



**EDMOND
DE ROTHSCHILD**

SPECIAL FLASH: FOLLOWING THE ATTACK ON ISRAEL, OUR ASSET ALLOCATION POLICY IS UNCHANGED

Markets have so far had a measured response to the events over the weekend in Israel. Oil prices have rebounded by around 3%, the dollar has gained roughly 0.5% and there has been a slight flight to quality with stock markets and bond yields edging lower. These dramatic events involve non-oil producing countries with a limited impact on the global economy.

The main risk is the situation worsening in the region and a potential conflagration between Israel and Iran. That would have very serious consequences. Not only is Iran a big oil producer but it could once again block the Strait of Hormuz and destroy neighbouring oil fields. The reaction of Hezbollah, the Iran-backed militia in Lebanon, over the weekend remained symbolic without significant military action.

Israel's prime minister said the war would be long and difficult. Nobody can say for the moment if the riposte will be similar to those seen in the past or if the sheer shock of what happened could lead to the conflict spreading. The fact that the Israeli government has been weakened by their constitutional reforms, that large sections of the population have rejected, could make its reaction less predictable.

As a result, it is only logical to apply a risk premium to markets. For the moment there is no reason to change our asset allocation stance. We will wait to see how the situation plays before taking a position.

Benjamin Melman, Global CIO Asset Management

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