



# Oil, inflation, risk and return



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## Executive summary

- The ongoing Iran conflict has led to significant volatility in oil prices, which remain much higher than before the crisis and are contributing to renewed inflationary pressures.
- Financial markets have responded by revising expectations for interest rate cuts, with the Bank of England now potentially considering a rate hike rather than cuts previously anticipated.
- While the situation evokes comparisons to 2022, current economic circumstances differ markedly, with higher yields already in place cushioning the impact on bonds and investment portfolios.
- Portfolios have been actively managed with positions in inflation-linked bonds, utilities, and commodities, alongside protective strategies like put options, which have helped limit losses and maintain diversification.
- Recent portfolio adjustments, including increased holdings in defined returns products, position the portfolios to take advantage of further market volatility and potentially enhanced returns.



The headlines continue to be dominated by the Iran conflict and its knock-on effects.

Setting aside the serious human impact of this conflict, there have also been several effects from a financial point of view.

The most notable is the price of oil, which has been very volatile but remains substantially higher than before the conflict.

On 26 February, the price of a barrel of Brent Crude oil was about \$70. After the conflict began it rose sharply, getting to around \$120 per barrel at one point, before dropping back to around \$85 on speculation the conflict could soon end.

As I write (13 March), it is currently around \$100 a barrel, still about 43% higher than a couple of weeks ago. (Source: LSEG Workspace).

The major knock-on effect of this is that this could push inflation - which had been predicted to fall - back up.

As a result, central banks may no longer proceed with the interest rate cuts that seemed likely just a couple of weeks ago.

For example, on 2 March the bond market was pricing in two 0.25% rate cuts by the Bank of England over the next 12 months.

By 9 March, the outlook in the financial markets had shifted significantly. The market was no longer anticipating any interest rate cuts from the Bank of England in the near future. In fact, the sentiment had changed so much that there was now an estimated 50% probability of a rate hike occurring later this year (Source: LSEG Workspace).

From an investment perspective, this means falls in the prices of government bonds as the yields look less attractive relative to cash rate expectations. This has been accompanied by falls in the stock market, with concerns not just about rates, but also the potential for the conflict to hit the global economy more widely.

## What are you doing about it?

As we explained in our bulletin a week or so ago, it is important not to over-react.

We can't predict the future, and it is possible that the situation in the Middle East settles down quickly. Equally, it could continue for many months. We just don't know.

However, underlying economic data has actually been very strong in many economies recently, with other inflationary pressures easing.

Should the Iran conflict continue for some time, this could reduce economic growth and add to inflation, but at least we are starting from a reasonable level.

We had already been discussing inflation a lot over recent times, as we had identified it as one of the biggest risks to portfolios. We concluded that we are positioned relatively well for this eventuality.

We have things in the portfolio we expected to do reasonably well should inflation return. That includes inflation-linked bonds as well as our position in utilities (who can pass on energy price rises to consumers). Both these positions have gained recently.

We also have some protection against a steep equity market fall in the form of a "put option" (essentially, an insurance policy that should go up in value if stocks fall).

One thing we had been discussing for some time, was adding some commodities to the portfolio. We have now added a small position in our core portfolios, buying a

diversified commodity index fund. Again, this has made a gain since purchase.

The fund we bought not only has exposure to oil and gas, but also lots of exposure to food and agriculture. One concern of a long conflict is that this has a knock-on effect to fertiliser production and to food prices. The fund also contains a small exposure to precious metals, often seen as a safe asset in times of crisis.

Again, you can view this as an insurance policy against a long-term conflict. We think the effects on commodities could last a while, even if there is a quick resolution to the conflict. From a portfolio construction perspective, commodities tend to be negatively correlated with government bonds and very lowly correlated with equities, meaning it gives diversification to the portfolio.

We're not predicting which way commodity prices will go, but we do think this is a sensible precaution at this time.

Our core portfolios have all fallen by less than their sectors, as we had been slightly cautiously positioned going into this crisis.

This means that if there are further falls, we will be able to take advantage by buying in at relative lows.

Recently we have been holding more than usual in defined returns and less directly in equity. For these products, the markets only need to go sideways over the term of the product to make a double-digit return.

## The Pulse March 2026



During the period we've had some defined returns products kick out, and the turbulence means we can reinvest not just at a lower level, but with a better potential rate of return. The latest product provides a potential 12.5% p.a. should markets be the same or higher in a year's time.

We will continue to watch things carefully with an eye on the risks, but also on opportunities to help long-term returns.

*If you have any further questions, please don't hesitate to get in touch with us on **0161 486 2250** or by reaching out to your usual Equilibrium contact.*

*If you are new to Equilibrium and would like to speak with one of our experts, call us on **0161 383 3335** for a free, no-obligation initial chat.*

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