

Markets recoil from Iran war

Key takeaways

Global stock markets retreated in the face of energy and inflation fears emanating from the Iran war. UK government bonds also took a hit as expectations of interest-rate cuts evaporated.

Oil price jumps, markets topple

The oil price surged over 20% in the first week of the US/Israel war with Iran. On Sunday, it leapt past \$100 for the first time since July 2022.

Due to Iran's Revolutionary Guard, the Strait of Hormuz, the world's key supply channel for the petrochemical, liquified natural gas and fertiliser industries, remains essentially closed with tankers queuing up outside. This has resulted in key oil and gas producers in the region trimming output even as their production infrastructure continues to be targeted by Iranian drones.

In stock markets, it has been the energy-importing countries that have been hardest hit. European stock markets were the biggest casualty last week, followed by emerging markets and Japan. The UK stock market also took a major step down while the US, which is self-sufficient for energy, outperformed and the dollar strengthened.

Casualty of war: UK monetary policy

Last week was the worst for UK government bonds (gilts) since the Liz Truss mini-Budget of September 2022. Fears that the escalating war in Iran would unleash another bout of inflation on the UK saw 10-year gilt yields rise to their highest since October 2025 (meaning their prices fell).

In a matter of days, investor expectations of two UK rate cuts this year have been replaced with the expectation that the Bank of England is now more likely to raise interest rates this year. The rise in gilt yields last week was sufficient to erase any gains in 2026 for longer maturity bonds (bond yields move in the opposite direction to bond prices). This is a headache for the government. It now faces the prospect of increased borrowing costs, which threaten to erode the Chancellor's £24bn of 'fiscal headroom' announced last week.

Global logistics crisis brewing...

The closure of the Strait of Hormuz has jeopardised the global supply chains for petroleum products, liquified natural gas (LNG), and fertilisers. Around a third of the world's trade in urea – a key component of nitrate fertilisers – passes through the strait thanks to Iran's status as a major supplier. Prices have jumped 25% and are set to climb as fertiliser season in the northern hemisphere gets underway. This could re-ignite food price inflation.

As Europe buys half its jet fuel from the Middle East, prices here also jumped last week. An extended conflict could also see jet fuel reserves running low and flights being grounded. This would cause travel disruption and add further inflation pressures. In the US, gasoline prices at the pumps also jumped last week presenting a genuine threat to the Trump White House with the mid-term elections approaching.



Market moves

Global stock markets retreated in the face of energy and inflation fears arising from the US/Israel war on Iran, with all major stock markets losing ground.

Despite declining, US shares were the top performers. European shares were the biggest losers; they fell over 7%, more than erasing their gains for 2026.

UK government bonds (gilts) were hard hit. Last week's losses took them into negative territory for 2026. US government bonds (Treasuries) also lost ground as did gold.

What to look out for this week

The US data week includes core and CPI inflation readings on Wednesday, with balance of trade and jobless numbers on Thursday. Friday brings the PCE Index numbers – the Federal Reserve's primary inflation gauge.

The UK publishes retail sales figures on Tuesday. Friday sees UK GDP and trade data alongside industrial and manufacturing production numbers.

German industrial production and factory orders data feature on Monday, followed by French and German balance of trade, exports and imports data on Tuesday.



If you have questions about financial markets, or our investment services, please contact the Marketing team:

marketing.hwam@handelsbanken.co.uk

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