

FROM THE DESK OF:

New York Life Investment Management's Global Market Strategy team

Iran escalation raises geopolitical risk premium

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Investment
Management

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Key takeaways

- Over the weekend, the U.S. and Israel launched a major wave of strikes inside Iran, and Iran's Supreme Leader Ayatollah Ali Khamenei was reported killed; Iran's response has included retaliatory attacks across the Middle East and renewed threats, leaving the situation tense and fluid.
- The operation underscores the [great power politics](#) backdrop we've been highlighting: economic nationalism and trade security are increasingly driving strategy, and the U.S. is showing a greater willingness to use force to protect strategic energy routes and constrain adversaries' economic leverage.
- The rationale for the scale and timing of this action is unclear as of the publication date. Using the U.S. National Security Strategy as a framework, we believe this operation could reflect Washington's push to narrow its focus and allocate finite resources toward the competition with China: reducing the need for repeated Middle East crisis response by weakening key sources of regional disruption and sanctioned energy leverage ([Venezuela can be seen as a parallel case](#) and Iran the higher-stakes case).
- For investors, the most direct transmission channel is energy: as shipping and energy firms pause or reroute activity in the region, markets may reprice risk quickly and unevenly. If disruption becomes prolonged, the shock can broaden from volatility into global growth pressure, raising recession risk.

What happened?

Over the weekend, the U.S. and Israel launched a major round of strikes inside Iran targeting nuclear-related infrastructure and key military capabilities. In a dramatic escalation, Iran's Supreme Leader Ayatollah Ali Khamenei was killed during the attacks, according to Iranian state media and multiple major outlets.

Iran responded with retaliatory missile and drone launches and renewed threats to commercial shipping, putting the Strait of Hormuz back at the center of market focus. Several tankers were reportedly damaged in the Gulf, and a growing number of vessels have paused or rerouted amid heightened security warnings. In response, Qatar, one of the largest producers of liquified natural gas (LNG) has temporarily halted LNG production.

With leadership uncertainty in Tehran and active military exchanges still unfolding, the situation remains tense and fluid.

Why is the U.S. taking this action?

The rationale may not be fully transparent in real time, and official messaging can evolve as events unfold. In our view, the new [U.S. National Security Strategy](#) provides a useful framework for interpreting recent U.S. foreign policy operations, grounding the analysis in stated U.S. priorities and resource constraints.

We believe this is a clear example of the new U.S. security strategy focused on prioritizing resources towards core interests. The Strategy is explicit on that point: **"A strategy must evaluate, sort, and prioritize."** In practice, that



means reducing recurring crisis-management burdens in secondary theaters (Europe, Middle East) so finite attention and resources can be concentrated where U.S. leaders believe the long-run balance of power will be decided (the Indo-Pacific and China).

The Strategy frames competition with China as central to U.S. economic and geopolitical outcomes, stating: **“To thrive at home, we must successfully compete [in the Indo Pacific] – and we are.”** Through that lens, Iran is not merely a regional flashpoint but part of a broader strategic equation. It remains a significant supplier of discounted, sanctions-resistant oil that underpins China’s energy security and is embedded in a wider alignment that includes military and technology cooperation with Beijing.

Recent moves in Venezuela can be read as a parallel effort to tighten constraints around sanctioned energy channels that support China’s energy advantage, but Iran is the higher-stakes node because it also touches regional security, shipping routes, and escalation dynamics. Importantly, the Strategy also calls for Middle East security, stating: **“We want to prevent an adversarial power from dominating the Middle East, its oil and gas supplies, and the chokepoints through which they pass.”**

The operation underscores the [great power politics](#) backdrop we’ve been highlighting: economic nationalism and trade security are increasingly driving strategy, and the U.S. is showing a greater willingness to use force to protect strategic energy routes and constrain adversaries’ economic leverage.

Investor impact

With the situation still unfolding, markets are likely to price escalation risk in and out in bursts, keeping volatility elevated. The most direct transmission channel is likely to be energy prices: as shipping companies avoid the region, transit becomes less reliable, and logistics costs rise, the market can embed a higher risk premium in oil and related energy pricing. That matters beyond energy itself because higher fuel and transport costs can tighten financial conditions and complicate the inflation backdrop. If disruption becomes prolonged or meaningfully constrains flows, the shock can broaden from a volatility event into a growth event, increasing the odds it spills into global growth risks.

Similarly, the U.S. dollar is strengthening from a flight-to-safety bid, reinforcing the case for U.S.-based investors to consider currency-hedging non-U.S. exposures in an era where geopolitics is a more persistent driver of volatility.

Taking a step back, our macroeconomic work includes comprehensive geopolitical coverage because we believe global economic and market conditions are increasingly impacted by shifts in geopolitical regime. It’s easy to feel geopolitics shifting the ground beneath us, and rather than try to forecast each event – often with incomplete information and unclear rationales – we use a framework for geopolitical regime change to interpret what’s happening and what it may mean for investors. We cover that perspective, as well as a comprehensive investor playbook, on our [geopolitics page](#).



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