Special Coverage: Uncertainty remains after US bombing of Iranian nuclear sites

Key takeaways

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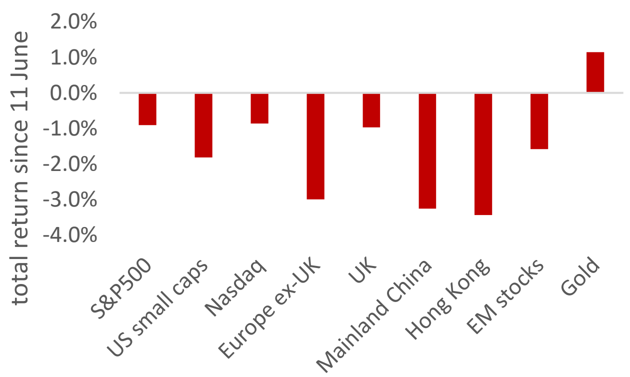
- Following the US strike on three Iranian nuclear sites last weekend, the US President urged Iran to "make peace", while the EU urged "all sides" to begin negotiations. Markets have been most worried about a potential interruption to oil supplies, and that uncertainty remains. Much depends on Iran's reaction, which we don't want to take a view on.
- The bombing will have come as a surprise to many investors, as the US President seemed to have given a 2-week window for a diplomatic solution last Thursday, and the Maga base is divided on whether the US should get involved in foreign conflicts. As a result, we expect an initial risk-off reaction when markets open on Monday, 23 June.
- We have analysed how markets have been reacting after 11 June and believe that further escalation will lead to a flight to safe havens, including developed market government bonds, gold and CHF, while equity markets would be volatile. US and UK stocks should outperform Eurozone and EM Asia stocks. There should be a preference for investment grade bonds over EM bonds, while high yield has been relatively resilient thanks to its large energy exposure. In a scenario where Iran's retaliation is limited, we could see the moves since 11 June gradually reverse. In any case, we focus on building resilient portfolios with multi-asset diversification, quality assets, active management and long-term themes.

What happened?

- The US struck three Iranian nuclear sites last weekend, with planes dropping bombs on Fordow, Natanz and Isfahan. The US President urged Iran to "make peace" while the EU urged "all sides" to begin negotiations.
- Brent crude oil prices have been the biggest mover, rising by 10.5% to USD77/bbl in spite of excess capacity at OPEC+ and no interruption so far to supplies.
- Risk appetite took a clear hit, resulting in higher equity market volatility, higher gold prices, and some support for safe haven government bonds. That said, the impact has been relatively mild so far. US equities have been a bit of a relative safe haven, in part because the US is a net exporter of oil – leading Europe, Mainland China and Hong Kong stocks to underperform global and EM markets. The UK index also benefits from the presence of energy stocks.
- Currencies have moved less than many people might have expected, for two reasons. First, the safe haven status of the USD is currently being questioned. And secondly, central bank meetings influenced the FX markets last week.

Gold has spiked since 11 June while US and UK stocks have outperformed Eurozone, mainland China and Hong Kong



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 22 June 2025. Past performance is not a reliable indicator of future performance.

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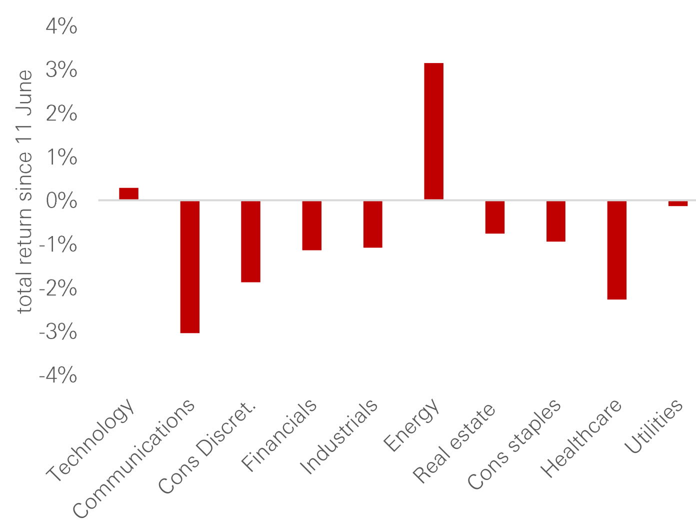
- As for bond markets, breakeven inflation expectations rose, but the fall in real yields (due to safe haven flight) more than offset that, leading DM sovereign bond yields to drop. Credit has been quite resilient, and the mild tightening in high yield might look odd - especially as volatility (VIX) has spiked. In our view, the resilience is linked to investor hopes of slightly earlier rate cuts as data have weakened and the presence of oil companies in the high yield index.
- Within equity markets, only energy has seen a positive performance since 11 June. Defensive sectors have done better than cyclicals, and large caps better than small caps.

Investment implications

- We have analysed how markets have been reacting after 11 June and believe that in a scenario where there is further escalation, these moves could extend further. That would include a flight to safe havens, including developed market government bonds, gold and CHF, while equity markets would see a further increase in volatility (VIX) and stock market weakness.
- From a relative perspective, energy is the only sector where we would expect upside, but IT has been quite resilient too. US and UK stocks should outperform Eurozone and EM Asia stocks in this scenario. In credit, there should be a preference for investment grade bonds over EM bonds, but we note that high yield has been relatively resilient thanks to its large energy exposure.
- However, in a scenario where Iran's retaliation is limited and negotiations point to a path to peace, we could see the moves since 11 June gradually reverse.
- In any case, we think a focus on building resilient portfolios remains key, as the uncertainty remains elevated. We favour a multi-asset and active approach, including gold and quality bonds. Themes such as energy security remain very relevant.

Sector performance since 11 June: energy stands out



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