BusinessDay

OPINION

NICK VAN RENSBURG | The broader implications of the Iranian War

Emerging markets face turbulence amid oil crisis and rising inflation

March 23, 2026 at 05:01 am

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Nick van Rensburg

The Strait of Hormuz is a critical choke point, and the Gulf is a key source of energy supply to Asia. File photo. (REUTERS/Dado Ruvic)

We started 2026 optimistic about a positive backdrop for global equities, commodities and especially emerging markets. What were the reasons for optimism, and are they still valid?

Expectations were for relatively loose global monetary policy, loosening fiscal and US regulatory policy. We found ourselves in what Bridgewater Associates would call an "inflationary boom", an economic regime with strong commodity prices and improving global growth, leading to strong flows into emerging market equities and bonds.

In January a record number of Iranians protested their discontent with the Iranian regime as the country's currency collapsed and water and electricity shortages plagued Tehran. The regime responded by killing thousands of unarmed civilians, and US President Donald Trump tweeted that help was on the way.

In February, the US deployed significant military assets to the Middle East, and the risk of military action increased. This culminated in the war that started late in February.

The US and Israel succeeded in destroying a significant amount of Iranian offensive capability, and yet the war escalated into the closure of the Strait of Hormuz. It started with a lack of war insurance and continued with attacks on ships in the Gulf and Strait.

The Strait of Hormuz is a critical choke point, and the Gulf is a key source of energy supply to Asia. Shipping heavy goods around the world is a slow, tedious process, so trade prefers proximity. Gulf oil can take anywhere from four days to reach the west of India to 25 days to reach Japan.

Replacing Gulf oil with US oil can take 30-50 days, depending on the route. The collapse of Gulf supply introduces not only higher prices but also significant delivery delays.

Persian Gulf countries export about 20% of global oil, and oil products such as diesel, petrol, jet fuel, naphtha and fuel oil. As little oil flows through the Strait, oil storage tanks at oil fields in the Gulf are filling up, and fields are "shutting-in" production, with about 8% of global oil currently shut-in. The number of shut-ins will grow while ships cannot transit the Strait.

Qatar exports about a fifth of global liquefied natural gas (LNG) and a third of global helium. We estimate the current Iran oil crisis is twice the magnitude of the previous largest oil crisis in history, yet oil prices have been suppressed by the lifting of oil sanctions.

If the Strait opens soon it will take a few months to normalise the energy supply chain and for optimism to return. And if the Strait remains closed, or operating well below normal? South Africa imports about 70% of its petrol, diesel and jet fuel, and these are already more difficult to obtain, and more expensive.

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LNG is used in the production of electricity, and as an input into the production of fertiliser in Asia. The shortage of LNG will force greater use of coal for electricity. The resulting higher coal prices could benefit companies such as Thungela, Glencore and Exxaro over peers.

The Gulf exports about a third of global fertiliser, with the current shortages occurring before the northern hemisphere planting season. Inadequate fertiliser could lower crop yields, and consumers might therefore face higher food inflation by year-end.

Almost 90% of the global population lives in the northern hemisphere, and 75%-90% of global maize, wheat and rice are produced there. Food inflation would favour food retailers such as Shoprite over more discretionary fashion retailers.

The chemical industry has been very weak due to extensive overcapacity in China. With feedstock being reduced by 10% to 20%, it is likely European and Asian chemical supply will reduce. Companies with secure feedstocks should be net beneficiaries of tighter chemical markets. Most of Sasol's operations could be significantly boosted in current market conditions.

The budget deficits of countries around the Gulf will widen significantly, and that could lead their sovereign wealth funds turning from buyers to sellers of global bonds and equities. An extended war could also cause stagflation —

lower economic growth and higher inflation — which is kryptonite for financial markets.

Market correction

The good news is that markets have corrected this month and have already priced in some of the negativity, so peace would cause domestic equities to rebound. High energy prices are similarly kryptonite for Republicans before the US mid-term elections in November.

The Iranian regime might collapse, the US and Israel could take control of the main oil export facilities on Kharg Island and direct funds away from the regime while reopening the Strait. Ships might make a run for it, and if not attacked could functionally open the Strait.

Others believe Trump might declare victory and leave, though this would be an ineffective strategy if oil prices remained high. Alternatively, the war could escalate further, pushing energy prices to new heights.

If the war drags on portfolios will need to position for stagflation. If the war ends soon, optimism will return. This brings us back to the need for portfolios to be more diversified in a multipolar world.

We are fortunate to live in the southern hemisphere, but our portfolios need stocks that would benefit from the end of the war, and some that would benefit if the war continued. As we learned from the Ukraine invasion, and from the Covid pandemic, no-one really knows when this will end.

• *Van Rensburg is investment strategist at All Weather Capital.*