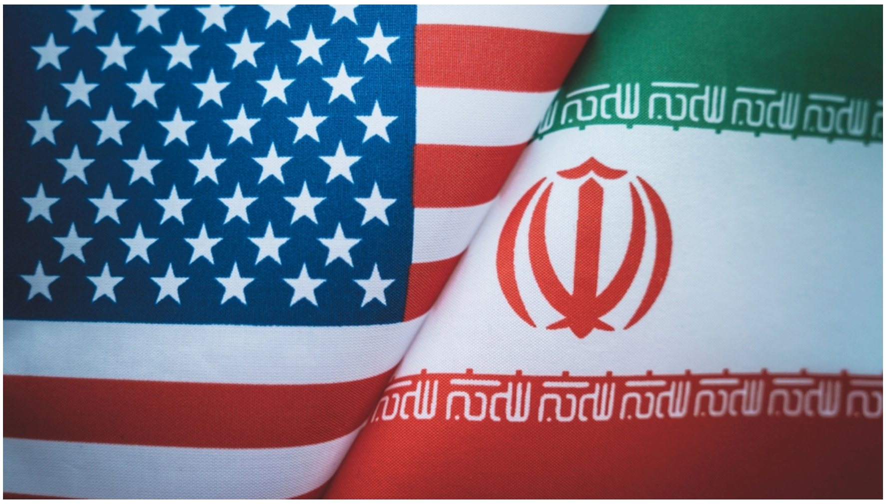
Market Views: Are Asian investors adjusting portfolios over US-Iran tensions?

Heather Ng
11 hours ago

Rising tensions in the Middle East escalated sharply following US airstrikes on Iranian nuclear facilities, intensifying fears of regional conflict and a potential disruption to global oil flows.



The United States has dramatically escalated tensions in the Middle East with precision airstrikes on Iranian nuclear sites, triggering a volatile confrontation with Tehran. President Trump declared that the facilities had been "obliterated," though leaked intelligence suggests the damage may have only marginally set back Iran's nuclear ambitions.

In response, Iran launched missile attacks on a US base in Qatar, but there were no casualties. Israel soon followed with strikes on symbolic targets in Tehran, including military offices and a notorious prison, while publicly denying any aim of regime change. The intense 12-day conflict subsided into a fragile ceasefire, but underlying tensions remain dangerously unresolved.

In response, *AsianInvestor* consulted leading institutional investors and strategists across the region to understand how they're repositioning portfolios.

Christy Tan, investment strategist
Franklin Templeton Institute

Christy Tan
Franklin Templeton Institute

The Israel-Iran conflict triggered a swift flight to safety among Asian investors. Escalating tensions sparked by US airstrikes on Iranian nuclear sites and Iran's retaliatory missile launches drove flows into traditional hedges like the US dollar and gold, while equity allocations tilted toward energy and defence stocks amid surging oil prices.

Following a tentative ceasefire brokered by President Trump, markets quickly reversed course. Asian equities rebounded, gold retreated and the US dollar softened as geopolitical risk premiums eased. Energy stocks, which had rallied on supply fears, saw sharp pullbacks. Australian names fell up to 9%, Japanese oil majors dropped over 5% and South Korean refiners slid more than 7%.

While both sides appear to be de-escalating, volatility remains high. The most exposed sectors, Asian energy and defence, are now under pressure, especially upstream producers, refiners and petrochemical firms that had benefited from inventory gains. Energy-importing economies like Thailand and South Korea remain structurally vulnerable to oil price swings. Though the risk premium has receded, the fragile truce means any flare-up could once again spark rapid repricing across Asian markets.

Wei Li, head of multi-asset investments
BNP Paribas Securities (China)

Wei Li
BNP Paribas

Asian investors are rapidly adjusting their portfolios in response to escalating US-Iran tensions, with a pronounced shift toward safe-haven assets like gold, which has surged past $3,450 per ounce and seen a 124.66% growth in ETF holdings.

Institutional strategies vary: Singapore's institutions are pivoting to Southeast Asian consumer and healthcare sectors, while Japan's pension funds are diversifying into North American shale oil equities to hedge against energy disruptions.

The energy sector faces the highest risk, particularly in oil-dependent nations like Japan which is 88% reliant on Middle Eastern oil and South Korea (74%). Airlines and semiconductor manufacturers are also vulnerable, with fuel cost spikes causing double-digit declines in airline stocks, while Asian electronics firms dip due to trade route concerns. Conversely, oilfield services and shale projects are benefiting from increased investment.

Long-term, Asia is accelerating energy diversification and rerouting supply chains. Capital flows reflect volatility, with $4.7 billion returning to Asian equities in May 2025 after earlier outflows.

Governments are responding with subsidies and nuclear plant reactivations, while industries like semiconductor stockpile critical materials. Maritime insurance premiums have tripled, forcing shipping reroutes and higher costs, underscoring the cascading risks across trade, energy and finance.

Jennifer Qiu, global market strategist
JP Morgan Asset Management

Jennifer Qiu
JP Morgan AM

On hopes for a ceasefire, there is currently only a modest geopolitical risk premium factored into oil prices based on our assessment. However, there remains a risk of an energy shock should the ceasefire not hold. This may come from either the destruction of energy infrastructure in the Gulf region or the closure of the Strait of Hormuz, which could drive oil prices above $100/barrel. Given the severe economic and political ramifications, there should be strong incentives to limit such disruptions.

In the event of an oil supply disruption, Asia could be disproportionately impacted. In 2024, Asia accounted for 84% of the demand for crude oil transported through the Strait of Hormuz, with China, India, Japan and South Korea collectively representing 69%. Although China is Iran's largest oil purchaser, its diversified import sources and substantial reserves should cushion short-term impacts.

A spike in oil prices would adversely affect economies with significant net oil imports relative to consumption, particularly Singapore and Philippines (over 80%), followed by Indonesia, Japan and South Korea. Conversely, the US, as a net energy exporter, would be less sensitive to such shocks.

For investors, while this conflict is significant, geopolitical events historically do not have lasting effects on broader financial markets. They may substantially impact individual markets and cause short-term volatility, but with sufficient regional diversification, the impacts can be mitigated.

Steve Alain Lawrence, CIO
Balfour Capital Group

The US military strike on Iranian nuclear infrastructure has significantly heightened geopolitical risk across Asia, prompting institutional investors to quickly de-risk portfolios. With the Strait of Hormuz—through which over 20% of the world's crude oil flows—at the centre of the conflict, energy-sensitive economies like India, Japan and South Korea are reassessing their exposure to oil-linked sectors. Equity allocations to transportation, aviation and industrials are being trimmed, particularly within Japan's Nikkei and Korea's KOSPI, where sensitivity to fuel prices is high.

Steve Alain Lawrence
Balfour Capital Group

In China, capital is rotating out of export-heavy tech and industrial names such as Alibaba, BYD and Weichai Power, and into more defensive holdings like China Shenhua Energy (coal), Sinopharm and State Grid Corporation. Fears of secondary sanctions and rising shipping insurance premiums in the Gulf are accelerating this repositioning.

In Australia, energy names such as Woodside Petroleum and Karoon Energy saw sharp declines (~6%), while diversified miners like BHP and Rio Tinto remained stable, buoyed by strong domestic demand and lower direct geopolitical exposure. The ASX 200 reflected this divergence, with utilities and gold miners gaining on safe-haven flows.

Sovereign wealth funds and multi-asset managers across Asia are increasing hedges through Brent crude futures, gold ETFs and FX overlays—particularly against currencies vulnerable to imported inflation such as the INR, KRW and PHP. Risk premiums are widening in Southeast Asian high-yield credit, while short-duration US Treasuries are absorbing institutional inflows.

This is not a temporary volatility spike—portfolios are undergoing structural realignment to reflect the reality of long-term geopolitical risk in the Gulf.

FUND MANAGERS **NEWS**

#geopolitical **#iran** **#us**

RELATED ARTICLES