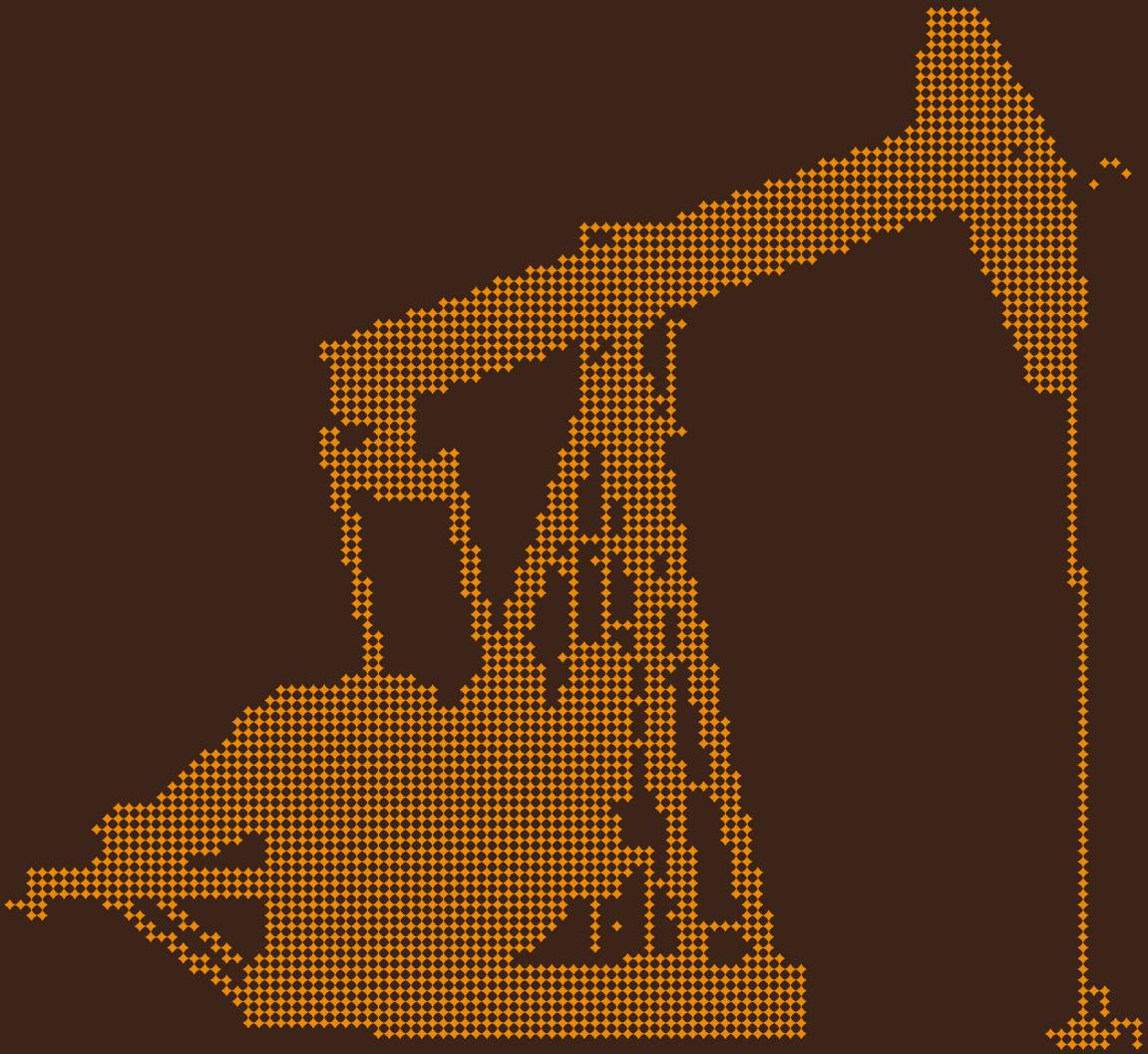


*Why it's ALL about  
inventories in the*  
MIDDLE EAST

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# *Middle East* CONFLICT: *why* INVESTORS *should focus on oil and* MUNITION *inventories*

The conflict between the US and Iran means geopolitics, rather than fundamentals, are increasingly driving markets, at least in the short term. In such moments, investors may want to focus on inventories of oil and munitions. Oil inventories buy some time for the global economy, while US/allied munitions inventories give time for military strategy. Iran's large, dispersed stockpiles similarly extend its ability to sustain conflict, potentially increasing both its duration and severity.

## *Strategic reserves as the first line of defence*

The global stock of crude oil and refined products remains the world's main shock absorber. With the Strait of Hormuz (SoH) effectively closed, inventory capacity has become the central variable. The International Energy Agency (IEA) member countries are preparing what could be a record Strategic Petroleum Reserve (SPR) release of up to 400 million barrels. The IEA's 1.8 billion barrels provide a buffer equivalent to more than 120 days. The SPR is operating exactly as designed, a bridge that buys time before a structural shortage emerges, which would have a more lasting impact on the global economy.

But this headline figure overstates usable supply. Inventories are unevenly distributed, constrained by refining limitations, and not fungible across fuel types. Once operational frictions are considered, the effective buffer shrinks. Oil inventories buy time, but the asset is finite and steadily depleting, leaving the system vulnerable if the SoH stays shut longer than expected.

## *Munitions inventories: the binding constraint on US strategy*

If oil inventories protect the economy, then stockpiles of munitions underpin US military strategy. Yet these systems are

being depleted at a pace that current production cannot sustain. Iran employs very cheap, easily replaced drones and missiles, creating a stark mismatch: low-cost attacks versus high-cost defences. This asymmetry rapidly drains US interceptor inventories. Over a thousand Patriot PAC-3 interceptors have already been fired (nearly double annual output) and even high-value assets such as a THAAD radar have been struck.

Iran's objective is to saturate or at least stress regional air-defence networks with large volumes of low-cost munitions. However, continuous barrages aren't necessary. Intermittent launches are enough to keep the SoH constrained by sustaining elevated insurance premiums and reduced shipping throughput. Even if 90% of Iran's manufacturing capacity were degraded, Tehran could potentially maintain a high rate of fire for months. The result would be higher energy and fertiliser prices, rising inflation expectations, and the risk that central banks tighten policy despite weakening growth. Under such conditions, the probability of a global recession would increase sharply.

## *US domestic politics*

Oil and munitions inventories buy time, but the US political cycle may expire first. Rising gasoline prices are adding pressure as President Donald Trump enters the months leading up to the US mid-term election in November. Betting markets now show Republicans losing majority control of the House and Democrats narrowing the Senate gap with the Republicans, reflecting concerns that the administration has less capacity to absorb new shocks. President Trump is under pressure to end the conflict.



### *China's role in managing regional tensions*

China's influence is central here. As Iran's diplomatic backer and largest energy customer, Beijing has influence over Tehran. Whether China seeks de-escalation or sees advantage in extended US strain remains unclear. Ironically, China could turn the art of the deal against Trump.

Nevertheless, China also imports vast amounts of Middle Eastern oil, giving it strong incentives to avoid a prolonged disruption.

A durable path out of this may require high-level diplomacy. The Trump–Xi meeting in Beijing later this month may be the first real opportunity for a negotiated de-escalation in the Middle East.

### *Conclusion*

The conflict is potentially a stagflationary shock whose severity depends on its length and export volumes while the SoH remains closed. Oil inventories buy some time, but as they erode, the risks of inflation pressure, higher energy prices and market volatility rise.

For investors, diversification and geopolitical hedges remain important. These include gold, diversifying hedge funds, inflation-linked bonds, short-duration sovereigns, and energy equities. While oil inventories remain the primary shock absorbers, maintaining robust portfolio hedges is critical.



# *Speak to us*

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