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Iran, Energy, and the Portfolios

Why we are not changing the Vestaris portfolios in response to the Middle East escalation, what we considered, and what would change our mind.

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Escalation between Iran, Israel and the United States has moved from a regional risk into a market-moving event. Brent crude has risen from around \$74 to \$96 in roughly nine sessions. Five-year inflation breakevens have repriced higher. European equities have sold off harder than US equities. The VIX has touched 27.

We are not changing the Vestaris portfolios in response to this. This bulletin explains why, what we considered, and what would change our mind.

What this move actually is

Almost every geopolitical shock affects financial markets through the same narrow set of channels: energy prices, inflation expectations, financial conditions, and business confidence. Iran-Israel-US is no exception. The question worth asking is whether disruption to oil and gas supply becomes *persistent enough* to weaken global growth or force central banks to tighten further than they were planning to.

Two scenarios are worth holding in mind. In the more likely one, escalation is contained, oil settles in an \$85–100 range, breakevens stay around half a

percent above pre-shock levels, and the Fed stays on hold. In the less likely but more disruptive one, Iranian strikes on Saudi or Emirati infrastructure (or a meaningful closure of the Strait of Hormuz) push oil into triple digits, force a tightening response, and trigger a growth scare in Europe and energy-importing Asia. We are positioned for the first scenario but the portfolios already carry the buffers that matter if the second materialises — gold, short-duration bonds, geographic diversification away from US concentration.

Four positions we considered, and chose not to do

We worked through four tactical responses during the move. We rejected all four.

Increase gold from 5% to 7-8% across portfolios. Defensible — gold has performed during the move, and a structural case can be made for a higher gold weight in a regime of fiscal expansion and geopolitical fragility. We rejected this because the portfolios already carry 5% gold (10% in Defensive) for exactly this kind of episode. Adding more *after* the move begins is performance-chasing dressed as risk management. If we want a higher structural gold weight, that decision belongs in a quarterly note, not in a bulletin.

Reduce European equity exposure. Europe is the part of the portfolios most directly exposed to imported energy — and indeed European equities have underperformed during the move. But the Developed ex-US sleeve is roughly 40% European, and trimming it would either require rebalancing into US (raising concentration just as we have been trying to reduce it) or holding cash. Neither is consistent with the framework. The right time to trim Europe was before the shock; that window has closed.

Add a defence-sector thematic position. Tempting. Defence stocks have moved hard, and there is a structural case for the sector independent of this specific conflict. We rejected this on discipline grounds: thematic positions in the portfolios go through the quarterly note process precisely so we do not pile into them in the middle of a news cycle. A defence thematic remains on the candidate list for the Q2 quarterly review.

Extend bond duration to capture a flight-to-quality bid. Long-duration sovereigns have rallied modestly and the case can be made that risk-off conditions favour duration. We rejected this because our broader macro view — resilient growth, sticky inflation, persistent fiscal expansion — argues against being structurally long duration. A geopolitical episode is not, on its own, a reason to override that view. The short-duration positioning is doing its job.

What this episode reveals

A well-constructed portfolio absorbs this kind of shock without needing intervention. The 5% gold sleeve has appreciated meaningfully. The short-duration and ultrashort bond holdings have provided ballast without duration-volatility drag. The geographic diversification of equities has limited the European energy-import drawdown's effect on portfolio NAV. The Value tilt — which we hold for valuation discipline reasons, not energy reasons — has helped because energy and defensive sectors have outperformed.

This is the publication's central editorial argument made concrete. A portfolio that already incorporates resilience does not need to be re-engineered every time the news changes. The architecture is the response. Our job in a moment like this is mostly to do nothing.

What would change our mind

A bulletin like this is most useful when it is explicit about what would trigger a different bulletin. Three conditions would prompt a tactical response.

Brent sustained above \$115 for more than four weeks. That level is the rough threshold at which the inflation and growth assumptions we are working with would need to be reset, and it is also the level at which European industrial margins begin to be measurably damaged.

A credible disruption to Hormuz transit lasting more than a week. The Strait carries roughly 20% of seaborne oil; a meaningful closure would push us out of the consensus scenario and into the disruptive one.

Five-year inflation breakevens sustained above 3%. That would suggest inflation expectations are de-anchoring, which would force a different conversation about both equity valuations and duration.

None of these conditions are currently met. If any of them are, we will publish another bulletin within the week.

Geopolitical events are unpredictable. Portfolio resilience is built before the news arrives, not in response to it. The Vestaris portfolios were designed for exactly this kind of quarter; the architecture is doing the work we asked of it.

This is a Vestaris bulletin — published only when a market event reaches a threshold we believe warrants direct subscriber communication. The next scheduled communication is the Q2 quarterly note in April.