

## Investment Brief: Conflict in Iran & Portfolio Implications

### KEY TAKEAWAY

We characterize the current conflict in Iran as geopolitical noise rather than a structural economic shock when viewed from a long-term perspective, but that framing requires an important caveat: the near-term operational disruption to global energy markets is real and should not be minimized. Our base case holds that the disruption is temporary, but the single most important variable determining whether that remains true is duration and scope. We are being patient and selective, and are actively monitoring the key variables outlined below.

### MARKET BACKDROP

Prior to the onset of hostilities on February 28<sup>th</sup>, markets had already been exhibiting signs of fatigue and de-risking following a prolonged period of elevated risk appetite dating back to mid-2025. The U.S.-Israeli strikes on Iran, and Iran's subsequent retaliation across the broader Gulf region, introduced an exogenous shock into an already timid market environment. In our view, the instability in the Persian Gulf may serve as the catalyst for a more meaningful repricing of risk.

The initial market reaction was swift. Equity futures fell more than 1% when markets opened on March 1st, while energy names and defense stocks moved sharply higher. Brent crude has experienced tremendous volatility, reaching a recent peak of \$120 a barrel after trading at roughly \$73 a barrel on February 27<sup>th</sup> prior to the conflict. Broader market volatility has also increased and remained elevated since, and we do not expect that to change materially until there is greater clarity on the conflict's scope and duration.

It is worth noting that while geopolitical events have historically produced short-lived market dislocations, the current episode carries a higher-than-usual degree of causing broader economic issues due to active disruption, and even potential long-lasting destruction, of physical energy infrastructure that is integral to the global economy running smoothly. This distinguishes the current situation from prior episodes of Middle East tension and is a reason for elevated near-term caution even within a constructive longer-term base case.

### ECONOMIC IMPACT

The most direct transmission channel from this conflict to the U.S. economy runs through energy prices. Approximately 20% of global oil supply and roughly 30% of global seaborne LNG transits the Strait of Hormuz daily. Since the attacks, tanker crossings through the strait have nearly ceased entirely, with major shipping lines suspending transits due to active safety risks and surging war-risk insurance premiums. Other countries in the Persian Gulf have started to feel the impact of the conflict as they've been hit by targeted strikes from Iran, primarily singling in on US military bases in those countries. It's become clear that Iran's strategy is to clear the United States' involvement in the region or it will continue to disrupt the clean passage through the Strait of Hormuz.

The practical economic effects from disruptions to the Strait of Hormuz for American and Global consumers and businesses are already materializing:

- **Energy prices:** U.S. crude is trading near \$100 per barrel at the time of this writing and has experienced its largest weekly gain on record in data going back to 1983. This has resulted in the national average of the price per gallon of gasoline ticking up significantly, and the likelihood of continued increases high. Elevated oil prices also translate to higher travel costs via shipping and air travel which increases the costs of not only consumer travel, but the transport of products. As a general rule, each \$10 increase in the price of a barrel of oil translates to roughly 0.2 percentage points of additional CPI pressure.

- **Shipping and supply chain:** The effective halt in Strait of Hormuz traffic has stranded an estimated 140 million barrels of Gulf crude, which is approximately 1.4 days of global demand and roughly 20% of the World's daily consumption. Additionally, war-risk insurance premiums have surged, and shipping costs are rising across routes that must now circumnavigate the strait. These costs flow through to a broad range of goods and will add to producer-side inflationary pressure in the weeks ahead.
- **Broader commodity and industrial inputs:** Elevated energy prices pass through to plastics, petrochemicals, fertilizers, and other industrial inputs. If sustained, this adds another layer of cost pressure on top of tariff-driven inflation that was already a concern heading into 2026. Other commodities will also typically increase in price due to geopolitical instability and disruptions in supply chains and travel routes.
- **U.S. structural advantage:** The United States is considerably less exposed to oil supply shocks than in prior decades, owing to the dramatic expansion of domestic production over the past ten years. This structural insulation provides a meaningful buffer relative to prior episodes. It does not, however, eliminate the inflationary pass-through from global benchmark pricing as domestic production is priced at global rates.

Emerging markets face a more pronounced headwind. Economies heavily reliant on Middle Eastern energy imports, particularly across Asia, are more exposed to both the supply disruption and the currency pressure that accompanies dollar-denominated energy price spikes. We view this as a differentiated risk, and as discussed in the portfolio section below, we see it as creating a selective buying opportunity in international markets where dislocations have been driven by macro fear rather than fundamental deterioration.

## THE CRITICAL VARIABLE: DURATION & INVOLVEMENT

Our base case is that the economic disruption remains manageable and temporary. That view, however, is entirely conditioned on the conflict's duration and scope, which is why we are being patient rather than reactive in portfolio positioning.

On duration: the longer the Strait of Hormuz remains effectively closed to commercial traffic, the more the disruption transitions from a temporary shock to a structural one. Energy markets can absorb a short-term supply interruption through strategic reserves, rerouted cargoes, and elevated floating inventories. What they cannot absorb indefinitely is a sustained chokepoint closure with no clear resolution timeline. In our view, disruptions extending meaningfully beyond approximately one month materially increase the probability of sustained inflationary pressure, at which point the Fed's policy path would likely shift toward a more hawkish posture, putting downward pressure on equities and pushing yields higher, particularly at the front end of the curve. A prolonged conflict lays the foundation for an environment of stagflation, and while we do not view that as the most likely outcome, we take the risk seriously. A faster resolution, conversely, would allow markets to recover the geopolitical risk premium relatively quickly, and we would not anticipate any discernible long-term economic impact.

On scope: this is where the complexity of the current situation is, in our view, underappreciated by markets. A conflict that remains bilaterally contained between the U.S.-Israeli coalition and Iran is a very different risk environment than one that begins drawing in additional regional or global actors. Iran has already struck Gulf states hosting U.S. forces, including targets in Saudi Arabia, the UAE, and Bahrain. Each escalation of that kind raises the probability of a broader coalition of involvement, potentially implicating countries whose energy infrastructure, diplomatic relationships, and trade flows are deeply intertwined with the global economy. The more actors that are drawn into the conflict, the harder it becomes to define what resolution looks like and the longer the probable timeline extends.

There is a further geopolitical dimension that we believe deserves explicit attention: the role of U.S. allies. Not all NATO members and traditional U.S. partners have signaled a willingness to actively support the U.S.-Israeli operation, and some have been notably quiet. This creates a secondary risk layer that is distinct from the military conflict itself. If key allies decline to participate or openly distance themselves from the operation, President Trump has demonstrated a clear willingness to respond to perceived disloyalty with trade and tariff pressure. We have already seen this pattern play out in other contexts this year. A scenario in which the conflict simultaneously strains energy markets and fractures existing trade relationships, triggering new tariff escalations against allies, would compound inflationary pressures and introduce significant additional uncertainty into global supply chains. That is not our base case, but it is a credible risk that we are monitoring and that we do not think is fully reflected in current market pricing.

## PORTFOLIO POSITIONING

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We are approaching this environment with patience and selectivity. Cash remains elevated across the majority of managed portfolios, which provides both a defensive cushion and the optionality to deploy capital at more attractive levels as the situation develops. We are not making reactive moves, as we are focused on the long-term picture, not near-term disruptions.

Our current framework reflects the following:

- **Equities (domestic):** We are not reducing equity exposure at current levels, but we are not aggressively adding either. Near-term weakness driven by geopolitical uncertainty and energy-price anxiety is expected. If that weakness continues and creates more compelling valuations, we will look to add selectively, either to current positions that have come down in price, or new positions that have become more attractively priced on broader market volatility as opposed to fundamental deterioration.
- **Equities (international / emerging markets):** We see this as the most differentiated opportunity in the current environment. We already have a more constructive posture to international equities given the shift from globalization to nationalization over the last several years and the conflict in the Middle East makes it more attractive from a valuation standpoint if it is relatively short in nature. International and emerging market equities experience greater volatility as these economies have greater exposure to oil price shocks. The macro fear and energy-price sensitivity driving prices lower rather than underlying fundamental deterioration coupled with the trend away from the United States as the centerpiece of a globalized economy, makes this an attractive space to deploy capital in our opinion.
- **Fixed income:** Should the conflict extend and yields push higher, particularly on the front end of the curve as the Fed's rate cut path gets repriced, we would view increased fixed income exposure as appropriate. However, our base case is that equities are more attractive than fixed income at this current juncture. We are monitoring duration positioning closely and are prepared to act if that scenario develops.



## KEY VARIABLES WE ARE MONITORING

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Our outlook will evolve as the following variables develop. We will update you as the picture changes.

- **Duration and scope of the conflict** — the single most important variable in our assessment. Every week of extended disruption meaningfully increases the probability of sustained economic impact.
- **Physical disruption to the Strait of Hormuz** — tanker traffic trends, war-risk insurance costs, and export capacity constraints. President Trump has indicated the Navy will escort oil tankers if necessary; execution of that commitment will be closely watched by energy markets.
- **Broader geopolitical escalation** — involvement of other regional or global powers, and any secondary trade instability, including the potential for diplomatic fallout with allies over U.S. engagement in the conflict.
- **Federal Reserve messaging** — specifically, whether officials begin to characterize the inflation risk as more than transitory, and how the Warsh confirmation process interacts with near-term policy communication.
- **Credit spreads and market volatility** — High Yield Option-Adjusted Spreads (OAS), the VIX, and VVIX remain key real-time gauges of how the market is pricing risk. A sustained move wider in spreads would signal that credit stress is beginning to compound the geopolitical risk premium.

Sincerely,



**Chris Knupfer**  
Chief Investment Officer