

# U.S.-Iran War and Wall Street Hedge Fund Strategy

Scenario-based global macro, commodities, volatility, credit and allocator analysis



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## U.S.-Iran War and Wall Street Hedge Fund Strategy

Scenario-based investment analysis for global macro, commodities, volatility, credit, prime brokerage, and institutional allocation

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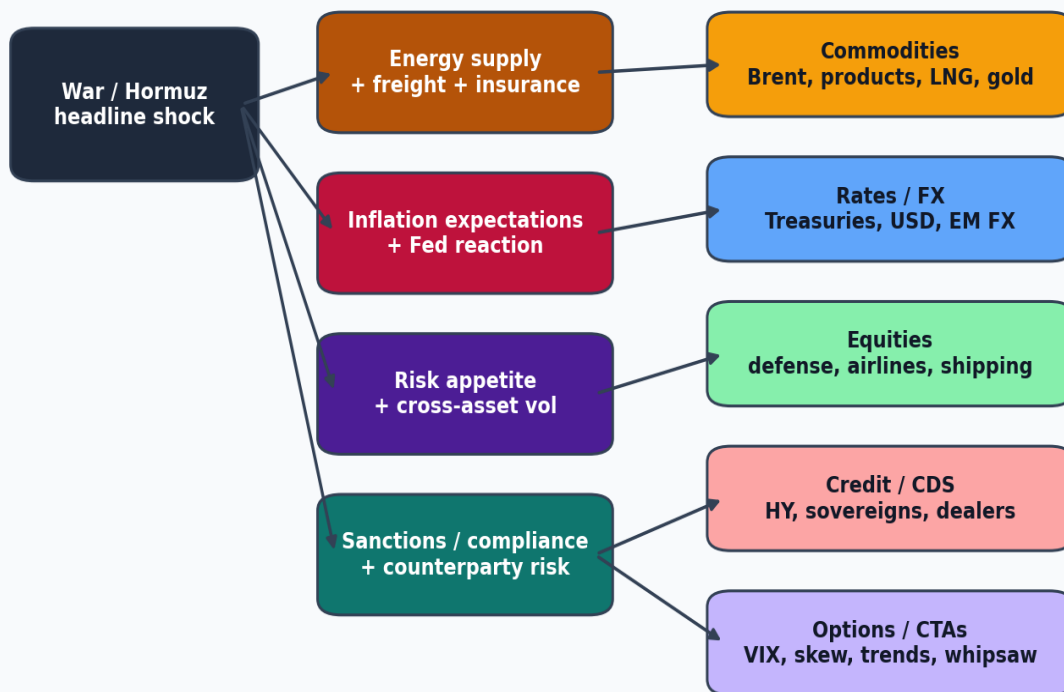
This report converts the U.S.-Iran war and Strait of Hormuz shock into a hedge-fund decision framework: what to watch, how the shock transmits across markets, which strategies may benefit or suffer, and how to manage the prime-broker, liquidity, sanctions, and headline-risk consequences.

# Executive Summary

The core market question is not simply whether the United States and Iran are at war. For hedge funds, the investable question is whether the conflict creates a durable energy-security premium, a temporary oil-volatility event, or a broader stagflationary shock that forces cross-asset deleveraging. The answer changes by scenario, time horizon, and balance-sheet capacity.

- **Hormuz is the transmission mechanism.** EIA estimates that 20 million barrels per day of oil moved through the Strait of Hormuz in 2024, roughly 20% of global petroleum liquids consumption, while about one-fifth of global LNG trade also transited the strait, primarily from Qatar [S5, S6].
- **The shock is already in official energy forecasts.** IEA reported that global oil supply declined by 1.8 mb/d in April 2026 and that losses since February totaled 12.8 mb/d; EIA separately expects U.S. wholesale diesel and jet fuel prices to rise more than 60% in 2026 versus its pre-conflict February outlook [S7, S8].
- **The hedge-fund opportunity is largest in dispersion, not directional slogans.** The best risk-adjusted ideas are likely in Brent/Dubai/WTI spreads, product cracks, oil vol term structure, defense versus airlines, LNG importers versus exporters, EM oil importers versus exporters, and CDS hedges around fuel-sensitive balance sheets.
- **Macro and commodity managers regain relevance.** HFR data show commodity and macro strategies leading early in 2026, but March also demonstrated that broad equity hedge, EM, and crowded growth exposures can suffer when oil, rates, and volatility reprice together [S14].
- **Prime-broker balance sheet, margin, and compliance matter as much as the thesis.** A profitable energy thesis can still be liquidated if it is expressed through crowded futures, short options, illiquid credit, or sanctioned counterparties.
- **Institutional allocators will likely distinguish between true crisis alpha and beta disguised as geopolitical expertise.** The managers most likely to gain capital are those with audited risk controls, liquid stress playbooks, clean sanctions compliance, and a repeatable process for converting geopolitical events into tradable signals.

## Transmission Channels: How War Becomes Portfolio P&L



The market transmission is nonlinear: the same oil shock can be inflationary first, recessionary later, and volatility-compressing after a ceasefire.

Figure 1. Original visual summary of the main transmission channels from war headlines into hedge-fund P&L;

# 1. Current Situation and Source Picture as of June 11, 2026

The latest public-source picture is fluid and partly contradictory, which is exactly why hedge funds should treat the war as a regime of headline gaps rather than a single forecast. Reuters reported on June 11 that oil fell after President Trump canceled planned strikes, with Brent around \$90.60 and WTI around \$87.71, even as Iran had announced a closure of the Strait of Hormuz after U.S. and Israeli attacks earlier in the year. Reuters also reported that the U.S. military said commercial ships continued to operate in and out of the strait, contradicting Iranian claims of strikes on U.S. vessels [S1, S2].

The operational reality is therefore not binary. A declared closure, a partial military blockade, covert LNG/tanker departures, selective transits, and war-risk insurance repricing can coexist. For portfolio managers, the correct exposure is often not simply long oil; it is long disruption convexity while hedging against ceasefire and inventory-release downside.

Theme	Current reading	Portfolio implication
Hormuz oil chokepoint	EIA: 20 mb/d through Hormuz in 2024, about 20% of global petroleum liquids consumption; few alternatives exist if closed [S5].	Raises Brent/Dubai risk premium, strengthens front-month time spreads, and forces product and shipping dislocations.
LNG exposure	EIA: about one-fifth of global LNG trade moved through Hormuz in 2024; 83% of Hormuz LNG flows went to Asian markets [S6].	Supports JKM/TTF optionality, Asian importer stress, and Qatar-related supply risk.
Supply forecasts	IEA: Gulf output affected by closure was 14.4 mb/d below pre-war levels; 2026 supply projected down 3.9 mb/d if flows gradually resume [S8].	Keeps oil curve backwardation and inventory optionality central.
Product inflation	EIA: diesel and jet fuel wholesale prices expected to rise more than 60% in 2026 versus pre-conflict February STEO; gasoline up around 50% [S7].	Pressures airlines, freight, farmers, low-income consumers, and fuel-sensitive HY borrowers.
Macro backdrop	IMF sees war in the Middle East testing growth and disinflation; World Bank sees Brent averaging \$86 in 2026 under an assumption of gradual Hormuz normalization [S9, S10].	Creates a stagflation-versus-demand-destruction debate in rates, equities, credit, and FX.
Hedge fund industry	HFR reports early 2026 strength in macro/commodity strategies, then March losses in equity hedge and EM as inflation and oil repriced [S14].	Allocators reward crisis alpha, but PBs and CIOs cut risk where beta and crowding dominate.

## Key geopolitical interests

- **United States:** Preserve freedom of navigation, protect Gulf allies, pressure Iran, prevent oil shock from becoming domestic inflation, and use expanding U.S. energy exports as geopolitical leverage.
- **Iran:** Use Hormuz, missiles, drones, proxies, and energy disruption as asymmetric leverage while avoiding regime-threatening escalation.
- **Israel:** Degrade Iranian missile, proxy, and nuclear capacity while pushing Washington toward a deterrence posture; market risk rises when Israeli and U.S. escalation cycles reinforce each other.
- **Saudi Arabia and UAE:** Protect infrastructure and fiscal revenue, avoid direct Gulf battlefield exposure, maximize alternative export routes where possible, and maintain relations with Washington and Asian customers.
- **Qatar:** Defend LNG flows from Ras Laffan through Hormuz; LNG disruption has immediate Asian consequences because Qatar is a core supplier.
- **China and Asian importers:** Seek discounted barrels and LNG security while avoiding a U.S.-controlled energy chokepoint; China, India, and South Korea are key LNG destinations for Hormuz flows [S6].
- **Russia:** Benefits from elevated energy prices and U.S. strategic distraction, but a disorderly OPEC+ or post-Hormuz price war could be negative for revenue management.
- **Europe:** Faces imported energy inflation, growth downgrades, and greater dependence on U.S. energy exports; European policy makers must balance inflation control with recession risk.

## 2. Market Transmission Channels

A hedge-fund CIO should map the war through tradable channels rather than through ideological narratives. The dominant channels are supply disruption, inflation expectations, monetary policy, risk appetite, funding conditions, sanctions, and positioning/crowding.

Asset / risk channel	Primary shock mechanism	Likely hedge-fund expression
Crude oil	Physical risk premium, inventory draw, tanker delays, spare-capacity uncertainty.	Long Brent/Dubai, Brent-WTI spread, calendar backwardation, call spreads, producer/refiner relative value.
Natural gas / LNG	Qatar-related route risk; Asian buyers compete for flexible cargoes; Henry Hub may lag if U.S. supply grows.	Long JKM or TTF versus Henry Hub; LNG shipping and regasification plays; short fuel-intensive Asian equities/currencies.
Refined products	Diesel/jet fuel scarcity and refinery feedstock constraints; crack spreads widen.	Long diesel/jet cracks; long refiners with feedstock advantage; short airlines, freight and consumer discretionary.
Gold	Safe-haven bid, real-rate ambiguity, central-bank diversification.	Gold calls/call spreads; gold versus industrial metals; gold miner beta hedged with broad equity shorts.
U.S. dollar	Safe-haven demand, U.S. energy leverage, but possible fiscal/term-premium concern.	Long USD versus Asian oil importers; option hedges versus JPY/KRW/INR; reduce pure DXY if U.S. rates become recessionary.
Treasuries	Safe haven versus inflation/term-premium conflict.	Curve trades: front-end higher-for-longer first, long-end rally if demand destruction dominates; payer/receiver swaptions by scenario.
Inflation / Fed	Energy shock lifts headline CPI/PPI; demand shock later weakens labor and consumption.	Breakeven steepeners, inflation caps/floors, curve flatteners first then bull steepeners in recession scenario.
Equities	Sector dispersion: energy, defense, cybersecurity and shipping versus airlines, chemicals, EM importers.	Long/short baskets, sector pairs, earnings-revision dispersion, volatility overlays.
Credit / CDS	Fuel costs hit margins; HY and EM sovereign spreads widen; energy HY may outperform ex-energy until demand destruction.	CDX HY protection, single-name CDS on airlines/consumer/EM importers, long higher-quality energy credit.
VIX / options	Headline gaps, skew demand, vol-of-vol, dealer gamma instability.	VIX call spreads, SPX put spreads, oil vol calendars, long skew but avoid overpaying after panic spikes.
CTAs / trend	Persistent oil, rates, FX, and equity trends can pay; ceasefire whipsaw can hurt.	Trend-following in crude, gold, USD and rates; reduce exposure after extended positioning/crowding signals.

J.P. Morgan Private Bank frames the macro channels as inflation, consumer-saving behavior, and fiscal/term-premium pressure, while Morgan Stanley emphasizes Hormuz as the key macro lever because disruptions can elevate gasoline prices, inflation, and household-consumption stress [S11, S12].

### 3. Likely Positioning by Hedge Fund Type

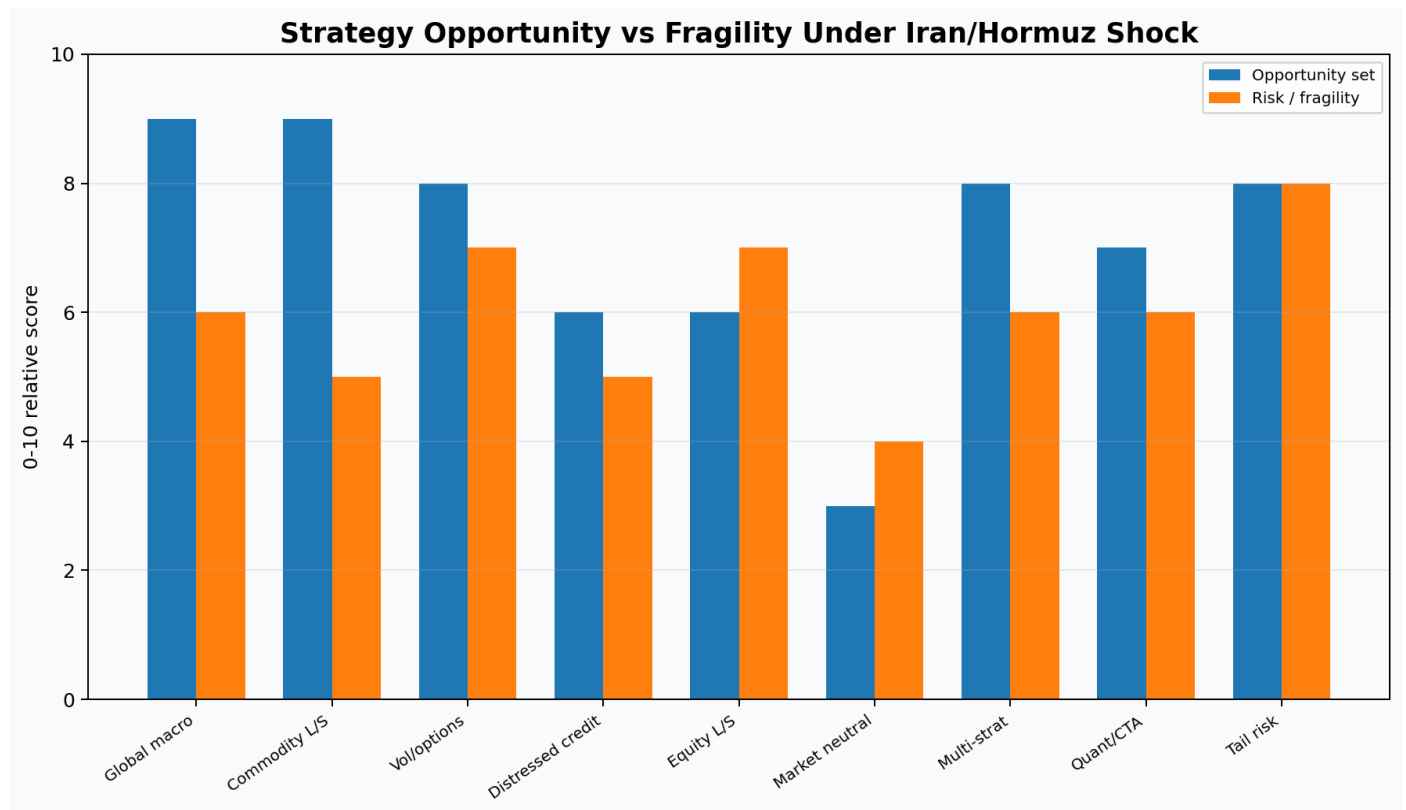


Figure 2. Original strategy map. Scores are qualitative relative scores, not performance forecasts.

Fund type	Likely playbook	Main risk
Global macro	Oil convexity, USD versus oil importers, gold, rates curve by inflation/recession phase, tactical equity index hedges.	Being right on geopolitics but wrong on policy reaction or timing.
Commodity long/short	Brent/Dubai/WTI spreads, product cracks, time spreads, refinery/feedstock dislocations, LNG regional spreads.	Basis risk, exchange margin, physical-versus-paper disconnect.
Energy trading funds	Long advantaged producers/refiners and midstream; short exposed importers, airlines, petrochemicals; options around inventory data.	Overcrowded energy longs and ceasefire gap-downs.
Volatility / options	Oil calls/call spreads, VIX call spreads, put spreads, long vol calendars, tail hedges funded by limited-risk shorts.	Buying vol after the spike, negative carry, dealer margin changes.
Event-driven	Deal-spread widening in airlines, industrials, shipping, defense; selective long defense/cyber M&A; beneficiaries.	Sanctions, CFIUS, financing-market breaks, broken deals.
Distressed credit	Wait for fuel-sensitive borrowers, EM importers, airlines, chemical companies; hedge with CDX HY/EM CDS.	Too early in distressed entries; policy rescue or ceasefire squeezes shorts.
Equity long/short	Long energy security, defense, cybersecurity, LNG infrastructure, U.S. exporters; short airlines, cruise, petrochemicals, EM importers.	Factor beta overwhelms sector thesis; crowded shorts squeeze.
Market-neutral	Lower gross, tighten factor and sector neutrality, trade earnings dispersion rather than directional market beta.	Correlation spikes and borrow/margin changes reduce alpha.
Multi-strategy	Internal risk-budget shifts toward macro, commodities and volatility; reduce crowded equity and credit beta.	Internal deleveraging can crystallize losses across pods.
Quant / CTA	Trend signals in crude, gold, rates, FX; NLP/geopolitical risk signals for intraday risk throttles.	Whipsaw after ceasefire headlines; model overfitting to sparse geopolitical data.
Tail-risk funds	Long oil/gold/VIX convexity, SPX puts, USD calls versus importers, payer swaptions in inflation phase.	Carry bleed and monetization discipline.

## 4. Scenario-Based Winner/Loser Map and Trade Structures

## Scenario Sensitivity Heatmap: Relative Winners and Losers

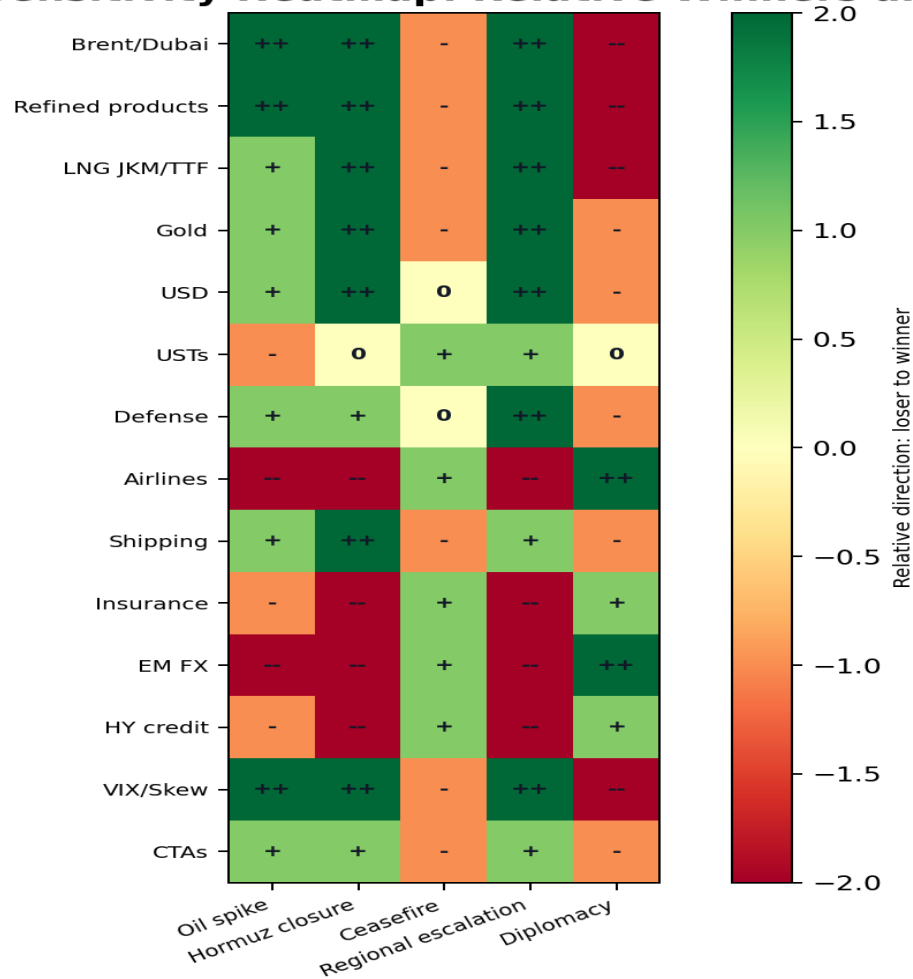


Figure 3. Scenario heatmap. It shows expected relative sensitivity, not recommendations.

### Scenario A: Sharp oil-price spike without full durable closure

**Market pattern:** Brent/Dubai gap higher, oil implied volatility rises, VIX spikes but may fade if tankers continue transiting. Front-month crude and product cracks outperform deferred contracts. Airlines, cruise, chemical, and EM oil-importer assets underperform. Defense and energy equities catch a bid.

- **Long/short:** Long oil producers/refiners/defense versus airlines, cruise, petrochemicals, and oil-importer EM equities.
- **Options:** Brent or WTI call spreads; VIX call spreads; SPX put spreads rather than outright puts if vol is already rich.
- **Curve:** Long front-month crude versus deferred; long diesel/jet cracks versus crude; watch exchange margin increases.
- **Credit:** Buy CDX HY protection or single-name CDS on fuel-sensitive borrowers; keep energy HY hedged for demand destruction.
- **FX:** Long USD versus KRW, INR, THB or other oil-importer currencies; consider partial hedge with gold or CHF if USD fiscal risk rises.

### Scenario B: Prolonged effective closure of the Strait of Hormuz

**Market pattern:** This becomes a supply-chain and balance-of-payments crisis, not just an oil trade. LNG disruption matters because Qatar-linked LNG cargoes affect Asian buyers. Morgan Stanley has described a severe several-month effective closure as a scenario in which oil could move into a much higher \$150-\$180 range, while Goldman Sachs has emphasized that persistent disruption risk can make prices exceed fair-value estimates [S12, S13].

- **Long/short:** Long Brent/Dubai, LNG-linked plays, U.S. exporters, selected defense/cybersecurity, and shipping names with war-risk pricing power; short airlines, fuel-intensive industrials, petrochemicals, and vulnerable EM importers.
- **Options:** Maintain convex oil upside but monetize portions into panic; use collars or put spreads on equities to avoid unlimited carry.
- **Curve:** Extreme front-end backwardation likely; inventory and SPR policy can break the curve suddenly.
- **Relative value:** Long U.S. refiners with feedstock access versus foreign refiners dependent on Gulf crude; long Henry Hub versus short JKM/TTF may be wrong if U.S. LNG export capacity is constrained, so use regional gas spreads carefully.
- **Credit:** CDX HY and EM protection; short/hedge airline secured debt; monitor margin requirements on commodity collateral.
- **FX:** Long USD and possibly CAD/NOK versus Asian oil importers; hedge against emergency diplomacy by using options, not only forwards.

## Scenario C: Limited war followed by ceasefire

**Market pattern:** War premium compresses. Crude and oil vol sell off; airlines, EM importers, and consumer cyclicals rebound. Defense and energy-security equities may retain a smaller structural premium if the ceasefire is fragile.

- **Long/short:** Pair trade rotates: take profits in energy beta; cover airlines/EM shorts; long quality cyclicals financed by short overextended energy momentum.
- **Options:** Sell or unwind expensive short-dated oil upside; use put spreads on crude if inventories rebound; avoid naked short vol because ceasefires often fail.
- **Curve:** Front-end crude backwardation flattens; deferred contracts may be supported by rebuilding inventories.
- **Credit:** Reduce CDX HY hedges; buy dislocated but solvent airline/industrial credit selectively.
- **FX:** Short USD versus selected oil importers after confirming actual tanker flows, not only political statements.

## Scenario D: Broader regional escalation

**Market pattern:** Conflict extends to Gulf infrastructure, Israel, U.S. bases, Red Sea/Bab al-Mandeb, or cyber attacks on energy/financial systems. Cross-asset correlation rises, liquidity falls, and prime-broker margin discipline tightens. This is the environment in which basis risk and counterparty risk dominate security selection.

- **Long/short:** Long tail hedges, defense, cyber, gold, U.S. energy/security supply chain; short high-beta equities, airlines, EM importers and fragile credit.
- **Options:** VIX call spreads, SPX put spreads, gold calls, USD calls versus EM importers, payer swaptions if inflation panic dominates.
- **Curve:** Curve can flatten on Fed inflation fear, then bull-steepen if recession and financial stress dominate.
- **Credit:** Prioritize liquid index hedges over single-name shorts; dealer balance sheet may make single-name CDS hard to source or exit.
- **FX:** Long USD/CHF/gold basket versus high-deficit oil importers; avoid excessive leverage in currencies subject to capital controls or intervention.

## Scenario E: Diplomatic settlement and partial normalization

**Market pattern:** War premium deflates, but it does not disappear. The market reprices from immediate disruption to a new energy-security premium: higher insurance costs, more inventories, redundant supply chains, defense spending, and geopolitical data budgets.

- **Long/short:** Short overextended oil beta and war-risk winners; long airlines, EM oil importers, selected consumer cyclicals; retain long-term energy-security infrastructure and defense winners.
- **Options:** Buy lower-volatility longer-dated protection after the crush; sell short-dated rich skew only with defined risk.

- **Curve:** Crude time spreads normalize; refined-product cracks compress; LNG regional spreads fall if Qatari flows normalize.
- **Credit:** Tightening in HY and EM; rotate from protection to select recovery trades, but avoid weak borrowers that survived only because fuel hedges temporarily masked stress.
- **FX:** Importer currencies recover; petrocurrencies give back part of the risk premium.

## 5. Why Large and Emerging Hedge Funds Respond Differently

The same war creates different opportunity sets depending on balance sheet, trading infrastructure, counterparty network, and investor tolerance. The biggest funds can express views across futures, OTC derivatives, single-name CDS, swaps, physical-adjacent data, and cross-asset books. Emerging managers often have to express the same thesis through liquid listed futures, ETFs, listed options, and conservative gross exposure.

Dimension	Large Wall Street hedge funds	Emerging hedge funds
Market access	Multi-prime, ISDA, cleared swaps, OTC energy options, CDS, FX options, direct broker color.	Usually exchange-traded futures/options, ETFs, listed equities, limited OTC access.
Information edge	Paid tanker data, satellite/OSINT, political-risk consultants, dealer flow, internal risk systems.	Public sources, selective paid data, faster discretionary judgment, niche specialization.
Risk capacity	Can warehouse basis risk and run relative value across books, but internal risk committees can force rapid cuts.	Less leverage and less ability to absorb margin calls; must keep trades simple and liquid.
Allocator perception	Expected to provide crisis alpha with institutional controls.	Can win by being specialized and nimble, but must prove risk and compliance discipline.
Best expression	Cross-asset RV, options overlays, CDS, curve and volatility structures.	Liquid macro baskets, defined-risk options, sector L/S, tight drawdown and liquidity controls.

## 6. Risk-Management Standards for a War-Driven Hedge-Fund Book

This is a balance-sheet event. Every position should be approved not only by expected return, but also by gap risk, exchange margin, PB financing, sanctions exposure, liquidity, and the possibility of a ceasefire headline at 2 a.m. New York time.

Risk area	Required standard
Leverage	Set gross and net exposure by stressed liquidity, not normal volatility. Cap commodity concentration and reduce leverage before weekends, major speeches, OPEC/IEA/EIA releases, and military deadlines.
VaR and stress	Historical VaR is insufficient. Run scenario VaR for \$20, \$50 and \$100 oil moves, vol doubling, dollar spikes, rates repricing, CDS widening, and simultaneous equity drawdowns.
Drawdown control	Predefine fund-level and sleeve-level drawdown cuts; monetize convexity rather than waiting for perfect geopolitical confirmation.
Liquidity	Keep cash collateral for margin; use exchange-traded hedges where possible; avoid illiquid credit shorts unless funded by liquid index protection.
Counterparty / PB	Diversify primes and FCMs; monitor margin models, cross-default provisions, rehypothecation, and intraday margin calls. SEC/CFTC Form PF proposals show regulators remain focused on private-fund reporting thresholds, exposure, and stress visibility [S15].
Crowded trades	Track futures positioning, PB factor reports, ETF flows, dealer gamma, and energy equity short interest; crowded long oil plus crowded short airlines can reverse violently on ceasefire.
Basis risk	WTI is not Brent; Brent is not Dubai; futures are not physical cargoes; ETFs are not spot commodities; LNG regional basis can dominate the headline view.
Headline risk	Use options and smaller sizing for positions that cannot be exited during Asian or Middle East trading hours; assume contradictory official statements.
Sanctions / compliance	No exposure to blocked persons, sanctioned shipping, prohibited Iranian/Russian counterparties, or non-permitted material nonpublic government/military information.

Risk area	Required standard
Operational risk	War-risk insurance, exchange halts, cyber events, data outages, and broker risk limits can impair execution even when the investment thesis is correct.

## 7. Structural Implications for the Hedge Fund Industry

The war accelerates a shift already visible in allocator behavior: hedge funds are being judged less as generic absolute-return products and more as specialized crisis-processing engines. The winners will not simply be funds that predicted the conflict. They will be funds that built a repeatable conversion mechanism from geopolitical risk into liquid, risk-controlled trades.

- **Revival of global macro:** Macro regains allocator relevance when rates, commodities, FX, and policy reaction functions diverge. HFR reported that macro strategies were leading performance and were among the lowest-correlated strategies in Q1 2026 [S14].
- **Energy-security premium:** The market will likely apply a higher permanent multiple to redundancy: inventories, pipelines, LNG optionality, alternative shipping routes, defense, cybersecurity, and domestic energy resilience.
- **Geopolitical data as alpha infrastructure:** Tanker tracking, satellite data, war-risk insurance quotes, AIS anomalies, sanctions lists, OSINT/NLP, and dealer positioning become core research inputs, but compliance controls must separate public/licensed data from restricted information.
- **Commodities and shipping as institutional allocation themes:** Commodity specialists, shipping analysts, and energy-infrastructure experts gain value because the key bottlenecks are physical, not only financial.
- **Insurance and reinsurance dispersion:** War-risk premiums can lift revenue while catastrophic losses and exclusions can damage underwriting. This favors specialist long/short work over broad sector beta.
- **Prime brokerage discipline:** Higher margin and liquidity stress make funding terms a source of alpha or failure. Managers with multiple primes and conservative collateral policy will have more staying power.
- **Allocator reassessment:** Pension funds, endowments, family offices, and sovereign wealth investors are more likely to reward low-correlation macro, CTA, commodity, and volatility strategies after a visible inflation/war shock, while penalizing levered equity beta disguised as hedge-fund alpha.

## 8. Investment-Idea Inventory: Scenario-Based, Not Recommendations

The following are research directions a CIO could assign to portfolio teams. They are not buy or sell recommendations. Each idea requires position sizing, legal review, liquidity review, and a defined exit rule.

Idea family	Expression candidates	Kill switch
Oil upside with defined risk	Brent/Dubai/WTI call spreads; oil producer calls financed by limited-risk index hedges.	Ceasefire with verified tanker normalization and falling war-risk premiums.
Product scarcity	Long diesel/jet cracks; long U.S. refiners with feedstock access versus airlines or fuel-sensitive transport.	Refinery throughput recovery or government fuel-price intervention.
LNG regional stress	JKM/TTF versus Henry Hub; Qatar-linked shipping/logistics research; Asian importer hedges.	Qatari cargos normalize and LNG spot spreads collapse.
Defense and cyber dispersion	Long defense electronics, missile defense, naval systems, cybersecurity; short low-quality industrial beta.	Budget/political backlash or de-escalation without defense spending follow-through.
Airline/consumer credit stress	CDS or bond shorts on weak fuel-sensitive issuers; CDX HY overlays; long stronger competitors.	Fuel hedges, government support, or sudden oil crash.
EM importer pressure	USD calls or forwards versus INR/KRW/THB/PHP; sovereign CDS screens.	Central-bank intervention or diplomatic settlement.

Idea family	Expression candidates	Kill switch
Volatility convexity	VIX call spreads, SPX put spreads, oil vol calendars, gold calls.	Vol explodes above monetization threshold; risk committee requires taking profits.
Ceasefire reversal	Short rich oil vol with defined risk; long airlines/importers; unwind energy beta.	Ceasefire violation or renewed U.S./Iran/Israel strikes.

## Conclusion

The U.S.-Iran war is best understood as a stress test of the modern hedge fund model. It rewards managers who can integrate geopolitics, energy logistics, options pricing, credit stress, FX balance-of-payments analysis, and prime-broker financing into one coherent risk system. The investable edge is not a heroic prediction about war or peace. It is scenario discipline: own convexity before the gap, monetize it into panic, avoid being forced out by margin, and rotate quickly when diplomacy compresses the war premium.

For large multi-strategy platforms, the opportunity lies in coordinated cross-asset risk-budget allocation and information advantages. For emerging managers, the opportunity lies in narrower, cleaner, more liquid expressions: defined-risk options, sector pairs, and transparent risk controls. For allocators, the war makes one point clear: true hedge-fund value is not high gross exposure. It is the ability to survive and exploit discontinuity.

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