

“BLOWIN’ IN THE WIND”

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By Brahm Satov

Is the war over, or not? Right now, we apparently have an MOU (memorandum of understanding) with a few points that the U.S. and Iran seem to agree on. But one of the biggest issues is that we, the investing world, can't tell what's fact and what's fiction anymore. It's almost funny how the stock market reacts every single time the U.S. makes an announcement that even hints at an end to the war. The market rallies over and over, acting as if a real deal has been struck when we're really just looking at a "maybe." Once again, this just might be a temporary ceasefire. We've been fooled time and time again about an actual end to this strife. So, when will the war truly end? You guessed it, the answer is "blowin' in the wind," just like Bob Dylan sang back in '63.

As hard as I try to stay away from politics, sometimes I feel compelled to just say it. The tragic reality is that people are dying. And for what? Prior to this war, the Strait of Hormuz was completely open. From what I'm reading, the absolute "best" part of this latest MOU for the U.S. is that the Strait is going to be reopened. That's it. As far as I can tell, there's zero resolution to Iran's nuclear enrichment program, which was the so-called reason for the bombing in the first place. On top of that, it sounds like after this 60-day MOU period, Iran might actually be allowed to charge vessels for passage through the Strait. And did I read this right? The U.S. isn't just unfreezing restricted Iranian funds; they are actually going to help facilitate at least \$300B in investments to Iran for "reconstruction and economic development." If anyone is wondering who actually won this war—well, the saying goes, "to the victor go the spoils." And if that still holds true, Iran can claim victory. I'm not even sure the U.S. can claim a pyrrhic victory.

So, what has actually been accomplished by the war so far? Iran is now under the control of an even more extremist regime. Oil prices may have come back down, but even if this war is over, it's going to take a long time to get supply back to normal. Meanwhile, higher-than-normal oil and gasoline prices are still filtering through the economy, hitting everyday consumers right in the wallet, draining disposable income, and pushing inflation into everything from flights to groceries. Iran got more powerful, the U.S. less so, and when it comes to the "art of the deal," maybe we now realize that the art is solely in the eye of the beholder.

While it's important to realize that all of these announcements might just be fodder for the stock market, or perhaps a well-orchestrated political distraction, this war has serious implications for your investments. If this drags out, expect significantly higher oil prices, since reserves are drawn down and supply is tight. That means inflation sticks around longer, making interest rate cuts highly unlikely (unless the global economy slips into recession). Combined with shrinking disposable income, the probability of economic weakness goes way up. Whereas, a real resolution could bring short-term euphoria to the stock market and open the door for lower interest rates, which could give a much-needed boost to the struggling housing market. Both of these alternatives would require very different investment strategies.

Given that this MOU is only good for 60 days, and the U.S. mid-terms are coming up in early November, I think it would be reasonable to expect this political back-and-forth to continue for quite some time. I always tend to be more cautious when stock markets are overvalued and acting irrationally. But when you couple high prices with massive uncertainty (which is historically not good for stocks), it likely makes sense to play defense. If you haven't thought about taking some profits and moving to a safer strategy yet, you may want to consider it. As for when we'll finally get some real clarity? That answer... is still blowin' in the wind.

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