

## Macro Outlook Summary

May 2025

If anyone needed a lesson in how geopolitical events can completely change a simple macro-economic narrative, then what happened after my commentary last month on oil was just that. I incorrectly discounted the probability of an attack on Iran as far too high risk and assumed that difficult negotiations on nuclear weapons, frozen assets and oil output was the only path forward so leading to my benign outlook for the price of oil.

In the very short term I could not have been more wrong. Israel's attack on Iran and the subsequent escalation with US involvement triggered the almost unthinkable and some real 'shock and awe' behaviour from the US. Incredibly but thankfully, so far at least, the US strategy seems to have worked. Perhaps their assessment of Iran's true circumstances really was correct and for all his bluster and threats Trump has always recognised the need to give his foe the opportunity to save face.

If this is broadly how the story ends then Trump has notched up one huge success that goes well beyond Iran. In the meantime the price of oil is rapidly reverting to fundamentals and the only record in market history will be one week of extreme oil price volatility.

Which leads nicely into the point we have made on several occasions that volatility is the only predictable asset when markets are shocked, either from internal data or exogenous events. Trading volatility from the long side is the domain of a small group of hedge funds and these managers represent the best form of market hedge. Volatility in commodities for example does not automatically spill over into other asset classes so there is room for a variety of volatility trading specialists each focused on different asset classes.

In 2007 it took a while for the volatility in credit to be noticed by equity investors and other assets but eventually there was contagion. A theme of the past is 'Volatility Opportunities' which obviously we always express with a long bias. We have several managers in the wings with strong track records in this field and we are actively looking to add back this theme and managers to our Funds over the balance of the year.