

Strait Ahead

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The US-Iran memorandum of understanding (MOU) to reopen the Strait of Hormuz offers a potential turning point after a period of acute geopolitical strain. A credible reopening would not eliminate uncertainty, but it would mark a meaningful step toward restoring stability in one of the world's most important energy corridors. Chaos may not disappear—but momentum takes control. In this commentary, we unpack how this “Strait Ahead” moment resets energy markets, inflation expectations, and reinforces investment opportunities.

This Hormuz moment can reset the energy complex. Improved visibility on supply chain risk compresses volatility and shifts the narrative from scarcity-driven spikes toward normalization. Crude prices ease from tail-risk levels, tanker rates stabilize, and downstream beneficiaries—from airlines to consumers—find firmer footing. The market's message is clear: disruption can dominate headlines, but fundamentals ultimately assert themselves.

Macro Implications

A planned U.S.–Iran settlement anchored by a longer-term ceasefire, a gradual unrestricted reopening of the Strait of Hormuz, 60 days to discuss nuclear options, and phased sanctions relief would be a powerful macro catalyst if implemented. The near-term impact would be most visible in oil markets, where restored flows and improved shipping security compress the geopolitical risk premium. A sustained decline in crude prices would ripple quickly into inflation expectations, reinforcing the disinflationary trend already underway in goods and energy-intensive services.

Lower oil prices feed through to headline CPI almost immediately and, critically, help hold down core inflation over time by easing transportation, logistics, and input costs. That relief expands real household purchasing power and improves corporate margin visibility—two necessary ingredients for a renewed growth impulse without rekindling inflation.

On the growth side, cheaper and more predictable energy is a tailwind for global activity and capital formation. We see particular leverage in sectors already committing to long-duration investment, most notably AI infrastructure and data-center capex. Power availability and operating costs matter for AI economics; energy normalization strengthens return profiles and supports continued Hyperscale spending.

From a policy perspective, a cleaner disinflation path reframes the 2026 rate outlook. Central banks do not need collapsing growth to cut—only confidence that inflation is durably converging. If energy-driven disinflation and AI productivity deflation anchor expectations, debate over rate cuts later in 2026 become plausible, supporting duration, risk assets, and cyclicals simultaneously.

Risks

The key risk is that the 60-day negotiation window fails to produce a durable framework, leaving markets caught between temporary de-escalation and renewed confrontation. Even if the Strait reopens, regional flareups—through proxy activity, miscalculations, or a breakdown in ceasefire discipline—could quickly restore volatility across energy and shipping lanes. Supply conditions may also normalize more slowly than expected as insurers, shippers, and refiners rebuild confidence gradually, keeping freight costs and delivery timelines under pressure. Just as important, a deal does not guarantee lower oil prices: if spare capacity stays constrained, inventories remain tight, or markets continue to price in geopolitical fragility, crude could stay elevated longer, muting the disinflationary benefit and limiting policy flexibility. That argues for staying constructive but selective—favoring exposures that benefit from easing macro risk while maintaining diversification and resilience if energy markets remain tight.

The Bottom Line

A credible Hormuz détente would act as a macro reset—lowering inflation risk, extending the growth runway, and reopening the policy easing window. The simultaneous decline in oil prices, interest rates, and macro uncertainty creates ideal conditions for risk assets and an ongoing broadening. Lower energy costs ease margin pressure and inflation fears, softer rates reduce the discount applied to future cash flows, and diminished geopolitical risk restores investor willingness to move beyond a narrow set of defensive and mega-cap winners. This backdrop is particularly constructive for small-cap stocks, which are more domestically exposed, more sensitive to financing conditions, and historically leveraged to inflection points in growth and confidence. As capital costs fall and earnings visibility improves, operating leverage works in their favor, allowing participation to widen across cyclicals, industrials, and innovation-driven names. In short, with the macro headwinds abating, leadership broadens from concentration to participation—and small caps and cyclicals stand to be among the significant beneficiaries.

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