Western naval forces, specifically to prevent such disruptions.

Staying focused on the long-term

While geopolitical events can cause short-term volatility, history shows that markets often stabilise once the initial uncertainty passes. At Aberdeen, our MPS solutions are built with diversification at their core to help cushion portfolios against unexpected shocks. For example, infrastructure assets, used within our portfolios, tend to perform well in inflationary environments, offering a degree of protection if inflation rises.

We remain focused on delivering strong long-term outcomes and will continue to keep you informed as the situation evolves.



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