



In spite of the current economic environment, we're not turning off the light at the end of the tunnel

As I write this, investment markets have gone 'backwards', broadly to the value they were at on the 1st of January 2026.

There is a lot of concern and reaction to what is happening in the world right now.

The US & Israel vs Iran war rages on, with Trump 'looking to make a deal' - shock! And countries world-wide implementing demand-reduction measures in response to the oil supply disruption caused by the closure of the Strait of Hormuz.

Asia has been hit hardest by the closure of the Strait of Hormuz, with policies such as weekly limits and alternate driving days in countries like Sri Lanka, Bangladesh, Myanmar and Slovenia, shortened work weeks or mandatory remote working for public officials (e.g., Pakistan, Philippines), school and university closures or shortened weeks, higher air-conditioning temperature settings, and reduced public lighting or early closures.

The International Energy Agency (IEA) has coordinated the largest-ever release of emergency oil stocks (around 400 million barrels) and published a tracker of government policy responses, along with guidance on measures like promoting remote work, lowering speed limits and encouraging public transport to help manage the situation.

Each time a significant global event like this occurs, the sentiment can sometimes turn towards a feeling of 'but this time it's different'.

However, if we think back through what has happened over our lifetimes, we quickly see that, even though we go through turmoil, even though the challenge feels insurmountable, there is always a solution that is found.

The big concern now (and what is driving the market downturn) is based on two key issues.

1. Escalation between the US & Israel and Iran
2. A global energy shortage due to the Straits of Hormuz being blocked.

Escalation between the US & Israel and Iran

However, neither of these issues are new or different to what we've seen before.

The US has played an active military role in the Middle East for more than half of all the calendar years since World War 2.

Yes, technology has improved - drones are now a hugely prevalent part of modern warfare with neighbouring countries bearing the brunt of Iran's aggression.

Hypersonic missiles have become a growing threat and are now available to most state governments with Iran pioneering a lot of this technology.

But this isn't the first time we have seen new technology / capabilities during war. In fact, war is typically an accelerator of new technologies. A lot of today's norms can be traced back to war time innovations.

The key concern that investment markets are worried about is the risk of the threat spreading to a wider geography or escalating locally. If Iran decide to use their hypersonic missiles, this can cause real damage. Not the sort of small, localised damage caused by a shahed drone, but damage that could kill and injure hundreds



or thousands of civilians and cause profound damage to infrastructure that could take years to rebuild. This risk is low and unlikely but would be very significant if it occurs. It would spell the end of the Iranian regime and may only be used as a last resort by the Iranian regime as and when they realise their time is up.

This escalation threat is what is making finding an end to the war ever more difficult.

A global energy shortage due to the Straits of Hormuz being blocked

The other key issue is the flow of oil globally.

Whether you like or dislike fossil fuels, they are needed globally to keep the world turning. Whilst Europe survives on European, Russian and American oil, many countries in Asia are hugely dependent on Iranian oil imports to keep their countries lights on and with the Strait of Hormuz closed, these countries are becoming ever more constrained and worried.

This starvation of oil in Asia creates two issues, 1. They become more and more desperate for oil and energy meaning they are willing to pay a higher price for it (raising the price of oil) 2. Their output becomes constrained. Asia does a lot of the world's manufacturing. Think about how many of the west's consumables come from Asia (China, India, Indonesia, Bangladesh etc).

With these issues initially hurting Asia, they quickly create a chain reaction which, in sequence, starts impacting the west (the UK, Europe and the USA).

Firstly, Asia looks further afield for its energy, which means tapping into where the west gets its energy - creating a bidding war.

This means that the west now too has a premium to pay for its energy.

Then the situation plays out in a similar manner to what we saw in 2022. Higher cost of energy (initially meaning it costs more to fuel our cars and heat our homes) and with time, we see that higher energy cost passed down the supply chain. Energy is a raw material needed for most of the things we spend our money on, meaning suppliers pass on their costs and.... Inflation across most goods and services rears its head again.

Are we going to see 11.1% inflation again in the UK? Highly likely no, but investment markets sometimes suffer from 'recency bias'. Markets and investors are still sore about what happened in 2022 and are very nervous of it happening again.

What does this look like?

Well, we can see in real time how investment markets are reacting to the war in Iran. Even though most of your money isn't invested in the Middle East (depending on your particular portfolio - you're likely less than 10% across all of the Middle East and less than 25% across all of Asia (including the Middle East) the sentiment remains the same.

Investment markets remain worried about an escalating war in Iran and a continued starvation of oil supply.

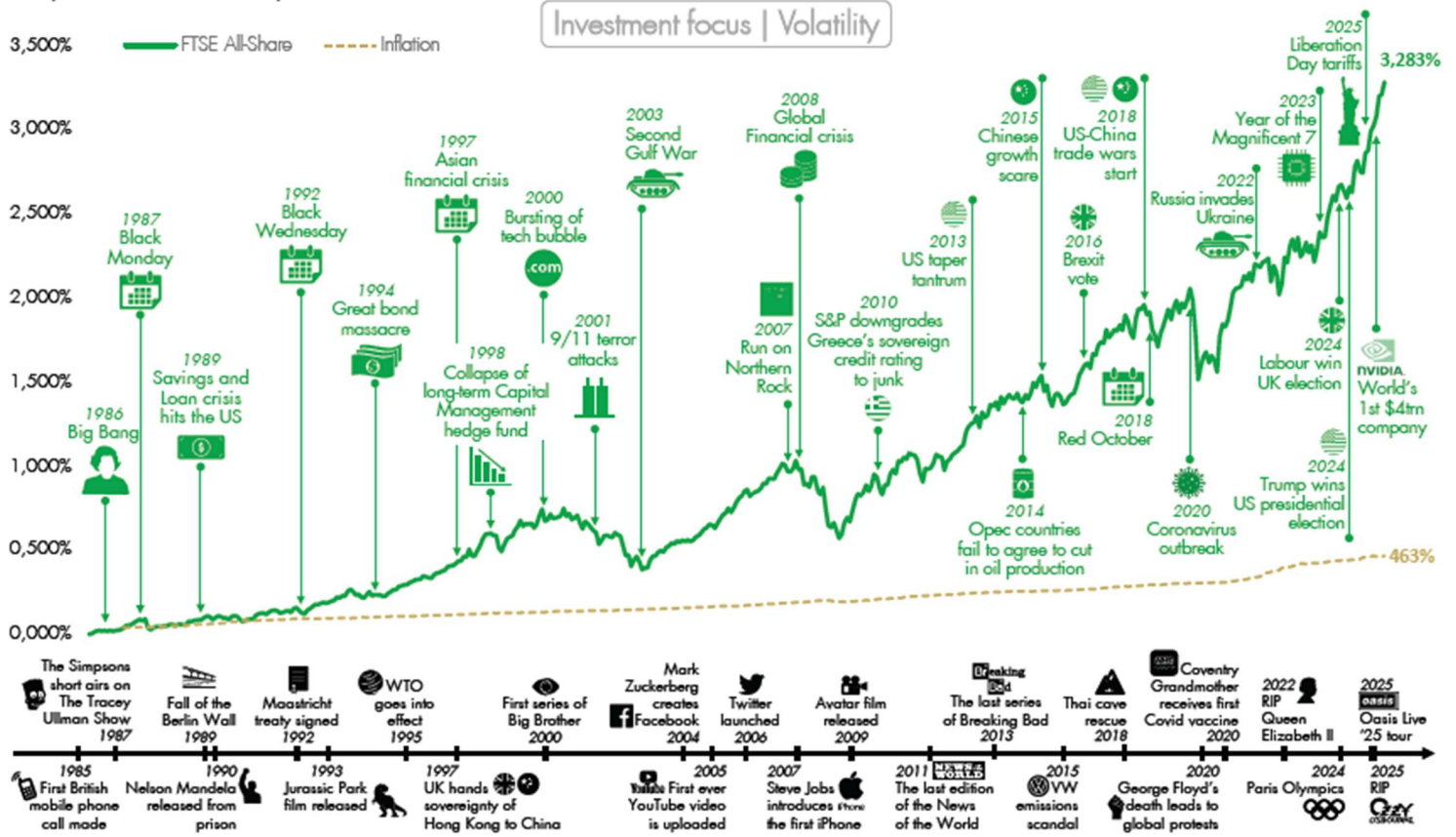
The longer this war goes on, even with the current level of military activity we are experiencing, the world continues to be starved of oil and things get worse.

The next few days and weeks will prove interesting and we aren't sure where the 'bottom' of this economic cycle is, but it feels like most of the fear and nervousness in investment markets is being priced in.

My favourite quote from Warren Buffet, which is most prevalent during times like this is: *a good investor is fearful when others are greedy and greedy when others are fearful.*



Past performance does not predict future returns



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Source: Liontrust, as at 31.12.25. FTSE All Share, 31.12.85 to 31.12.25. Inflation = UK Retail Price Index, 31.01.87 to 31.12.25 [FTSE All Share, 31.12.85 to 31.01.87]

What can we do about it?

Not a lot, sadly. Unless you are one of the select few who seem to operate inside Donald Trump's circle (whom are placing big bets based on future geopolitical outcomes) and so the best thing we can do is sit tight.

Remember we are 'back' to where we were at the start of this year. If you had a crystal ball and could foresee the war in Iran coming - on the 1st of January, would you have chosen to invest or hold your money as cash? At this point in time either decision would have afforded you the same outcome, so whilst investment markets are down, everything is vanity until you cash your chips in.

The secret to successful investing is to diversify. The greater the level of diversification we can create, the better the outcome.

Whilst, on the whole investment markets are down, there has been some big winners recently. Defence companies and oil companies are up anywhere from 5% - 15%+ due to the current situation. So, whilst your portfolio is down, not every investment inside it is down.

Unfortunately, we can't diversify away from every eventuality and if events are big and widespread enough, we sometimes have no choice other than to grin and bear it. Although, that being said, NASA are planning a return trip to the moon in 2028, so in the future we might be even more than globally diverse! Perhaps, in the future,



we'll have updated the well coined phrase to 'solar system diversified' or at least 'interplanetary diversified' although that doesn't have quite the same ring to it.

All in all, the situation is fluid. Investment markets are nervous and changes (both positive and negative) may play out quickly.

As a business we've been serving clients for almost 25 years now, with some of you being with us since the beginning. During this time, most of you will be able to cast your minds back to points in time where things have felt insurmountable. The Russian invasion of Ukraine, Covid, the global financial crash of 2008, 9/11, the list goes on. Each time we have not only survived, but improved. Investment markets have since rallied after all these events.

It is best to hold tight rather than make rash decisions and trust the very fine tuned process that has served us well for the last 150 + years.

Client Event

If you haven't heard, we are hosting our client event on the 29th July at 2pm, where you can hear from two of the fund managers who look after your money and will offer greater insight and analysis as to what is going on in the world - and we're confident that the picture will be a bit rosier by then too.

Finally


We're really proud to say that we have almost 50 Five-star Google reviews, awarded to us by our wonderful clients, we really appreciate you taking the time to thank us publicly and to hear such positive feedback – thank you!

If you haven't already given us a google review and you would be kind enough to share your thoughts. You can do so here: <https://g.page/r/CVLAeUfA-0AOEB0/review>

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