

US-Israel-Iran Conflict: Market implications and strategic response

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Key takeaways

- Equity markets have remained surprisingly resilient.
- Bond yields have risen on fears of higher inflation, but remain within expected ranges.
- Higher oil prices are likely to dampen global growth, particularly in Asia and, to a lesser extent, Europe.
- Despite current uncertainties, CIBC Asset Management maintains a positive long-term outlook.

Market volatility and recent developments

We continue to witness significant volatility driven by Operation Epic Fury, the US and Israel’s campaign to dismantle Iranian military and nuclear capabilities. Despite this turbulence, equity markets have remained surprisingly resilient. The S&P 500 has been essentially flat since October, with only a modest decline in the past couple of weeks. Bond yields have risen on fears of higher inflation, but remain within expected ranges. Credit spreads have widened, particularly in high-yield markets, but from historically tight levels.

The most notable economic impact has been on the oil market. The closure of the Strait of Hormuz—a critical chokepoint for 15-20% of global oil supply—has sent Brent crude prices above USD\$100 per barrel (pb), with spikes as high as USD\$120 pb and the potential to reach USD\$150 pb if the conflict escalates further. CIBC Asset Management’s base case is that shipping disruptions will persist for another two to three weeks, maintaining upward pressure on oil. Over the subsequent months, de-escalation is anticipated, with oil prices expected to settle in a USD\$75–\$90 pb range, which is higher than pre-conflict forecasts closer to \$60–\$65 pb.

Economic and market implications

The conflict's primary economic effects are threefold:

Growth impact: Higher oil prices are likely to dampen global growth, particularly in Asia and, to a lesser extent, Europe—regions most dependent on Gulf oil and gas. CIBC Asset Management estimates up to a 0.5% negative shock to global growth under its base scenario.

Distributional growth effects: The impact on GDP growth rates will likely be uneven, with Asia bearing the brunt, while North America remains relatively insulated.

Inflation: The oil shock is expected to temporarily add approximately 0.50% to global inflation.

Despite these headwinds, CIBC Asset Management's outlook remains broadly constructive. The probability of a contained resolution to the conflict is estimated at 60%, and while vigilance is warranted, the situation does not warrant any increase in recessionary expectations (we continue to attach a probability of 30% to a global recession in the next 12 months).

Strategic asset allocation: Diversification and discipline

CIBC Asset Management's approach emphasizes the enduring value of diversification—across geographies, asset classes, and strategies. The managed solutions portfolios, totaling over \$100 billion, are diversified across more than 20 countries across developed and emerging markets, as well as across fixed income, equities, and alternative assets.

Rather than reacting impulsively to short-term uncertainty, CIBC Asset Management advocates for disciplined, long-term portfolio construction. Recent increases in volatility were expected as early as January 2025, with the return of President Trump and a more aggressive, executive-order-driven policy environment. In response, CIBC Asset Management increased allocations to Low Volatility, high-yield equity strategies using systematic ETFs in Canada, the US, and international markets. These have delivered particularly strong performance and reduced overall portfolio risk in this environment.

Tactical asset allocation and portfolio adjustments

On a tactical level, CIBC Asset Management's Multi-Asset & Currency Management team has actively managed risk through hedging and option-based strategies. The focus has been on protecting downside risk while retaining the ability to participate in market rebounds. Derivative hedges have allowed for efficient risk management without excessive exposure to equity beta.

At the asset class level, fixed income teams have upgraded credit quality in portfolios and have added credit protection. Equity teams have maintained a long-term focus on themes such as central bank gold buying and diversified sector exposures. Daily cross-team investment meetings ensure that rigorous analysis of macroeconomic developments and scenario analyses inform all investment decisions.

Long-term outlook and enduring investment themes

Despite current uncertainties, CIBC Asset Management maintains a positive long-term outlook. Key structural tailwinds include expansionary fiscal policy, increased military spending, ongoing investment in artificial intelligence, and productivity gains—especially in the US. While demographic headwinds and immigration challenges persist, these are expected to be outweighed by positive forces supporting corporate earnings and margins.

Recent market breadth—such as the outperformance of equal-weighted and value indices—has been interrupted by the conflict, but CIBC Asset Management expects these trends to resume once stability returns. Investors are encouraged to remain diversified, stay invested, and avoid overconcentration in narrow market segments.

[CIBC Asset Management](#) is committed to providing market and investment insights. We want to help you find the right solutions to guide your investment journey. If you'd like to discuss this market and economic update in more detail or have questions about your investment portfolio, get in touch with your advisor or CIBC representative anytime.

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Creating effective exposures to certain markets: replication of equity, fixed income, money market, currency or other indices or securities, in order to reduce transaction costs and achieve greater liquidity. Facilitating the investment management process: increase the speed, flexibility and efficiency in the investment management operation of the client account. Enhancing returns: benefiting from a lower cost or locking-in of arbitrage profits, except for private client accounts.

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