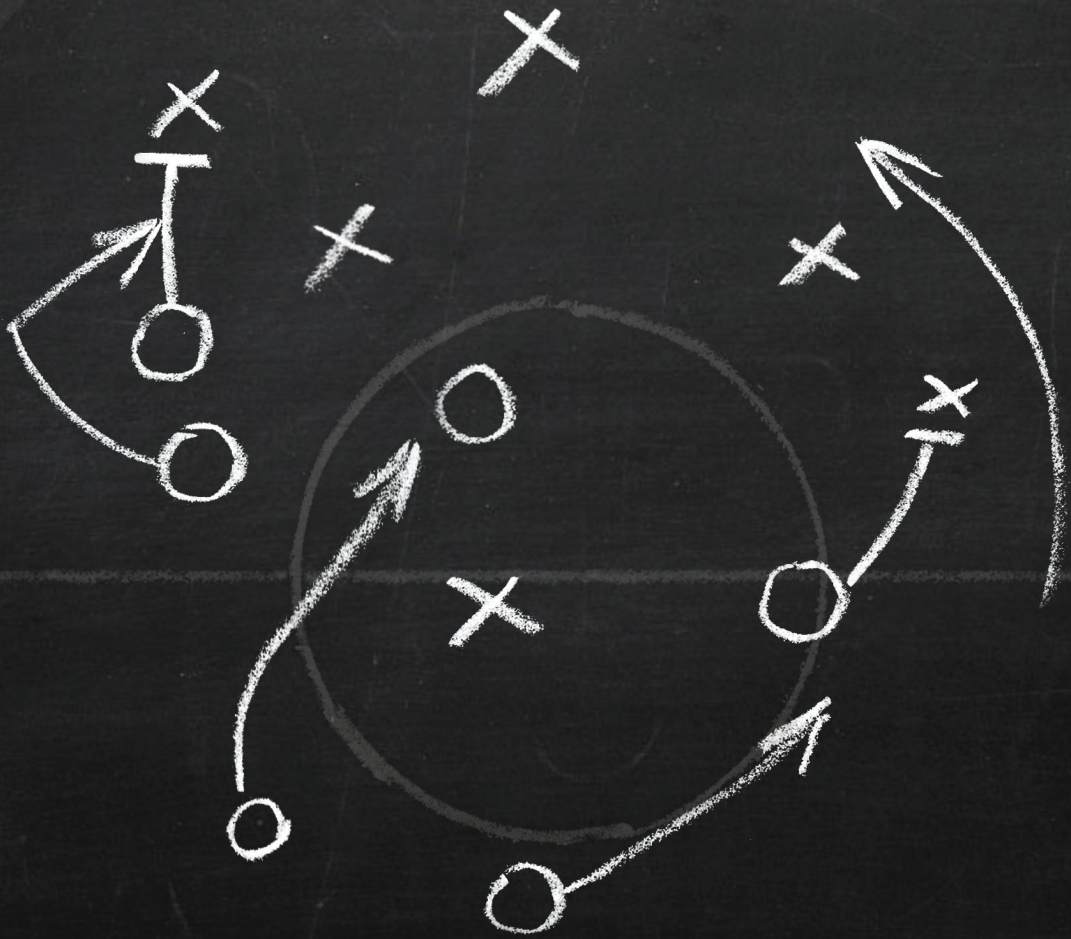




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SPECIAL NOTE FROM THE CIO OFFICE

Operation Rising Lion

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Operation Rising Lion

Israel unleashed a preemptive attack on Iran last night to destroy the latter's nuclear capabilities, targeting Iran's long range missile capabilities, military command and control centers, key personnel, and nuclear sites.

Israel has stated that the reason for the attacks is to prevent Iran from obtaining a nuclear weapon, as it has no doubt that Iran would be willing to use this weapon against it.

On one hand, with limited options, Iran could potentially be forced back to the negotiating table after a limited retaliatory response. On the other hand, Iran could follow North Korea's playbook and become even more belligerent against the West. Regardless, either of these two options would be better than a third option, which could involve an attack on both Israeli and U.S. assets.

The investment implications following Israel's unilateral strike against Iran center around immediate

market volatility and subsequent geopolitical risks. Overall, we urge investors not to aggressively over-trade this event and reduce risk from their portfolios.

Operation Rising Lion "will continue for as many days as it takes to remove this nuclear threat". These were the words of Israeli Prime Minister Benjamin Netanyahu last night when speaking about Israel's preemptive attack on Iran to destroy the latter's nuclear capabilities. Israeli Defense Forces spokesperson Brigadier General Effie Defrin followed up later in the evening by saying: "We have no choice, we are operating against an imminent and existential threat. We cannot allow the Iranian regime to obtain a weapon that would be a threat to Israel and the entire world. This operation is for our right to exist".

What happened in these strikes? What led to them? What are some possible developments and potential effects on markets? We explore these and other points below.

Last night, Israel struck Iran's long range missile capabilities, military command and control centers,

key personnel, and nuclear sites. Through a precise, highly coordinated attack, Israel Defense Forces jets, along with several other covert operations, attacked more than 100 targets inside Iran, destroying several of Iran's Shahab and Kheibar long range ballistic missiles, transportation networks, command and control centers, and attacked several nuclear facilities including the facility at Natanz. At the same time, Israel also killed four of Iran's top generals, including Hossein Salami, the commander-in-chief of Iran's powerful Islamic Revolutionary Guard Corps (IRGC), as well as the armed forces Chief of Staff, and several of the country's top nuclear scientists. The nuclear facilities in Natanz and Fordow house Iran's top two uranium enrichment plants. Although Natanz is the largest facility, Fordow is one of the country's newest, most advanced facilities, housing Iran's stocks of highly enriched, near-weapons grade uranium. Although it is known that Israel does not have the military capabilities needed to directly strike Fordow, as it lies more than 260 feet (80 meters) underground, it did the next best thing by striking Iran's older nuclear sites, as well as its ballistic missile capabilities and command personnel.

Israel has stated that the reason for the attacks is to prevent Iran from obtaining a nuclear weapon, as it has no doubt that Iran would be willing to use this weapon against it. In fact, U.S. Secretary of Defense Peter Hegseth had recently stated that the United States believed that if Iran had a nuclear weapon, there was a high level of concern that the country's regime would use it to promote ideological warfare. The United States and Iran had been engaged in multiple rounds of ongoing negotiations aimed to discourage Iran from enriching Uranium to the 83% to 85% purity level needed reach the military-grade level required to make a nuclear weapon. However, as both countries advanced towards their sixth round of negotiations, the International Atomic Energy Agency stated that for the first time in the last twenty years, Iran had not been complying with its uranium

enrichment limits. In response to this statement, it is reported that instead of ratcheting down enrichment efforts, Iran announced the activation of a third enrichment facility at an undisclosed location. Some reports state that Iran has in fact reached Uranium enrichment levels close to 60% in Fordow, with Israel stating that Iran was likely weeks away from being able to reach the 85% military-grade enrichment level, and months away from being able to build between nine and fifteen nuclear weapons. It is believed by some members of the intelligence community that Iran had been stalling round after round of negotiations with the U.S., using this time to complete its enrichment program.

The question now is how this conflict could potentially continue to develop. One thing that is highly probable is that Iran will retaliate against Israel. It is not a matter of if, but when. At the same time, Israel has stated that it will continue its attack on Iran in a series of waves to fully degrade the country's nuclear program. Although it is unlikely that the country's nuclear program will be fully degraded, it is likely that it will be at the very least disrupted. Iran will engage in retaliatory attacks, as its governing regime will want to demonstrate that it is still in control through a show of force. However, the country's retaliatory options are limited. Historically, Iran's geography and relatively isolated diplomatic stance in the Middle East has limited its ability to become involved in a protracted military conflict. As a result, Iran has traditionally engaged in regional conflict through unconventional or irregular warfare, mainly through proxy-groups like Hezbollah, Hamas, and the Houthis. However, Israel's recent conflict with both Hamas and Hezbollah has severely degraded the ability of both organizations to operate as military proxies of Iran. Another possible response could involve an attempt to overwhelm Israel's Iron Dome and David's Sling defense systems through the heavy use of ballistic missiles and drones. This is the most likely response, although last night's attack degraded Iran's ballistic missile supplies in an-

icipation of such an attack. That being said, at the time of this writing, there were already reports that Iran was launching over 100 drones at Israel. Regardless, a message from Iranian authorities last night warned Israel of “harsh punishment” in response to the attacks, but equally as important, it also held the United States responsible for providing assistance for the attacks. U.S. Secretary of State Marco Rubio has stated that the U.S. military was not involved in the attacks and that Israel had taken “unilateral action against Iran”. He also alluded, in no uncertain terms, that if Iran attacked U.S. assets in response to the attacks, it would bear the full brunt of the U.S. military. **On one hand, with limited options, Iran could potentially be forced back to the negotiating table after a limited retaliatory response.** However, Israeli military doctrine dictates that defense is achieved through pre-emptive offense, so the country might not be willing to back off from its attack, without meaningful discouragement from the United States and other players in the region. **On the other hand, Iran could follow North Korea’s playbook and become even more belligerent against the West. Regardless, either of these two options would be better than a third option, which could involve an attack on both Israeli and U.S. assets.** It would not be unfathomable to think that Iran could strike U.S. bases in Iraq, as it has in the past, a response that may be expected by the White House. However, a direct attack on other U.S. assets in the region, such as the naval base in Bahrain or any of its ships in nearby waters, would likely elicit a severe response from the United States, potentially unleashing a wider conflict in the region.

As can be expected global equity markets did not react well to the uncertainty in the Middle East. As of the time of this writing, S&P 500 futures were down 1%, while Nasdaq Composite futures retreated by 1.2%. At the same time, Brent and WTI oil prices soared over 8%, while safe-haven gold prices moved

higher by 1.2%. Although neither Iran nor Israel are major oil producers, between 20% to 25% of the world’s oil production passes near Iran through the Strait of Hormuz, a narrow waterway that connects the Persian Gulf to the rest of the world, which Iran could attempt to shut down but would likely trigger a broader regional response that includes the US and the Gulf States. Although more than 80% of the oil that passes through the Strait is destined for Asia, a disruption in this region would certainly dislocate oil markets, sending prices higher.

The investment implications following Israel’s unilateral strike against Iran center around immediate market volatility and subsequent geopolitical risks. Initially, we expect oil prices to remain elevated due to heightened uncertainty. However, investors should carefully monitor Iran’s retaliation. A limited Iranian response focusing solely on Israel, as seen in previous cycles of retaliation, is unlikely to have sustained impacts on global markets, presenting investors an opportunity to fade near-term oil spikes.

The critical factor will be whether Iran extends its retaliation beyond Israel to target U.S. military assets or key energy infrastructure in Saudi Arabia and the UAE. Attacks limited to U.S. bases in Iraq would likely trigger a restrained, proportional U.S. response without broader market turmoil. In contrast, if Iran strikes significant U.S. installations like Qatar’s Al Udeid Air Base or the U.S. Fifth Fleet in Bahrain, investors should brace for a swift, substantial U.S. retaliation and more severe market disruptions. However, given Iran’s diminished capabilities and its reluctance to provoke overwhelming military responses from the combined forces of the U.S., Israel, and Gulf states, we consider such actions less probable.

Overall, we urge investors not to aggressively over-trade this event and reduce risk from their portfolios. Any inflationary pressures arising from increased oil

prices should prove temporary and insufficient to trigger significant central bank reactions. Strategically, the U.S. appears to have leveraged Israel's actions as part of a broader diplomatic tactic aimed at pressuring Iran back to nuclear negotiations. Consequently, investors should position cautiously, using volatility to trade short-term opportunities while avoiding overreaction unless broader escalation occurs. ■



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