What the US/Iran deal means for markets

FOR FINANCIAL ADVISERS AND THEIR RETAIL CLIENTS

THE EXPERTS

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Summary of key points:

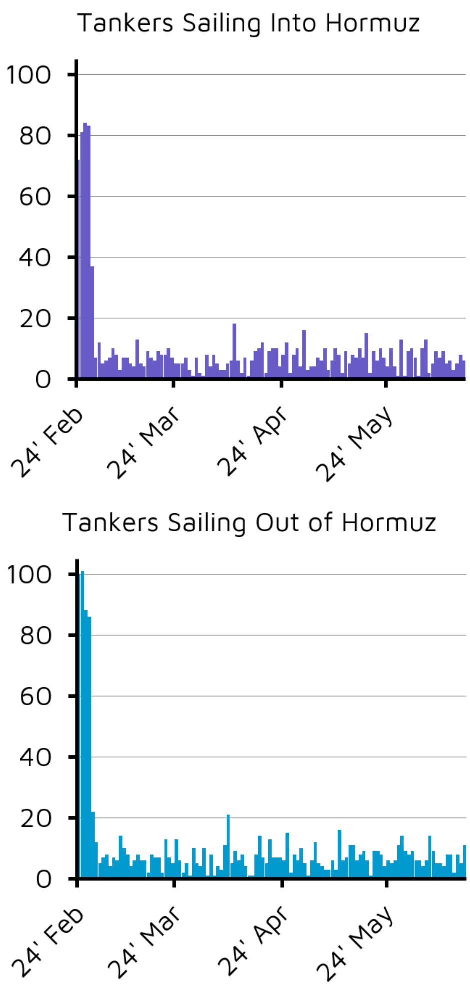
- US and Iran agree an outline deal to end conflict
- Oil and natural gas prices fall as Strait of Hormuz expected to reopen
- Lower oil prices ease concerns over inflation
- Positive investor response helps equities rally extend

Words have shifted meaning of late. A 'deal' now means an agreement to negotiate a deal, and a 'ceasefire' can mean fighting more moderately rather than stopping. With that caveat, the US and Iran have signed an agreement to negotiate rather than to make peace.

The signed 'deal' extends the shaky ceasefire first struck in early April for a further 60 days and will reopen the Strait of Hormuz. Iran has agreed to charge no tolls and launch no attacks on shipping through the strait, and the US agreed to lift its naval blockade of Iran. Iran also gets a temporary waiver to sell oil. But much is still to be settled. Issues still be agreed include the release of $24bn of Iran's frozen assets, a potential end of the wider sanctions package, the future of Iran's enriched uranium and nuclear programme and its support for regional proxies.

Noteably, Israel is not a signatory to this deal and ongoing fighting in Lebanon remains a significant threat to the truce.

Chart 1 - Collapse of Shipping



Source: LLI. Number of ships 24/02/26 to 15/06/26

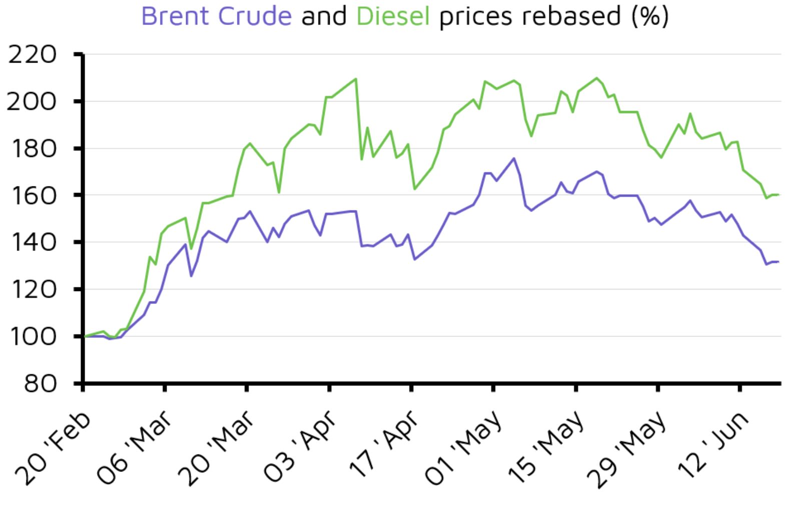
Energy

The restoration of shipping through the Persian Gulf should steadily build towards pre-war levels, though carriers stay wary of renewed fighting. As trust returns, insurance and shipping costs should ease.

Once tankers sail again, Gulf producers can restart oil and gas output by emptying brimming storage and shipping through Hormuz. That is predicted to take two to six months. Tankers then need two to three months to reach Asia and Europe. Damaged plant, such as Qatar's liquefied natural gas hub, will take three to five years to rebuild.

Markets have welcomed the calm. Brent crude has fallen back to around $80 a barrel. This remains above the level of $65 before the war but is a big drop from an average of $107 in May.

Chart 2 - Oil and fuel prices were already falling from a peak in May



Source: Kpler. Number of VLCC tankers 01/07/25 to 12/06/26

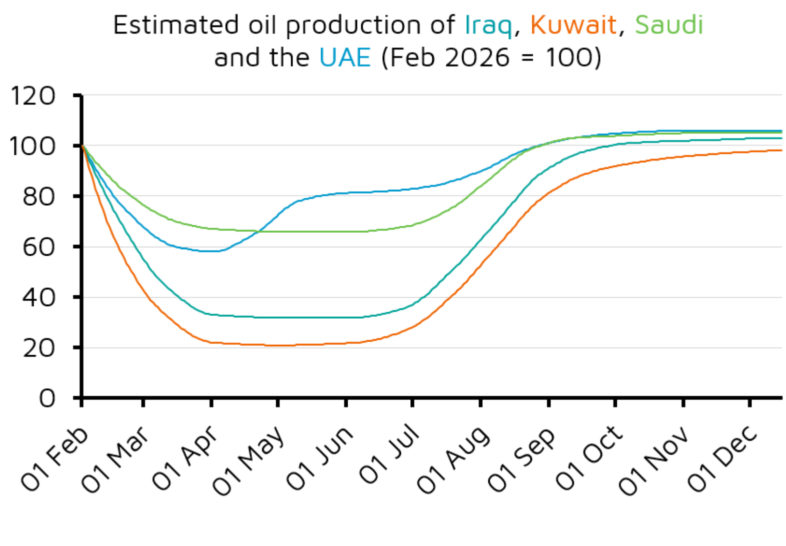
Global oil stocks, which stood above 8.2bn barrels before the war, have since drained at a record pace. Those depleted stocks need refilling, which will support demand and may put a floor under prices in the short-term. The latest forecast from the US Energy Information Administration put Brent crude around $89 a barrel by the final quarter of 2026. But this forecast was issued before the latest peace deal was announced, and the latest forecast for Brent crude is between $70 and $80 by the end of 2026.

The recovery in refining many be slower. Asian refineries and petrochemical plants, unable to secure enough crude and naphtha during the conflict, cut processing significantly. A return to pre-war rates is far from assured, and some refiners are holding back on purpose, wary of being left with high-cost stock if prices fall.

Inflation & Rates

The energy spike drove a burst of inflation and markets have expected a defensive response from central banks. The European Central Bank raised rates in June, its first rise since 2023, and at the height of the crisis markets were pricing in more to come. The Bank of England was also being tipped to start raising rates, with odds of a rate hike at the Federal Reserve also seen rising.

Chart 3 - Production Recovery To Pre-War Levels To Take Months

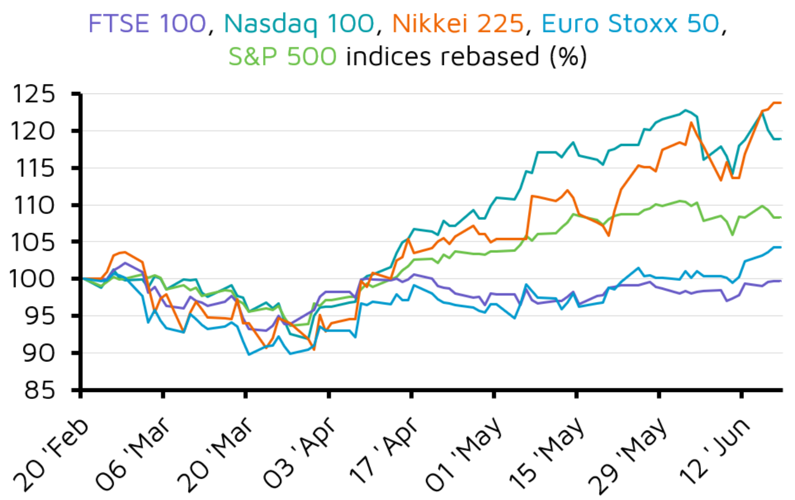


Source: Kpler. Total production 01/02/26 to 15/12/26

That picture is changing. So far, inflation has been less dramatic than some had feared as measures taken to offset the loss of supplies from the Middle East made a difference. With energy costs dropping, the calls for further increases that were loud weeks ago have grown quieter.

Bonds & Equities

Chart 4 - Developed equities have gained since the initial ceasefire



Source: FE Analytics. Total return in local currency 20/02/26 to 18/06/26

Bonds have been choppy since the conflict began, as investors weigh the odds of rate rises against the limits of government borrowing and the threat of higher inflation. The extended ceasefire has brought modest gains for government bonds, but the swings are likely to continue while the effects on growth, inflation and public spending stay unclear.

Equities, by contrast, have rallied. After the first ceasefire, investors looked past the energy shock and turned back to AI, helped by a strong US first-quarter earnings season, with 84% of companies beating forecasts. Most developed markets now show double-digit gains, with the UK the main laggard. As shipping resumes, the rally should continue.

Outlook for markets

The forward-looking signals we track remain healthy and the removal of the risk of further price spike in oil and gas in the short-term is positive. Looking out to next year, plans to increase production to offset the loss of supplies from the Persian Gulf may lead to an oil glut in 2027, bringing further downward pressure on oil and gas prices.

The outlook for developed market equities remains strong as earnings growth has broadened beyond large tech companies. This will be further supported by lower energy costs. Emerging markets also stand to benefit from lower oil and gas prices, and the slowing inflation will lessen the risk of interest rate hikes.

For fixed income, lower energy costs will ease inflationary pressure and reduce calls for interest rate hikes, but inflation is likely to remain persistent in developed markets. In the UK and Europe, weak economic growth has reduced the potential for rate hikes, but strong economic growth in the US and rising consumer spending means rate hikes in the US are seen as a rising possibility.