

Geopolitical Escalation in the Middle East – How are TAM’s clients positioned?

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The Middle East region has, as of Saturday, entered a fast-moving and more dangerous phase following joint US and Israeli strikes against Iran. The campaign has been presented by President Trump as an effort to force a decisive shift in Iranian leadership and security posture, while Iran has responded with retaliatory action across the region and threats against US interests and partners. A pivotal development has been the death of Iran’s supreme leader, Ayatollah Ali Khamenei, which Iranian state media has reported was caused by the initial wave of strikes.

While the escalation is severe, it was not wholly unexpected from a market perspective which will be key for the direction of markets in the coming days. Investors have been assigning a geopolitical risk premium for some time as tensions rose, with particular focus on the risk of a US strike and the potential for disruption to Gulf energy flows. That pre-positioning helps explain why the initial market reaction has been led by energy and safe-haven assets rather than a disorderly repricing across all risk markets. We want to stress that stock market movements pail in comparison at a time when human life is at risk. However, TAM wanted to ensure our clients were quickly up to speed on how TAM’s investment teams had structured their portfolios in the run up to this geo political development.

At the market open on Monday, markets have shifted into a expected selling pattern. Stocks have generally sold off as investors reduce exposure to sectors most sensitive to higher fuel costs and disrupted travel, with US equity futures pointing to a weaker tone at the start of the week. At the same time, traditional safe havens have been supported, with the US dollar stronger and gold higher as investors seek protection against geopolitical uncertainty and the risk of energy-driven inflation which are all to be expected.

Oil has been the main focal point for the market over the weekend and into the markets open today. Oil has moved higher as traders price a material risk to supply and logistics from shipping through the Gulf. Concerns about destruction risk to oil refineries as well as the practical ability to move barrels to market have both been factors in the rally. The focus is increasingly on shipping conditions, port operations, and the security of export infrastructure across the region. In that context the Strait of Hormuz is a critical pressure point: it is a chokepoint through which roughly a fifth of global oil flows, and disruption can occur even without a formally declared closure if shipowners, charterers and insurers reassess whether voyages remain viable.

How long this conflict lasts matters as much as the headlines. If the operation proves relatively short and markets begin to see clearer signals on de-escalation, markets can stabilise quickly and some of the initial defensive moves into safe havens can unwind to the benefit of stocks. By contrast, the more challenging scenario for markets would be a prolonged conflict that sustains disruption to Gulf energy logistics and raises the risk of damage to critical regional infrastructure, keeping oil stocks high and complicating the inflation outlook which is heavily influenced by the price of oil. What we do know is the current strength of economies around the world as well as a market which has become very resilient to macro shocks over the last two years does lend itself to the conclusion that this market can and will look through this action to begin to make gains once again. Likewise, we see most of the gains in the oil price coming in the next few days with

roughly a \$10 premium on a barrel of oil which we think is already in the price. The unknown will be an escalation of the tensions spilling out into the wider region and the risk of dragging the whole region into a protracted conflict at which point we would increase our price target for oil by another \$20-30 per barrel and more strength coming from safe haven investments like the dollar, treasuries and gold.

From a portfolio perspective, TAM are positioned to navigate an environment like this. Over recent months we have been increasing our value exposure in global stocks reflecting a more inflation and geopolitics aware backdrop where energy, defence and real-economy will matter more than AI dominated growth stocks. Alongside this, our exposure to alternative assets such as hedge funds, precious metals and commodities provides a robust additional layer of protection when stocks come under pressure.

Within the TAM Active and income range, we have been steadily increasing our investments into cheaper value stocks all through 2026 as well as increasing emerging market investments and commodities. This deliberate balance between stock styles and non-equity diversifiers should provide the right mix as we progress through this uncertainty. Our alternatives sleeve will do a lot of the protection functions does include precious metals, which have historically tended to perform well when uncertainty rises and investors favour defensive assets. We also allocate to investments designed to be less correlated with stock markets, such as hedge funds and trend following investments. In risk-off periods, when volatility and defensive assets rise, trend following can help dampen portfolio sell offs by adapting to the prevailing direction of markets across multiple asset classes.

The passive portfolios are also well positioned to deal with these types of geopolitical shocks in mind. TAM hold a strategic allocation to gold, which has historically acted as a hedge during periods of conflict and heightened uncertainty. Exposure to the US dollar is also hedged, limiting unintended currency volatility while still benefiting from its safe haven. More broadly, the portfolios are globally diversified across regions, sectors and asset classes, with no concentrated exposure to the affected areas. Liquidity also remains high and risk is being managed at the total portfolio level, ensuring we are positioned to absorb these types of short-term shocks.

Within the Responsible portfolios, namely Sustainable World & Sharia, there are positions within the portfolios poised to benefit from this uncertainty. In the Sustainable World portfolios, responsibly sourced gold is held across all risk profiles, principally as a haven in moments such as these. This alongside silver bullion, a key monetary and industrial metal has again benefitted from these moves at time of writing. Precious metals sit alongside a broader commodity position, geared towards those metals crucial to the transition toward renewable energy systems. As supply chains become strained and the benefits of globalisation comes under threat, we often see these critical materials increase in price. Lastly, we have more defensive positions in our equity book such as Sustainable Water & Waste which we believe will prove more resilient.

In the Sharia portfolios, the precious metals positions are again a key tenet acting as a Sharia compliant diversifier, while the sukuk positions which are denominated in US dollars, we believe will benefit as the greenback once again proves a short-term safe haven.

Finally, it is worth reiterating that equity markets often fall quickly during the most uncertain phase of a conflict but can also recover swiftly once the situation stabilises or a clearer path to de-escalation emerges. For that reason, the message from TAM to our clients is to say that their portfolios are well diversified in both high quality stocks, which will remain high quality long after this conflict has ended, but also investments

with diversifying alternatives, a considered mix of styles, and access to what we believe are best-in-class managers and strategies, so that we can remain resilient across a wide range of macro and geopolitical outcomes such as the one we are presently faced with.

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