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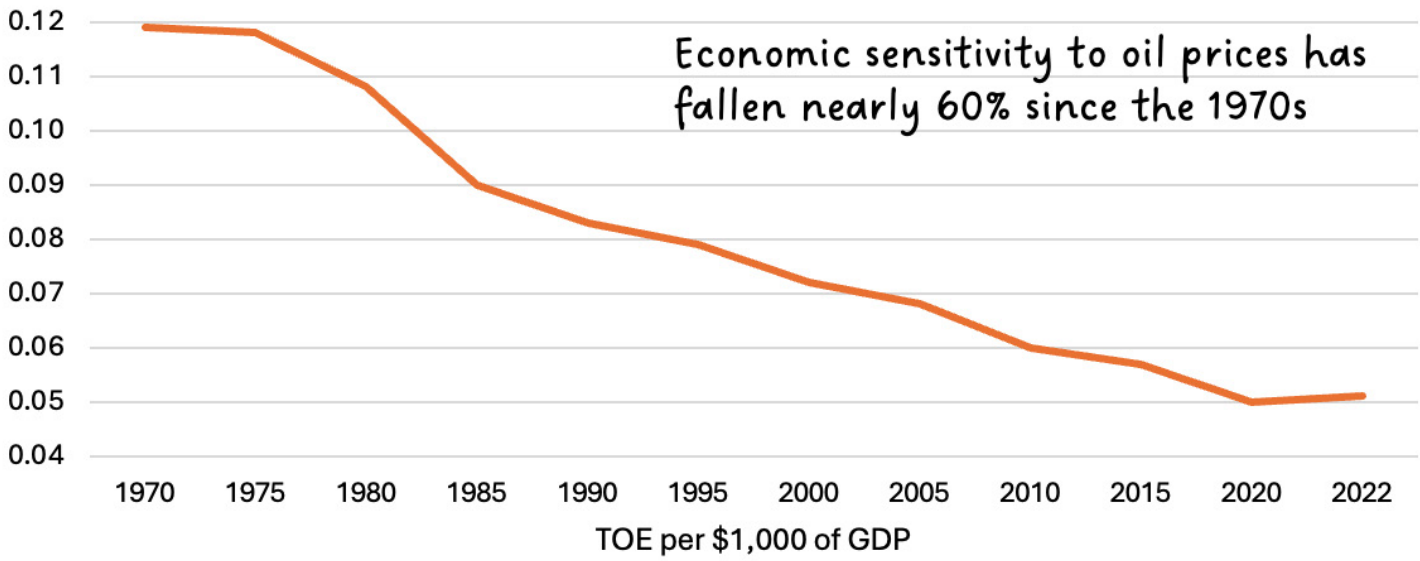
Investing Through the Fog of War

Geopolitical shocks like war or a pandemic can trigger powerful emotional reactions in investors. At times like this, it is important for investors to separate headlines from long-term fundamentals. The closure of the Strait of Hormuz is serious. However, the global economy is far less dependent on oil than it was decades ago. Below we highlight several behavioral biases that investors may want to consider before pulling the trigger.

- **Availability Bias.** Dramatic events dominate attention. Constant news coverage can make risks feel larger and more immediate than they may be. When news flow is intense, there is a tendency to focus on worst-case scenarios simply because they are vivid.
- **Probability Neglect.** When emotions run high, people focus on how bad an outcome could be ("What if the Strait stays closed for months?") rather than how likely it is. Low-probability but high-impact scenarios can begin to drive decision-making.
- **Action Bias.** Volatility creates the urge to "do something." Doing nothing can feel irresponsible, even when uncertainty is highest and expected value of change is unclear. But making changes during peak uncertainty often reflects discomfort, not an unbiased evaluation of the facts we can observe (valuations, fundamentals, and time horizon) with the risks we cannot fully predict.
- **Loss Aversion.** Losses feel more painful than gains feel rewarding. If markets are falling, the urge to cut exposure increases, even if the original allocation thesis hasn't structurally changed. Fear of further drawdowns can override a disciplined process.
- **Narrative Fallacy.** We naturally look for simple stories. "Iran controls the Strait, oil spikes, markets fall" is a compelling narrative. But markets rarely move in straight narrative lines. Policymakers respond, incentives shift, and second order effects emerge. A good story is not the same as a forecast.
- **Home Bias/Flight-to-Safety Bias.** Investors often gravitate toward domestic assets during global stress, assuming they are safer. While U.S. markets may be relatively less exposed to oil shocks, shifting allocations purely for comfort can introduce different risks such as higher valuations or rate sensitivity.

The greatest behavioral risk is not being wrong about the conflict. It is reacting to uncertainty as if it were certainty. When visibility is lowest, conviction often feels highest. That's usually when discipline matters most.

Global oil Intensity



Source: BP Statistical Review; Energy Institute; World Bank. Oil intensity defined as consumption over GDP for each year. Last observation is 2022. TOE = tons of oil equivalent.

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