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Geopolitical Update: Staying Focused Amid Evolving Risks

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Key Takeaways

- **Markets are balancing a potentially contained timeline with ongoing escalation risk following President Trump's latest remarks.**
- **Energy markets remain the primary transmission channel, with the Strait of Hormuz a critical focal point.**
- **While inflation may rise near term, the longer-term risk could shift toward growth if higher energy costs weigh on consumers.**
- **We expect continued headline-driven volatility, with disciplined positioning remaining key.**

A month into the Iran conflict, markets are balancing two competing forces: the risk of further escalation and the possibility that the most acute phase of disruption could resolve within weeks. In his address last night, President Trump stated that U.S. objectives were "nearing completion," and suggested operations could conclude within "two to three weeks," while also warning that strikes would continue "extremely hard" in the interim. That combination provided some reassurance on timing, but not enough clarity to calm markets.

Initial Market Reaction

After earlier hopes of de-escalation pushed oil prices lower and equities higher on March 31 and April 1, the more forceful tone of Trump's remarks reversed some of that optimism. By Thursday morning, Brent crude moved firmly above $100 per barrel,[1] global equities weakened, and U.S. interest rates moved higher.

From an economic perspective, the Strait of Hormuz remains a key concern. Roughly 20% of global petroleum liquids flow through this corridor,[2] meaning even limited disruption can have an outsized impact on oil, diesel, shipping, and inflation-sensitive assets. As we noted in our commentary in March, Middle East conflicts tend to transmit through energy markets first—a dynamic that remains firmly in place.

[1] SOURCE: BLOOMBERG

[2] SOURCE: U.S. ENERGY INFORMATION ADMINISTRATION (EIA)

What We Are Watching

VOLATILITY AND RISK SENTIMENT

Near-term moves are likely to remain driven more by headlines and uncertainty than by changes in underlying economic data.

ENERGY MARKETS

Uncertainty around the Strait of Hormuz may continue to support elevated oil prices. While efforts have been made to offset supply disruptions, global inventory buffers have been declining, suggesting these measures may provide only temporary relief. Notably, Brent crude futures for July are nearly $10 below June levels, indicating markets are pricing near-term constraints while expressing some optimism that the conflict could move toward resolution over time.

INFLATION SENSITIVITY

Higher energy prices are likely to push up headline inflation in the near term. However, as Fed Chair Powell recently noted, the duration and magnitude of these effects remain uncertain, and the Fed is in a "good place" to wait and see how the shock affects inflation and growth, rather than reacting right away. The Fed typically "looks through" energy-driven shocks as long as inflation expectations stay anchored.

IMPACT ON GROWTH

If the conflict persists, the narrative may shift from inflation toward growth. The labor market has softened over the past year, and rising fuel and input costs could act as a drag on some consumers, weighing on spending more than contributing to sustained inflation pressure.

Our Perspective

In the near term, we expect continued headline-driven volatility. Unless escalation begins to materially disrupt economic activity or alter the broader macro backdrop, market impacts are likely to remain episodic rather than structural. Given the wide range of potential outcomes, maintaining discipline and avoiding reactions to short-term narratives is critical. Our focus remains on evaluating how developments translate into economic and market fundamentals, and whether they warrant adjustments in portfolio positioning.

At Meeder, we remain focused on maintaining diversified, risk-aware portfolios designed to navigate a variety of market environments. We continue to monitor developments closely, applying a disciplined, systematic approach.



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