

Asim Wahab Khan, CFA
Chief Investment Officer

Dear Investors,

In light of recent developments concerning escalating tensions between Israel and Iran, we aim to provide you with our insights into the potential ramifications.

Oil prices have experienced a notable uptick, rising by approximately 20% since July 2023, primarily attributed to tight supply controls by OPEC members. While the incremental impact of Israel-Iran incident is expected to be relatively subdued, the possibility of continued skirmishes could sustain oil prices within the range of \$90-\$100 per barrel in the short term. It's noteworthy that Brent oil reached a peak of \$96.6 per barrel in September 2023.

It's crucial to differentiate the current situation from previous geopolitical conflicts, such as the Russia-Ukraine war. Unlike the latter, the Israel-Iran tensions have not escalated to direct confrontation or invasion. While the Russia-Ukraine conflict contributed to the commodity super cycle, it was primarily driven by various factors including supply chain disruptions and central banks' interventions in response to covid-19. The current scenario lacks similar catalysts for a widespread surge in commodity prices unless a significant escalation occurs, which the global markets are not expecting.

A potential 10% increase in fuel prices could directly impact inflation (CPI) by approximately 50 basis points, with an additional indirect impact of another 50bps over the subsequent 3-6 months. Even in such a scenario, we expect overall inflation to decline substantially over the next 3-6 months, resulting in a decline of interest rates as well.

The equity market has demonstrated resilience with a FYTD (July 01 2023 till April 14 2024) return of 70% return despite fluctuating oil prices and inflationary spikes (peak oil prices of \$96.6/bbl and inflation of 31.4% in September 2023). We expect a longer and larger IMF program is in the offing, and successful negotiations on the same will trigger another rally in the stock market, supported by compelling market valuations (PE of 4.3x), and robust foreign and local institutional investments.

Best regards,