What the potential U.S.-Iran deal means for investors

As tensions de-escalate, here's what to expect.

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As the U.S. and Iran navigate a path toward resolving key issues, uncertainty continues to linger. Yet beneath the geopolitical headlines, resilient energy markets are showing some signs of optimism for investors focused on energy prices and portfolio positioning. In a recent discussion, **Nicholas Burns**, former U.S. ambassador to NATO and China, and **Ashley Fernandes**, Fidelity Investments portfolio manager and natural resources sector leader, analyzed events in the Middle East and the global market outlook. Below are some key takeaways from their conversation.

Lower oil prices are the market's way of saying "this conflict is over"

But this is not directly reflective of an increase in supply. The slow reopening of this key transit channel represents the initial flight of ships that had been floating in limbo due to Iran's closure and the U.S. naval blockade. There will be a crude supply shortfall for a period due to only 3 to 5 million barrels moving through per day, which is nowhere near the pre-crisis levels of between 17 and 18 million. The shortfall could be brief if production can move ahead unconstrained by potential disruptions. There may be short-term flare-ups that create some volatility in the markets, but neither side stands to gain much by walking away from the table at this point.

The price at the pump

Consumers may eventually pay less per gallon at gas stations, but it will take some time. One reason is strains on global refining capacity. It takes 60 to 90 days from the time crude enters a refinery until it reaches consumers. The refining bottleneck includes the U.S., where facilities are operating at their highest levels in five years and still having trouble keeping up.

The pressure to start normalizing shipping and petroleum operations is high

With both sides agreeing in principle to end the war, there are a few potential challenges that remain in scope.

It will take time before shipping returns to business as usual

At the moment, we're seeing only a fraction of pre-conflict levels, and it is still to be determined if Iran will charge fees or tolls for passage. Such tolls would be a first in the region, and the U.S. will likely push back.

A Hezbollah and Israel ceasefire is unsteady

Iranians have threatened to re-close the Strait if Israel continues to attack Hezbollah. It's an open question as to what Israel will do moving forward regarding Hezbollah, and how Iran will react. The other unknown is if the U.S. and Israel will act in unison toward peace amid policy disagreements (not to mention a historical election in Israel this fall).

There is ongoing uncertainty around enriched uranium

The U.S., EU, Russia, and China have been trying to negotiate the nuclear piece of the Iran equation for 20 years. It will likely not be solved in these first 60 or even 90 days. The positive side is that it doesn't need to be resolved for the rest of the agreement to move forward.

With volatility often comes opportunity

We are seeing the best argument for energy diversification play out in real-time. Thinking longer term, oil demand looks to be peaking sometime in the next 5 to 10 years, and the U.S., Russia, and the Middle East hold 50% of global oil production (with two of those three have seen disruption just in the last few years). What's the implication? Investors might consider two areas of opportunity: electrification and related commodities, such as copper. And as it pertains to petrochemicals, considering where there are long-life reserves in geopolitically "safe" jurisdictions can help build greater portfolio resilience against future supply disruption. A number of these larger companies exist in the U.S., as well as some in the Western world.

The bottom line

While the U.S.–Iran agreement could bring short-term relief to energy markets, it does not eliminate the underlying risks that continue to shape the global energy landscape. Investors need to stay focused on long-term energy resilience through diversification and be braced for potential ongoing volatility as oil supply and shipping return to pre-conflict levels.

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