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INVESTMENTS

IRAN CONFLICT UPDATE: IMPACT AND POTENTIAL OUTCOMES

By PPS Investments

As the Iran conflict enters its fifth week, markets remain on edge as developments extend beyond headlines and into the global economy. The closure of the Strait of Hormuz is pushing energy prices higher, with these increases beginning to affect consumers directly. The key question is how long the disruption will last and whether its impact can be contained.

TRUMP'S CONNUNDRUM

President Trump finds himself in a politically challenging position, with growing domestic pressure to end the conflict as the cost of living begins to rise. However, exiting the Iran conflict is likely to prove difficult. There is no straightforward agreement that would return all parties to the pre-February status quo and the outcome is not fully within US control. Iran retains significant leverage, including their ability to control traffic in the Strait of Hormuz, while reported Iranian demands remain difficult for both the US and Israel to meet.

Republicans are heading into the November midterm elections defending slim majorities and there is a material risk that a prolonged conflict could result in them losing control of Congress. This risk is expected to strongly motivate Trump to pursue an end to the conflict as soon as possible.

Table 1: Possible scenarios on the outcome of the Iran conflict

SCENARIO 1: A QUICK END	SCENARIO 2: A MANAGED CONFLICT	SCENARIO 3: WIDER DISRUPTION
• A negotiated pause or complete de-escalation. • Markets likely to recover relatively quickly. • Some short-term pains likely while energy infrastructure and logistics recover.	• Contained conflict with back and forth strikes. • Sea trade remains constrained. • Inflation likely to increase over the medium-term. • Rate cutting cycle ends, possible rate hikes.	• Escalation that causes prolonged closure of Hormuz and destruction of key infrastructure. • Oil & gas prices see further increase. • Global recession likely. • Cost of living crisis.

For now, the most probable outcome is either a quicker resolution or a managed stop-start conflict that avoids broader regional escalation. Political and economic pressure on the US to de-escalate tensions is increasing as fuel prices, financial markets and Trump's approval ratings come under scrutiny. A major escalation appears to be the least likely outcome, not because risks have decreased, but because such an outcome would significantly exacerbate domestic pressures on the Trump administration, which they will be keen to avoid.

IMPACT ON INVESTORS

The current economic environment can make diversification feel less effective, as inflation shocks can place pressure on both bonds and equities simultaneously. However, maintaining a strategic allocation across asset classes and geographies remains important. During risk-off periods, the rand can act as an amplifier. A weaker currency may lift imported inflation, but it also increases the rand value of offshore assets, reinforcing the role of global diversification within portfolios.

Markets have navigated major geopolitical shocks before. The Russia–Ukraine war in 2022 triggered an acute energy and inflation shock, yet markets and economies adapted over time as supply chains adjusted and policy responses evolved. It remains important to focus on underlying resilience, including the fact that corporate earnings expectations have, to date, remained relatively robust despite higher energy prices. Strong fundamentals are likely to support recovery once the conflict comes to an end.

FOCUS ON THE LONG-TERM

Although this decade has delivered an unusually high number of market shocks and periods of volatility, it has also reinforced a powerful investment lesson. Investors who remained focused on long-term objectives and stayed invested have been rewarded for their discipline. From January 2020 to 30 March 2026, the JSE All Share Index delivered an annualised return of 15.59%, while global equities returned 14.31% per annum.

The investment approach remains disciplined and deliberate. Markets and potential scenarios continue to be monitored closely, with portfolios stress-tested to ensure positioning remains appropriate for clients' time horizons and objectives.