

FUNDAMENTAL FLASH

Unpacking Israel-Iran Tensions

Prepared by AHAM Asset Management



What Happened?

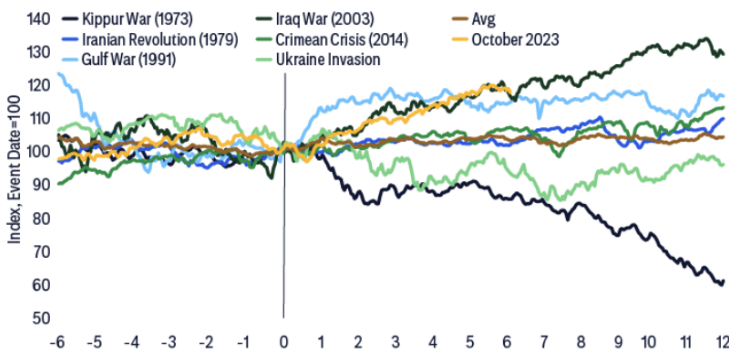
As of the morning of April 19th, news sources reported an Israeli missile or airstrike targeting Iran and its operational bases across countries such as Syria and Iraq. The situation remains fluid with ongoing developments.

Initial Analysis

We interpret the current situation as a retaliatory action by Israel following Iran’s drone/missile strike against Israel recently. Both nations are expected to continue targeting each other through missile strikes and targeted actions.

Despite market volatility stemming from news uncertainty, it’s worth noting that Israel and Iran are separated by multiple countries and approximately 1000 kilometers, making a direct invasion unlikely for now.

Chart 1: MSCI AC World Around Past Geopolitical Crises



Flashpoints

- News reports show that Israel launched retaliatory strikes targeting Iran in a tit-for-tat exchange.
- The situations remains fluid, though a direct military confrontation appears unlikely at this juncture due to geographical factors.
- Current domestic and economic challenges faced by Israel, US and Iran also limit their capacity to engage in war.
- Risks to monitor include the Straits of Hormuz where approximately 22% of global oil consumed daily pass through.

While the situation remains fluid, we think US, Israel & Iran may not prefer an outright war at this juncture, making this a tit-for-tat level of conflict at the moment.

Israel is constrained by the current conflict in Gaza and the US has indicated they will not support Israel for a further escalation in war. A spiral in conflict that leads to a rise in oil prices would further erode President Joe Biden's chances for re-elections for the US presidential elections in November this year.

Meanwhile Iran is beset with domestic economic challenges such as elevated inflation, with the IMF reporting consumer price inflation readings going as high as 41% in 2023 and expected to be 38% in 2024. Further tightening of sanctions would further increase domestic unrest.

The risk profile of escalation is still moderate when compared to previous Middle East conflicts in the 1970s.

Risks Under Surveillance

- The Straits of Hormuz, through which 22% of global daily oil consumption passes.
- Potential Israeli invasions of neighbouring countries like Lebanon to suppress Iranian proxies.
- Involvement of US in direct strikes against Iran

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