



CIO INSIGHTS

▶ A View on the Macro Landscape

CHRIS ROTH, CFA®

Chief Investment Officer

Chris@5TWealth.com | www.5TWealth.com



Weighing the Costs of War **March 3, 2026**

I met the headline on Saturday about the US striking Iran with shock. After all, the MAGA party is all about “America First” so the idea of Trump launching into a prolonged military campaign on foreign soil seemed farfetched. My shock was short lived as I reminded myself about the weeks of failed negotiations and increasingly aggressive posturing from the Trump administration. Still, I scrolled through the news updates which included horrific videos and photos of the damage inflicted on both sides of the war. As a human, I naturally pondered the long-term impact of the attacks. Would we be in and out quickly? Would we be able to limit it to an air campaign? Who would lead Iran out of this mess? How would Iran’s neighbors respond to their counterattacks? Would the US lose lives?

Within a few minutes though, my investment brain kicked in, and my thoughts and questions turned more practical and logical. Would oil actually spike? If so, how bad would the impact be in Europe, given that Europe is already dealing with energy constraints related to Russia’s war with Ukraine? Would allies fall in line with the US & Israel or would they potentially speak out against it? Would that impact pending trade deals? Should we buy oil now or has the moment passed?

The first set of questions was emotional. The second set of questions was not. It’s one of the odd parts of being a professional investor. You learn over time to separate emotions from investing. There are two sayings that I reference regularly that emphasize this behavior. The first is something long-time readers will recognize because both Paul and I have referenced it before; “Be fearful when others are greedy, and greedy when others are fearful.” This might be Warren Buffett’s most famous saying and it’s a mantra I repeat

often to myself. Buffett's point is that investors are often emotional and a good investor should seek to counter that emotion, not follow it. The other quote that stays with me is "Bulls make money, bears make money, and pigs get slaughtered." That saying is old enough that no one knows who said it first! The point is that Bulls (optimistic investors that adopt aggressive risk stances) will eventually make money when the market turns upwards. Similarly, Bears (pessimistic investors that adopt conservative risk postures) will make money through steady returns from low-risk bets. Pigs, however, are investors that oscillate between the two sides. They turn bullish when the market is high and turn bearish when the market is down. You probably know someone like this. The archetype would be an investor that was in bonds until 2007 and then bought into the stock market after hearing about everyone else's gains. Then, when the stock market fell 50%, they sold and went back to bonds and missed out on the recovery.

So, when I talk about the costs of war in the rest of this newsletter, please understand that I'm not talking about the human lives or the potential generational fall out that might come of this. I'm talking about the short- to mid-term impact on our investment universe. Blocking out that human side of the story is perhaps the hardest and oddest part of the job. However, the other alternative is to be one the proverbial pigs of Wall Street and no one wants that.

Wall Street's Long History of Muted Reaction to Wars

When war first breaks out, markets tend to fall and volatility increases. Investors tend to shift to "safe-haven assets" like gold, treasuries, and some defensive stocks. The market did this on Monday. The stock market opened down a percent or two and gold and bonds were up. However, these periods of negative returns are often very short-lived. Monday was an extreme version of this as the market rallied later in the day and finished up! Tuesday saw an expansion of the war and the market moved down again. The broad market opened down 2% with riskier stocks down 5-7% in many cases. Bonds and gold gave up some of their gains from Monday too. European stocks were down more than US, moving down 4-6% at the open. However, by 10am on Tuesday, the market had already stabilized and was moving up.

If this seems crazy to you and you feel like it should be more or less, go back and reread the first section. If you think the market should be down even more, chances are you're opposed to the war. If you think the market shouldn't be off at all or even up, chances are you're for the war. If you step back and look at the actual impact, the market's reaction is actually pretty valid and logical.

It's worth pointing out here that the stock market generates positive returns in the year following the onset of a war about 70% of the time! The immediate drop is usually followed by a recovery as uncertainty fades. This is true even for a prolonged war like in Ukraine. Eventually, the cold calculus of Wall Street recalibrates and moves on.

The Cost of This War

The reaction on Tuesday was interesting after Monday's complete turnaround and positive finish. It also made a ton of sense to me. We learned two things late on Monday that changed the nature of this war dramatically. First, we learned that the US decided to act because Israel told us they intended to act, with or without us. The Administration decided that acting in coordination with Israel would provide a better result than letting Israel fight alone. Either way, they felt the US would suffer retaliatory consequences. It's hard to fault that logic, but it does change the way investors are thinking about the scope and potential length of this war. I think investors thought this strike on Iran would follow the same script as Trump's first bombing of Iran. A few strategically placed bombs to stop their development of nuclear weapons followed by negotiations towards peace. That game plan is not what Israel has in mind. You can see that from how they have approached the war in Gaza. Israel is not one for half-measures. Sure enough, this concept was also evident in how the Administration changed its narrative. The potential war went from days to weeks to however long it would take. The war in Iran now looks very unlikely to be resolved anytime soon.

The second change came from the dramatic spread of the war. Originally, it was the US and Israel attacking Iran. Iran has suffered extensive damage from the air bombings. The US reported three deaths and five soldiers in critical condition. We also lost three fighter jets to friendly fire. Israel has reported some damage from retaliatory strikes as well. However, the reaction from Iran has brought in many other players. Bahrain was struck by Iranian missiles and drones. UAE was hit by missile strikes, including in major cities like Abu Dhabi and Dubai. Kuwait and Qatar were reportedly targeted by Iran as well. Saudi Arabia reported strikes on its territory and infrastructure. Jordan issues evacuation notices for certain areas. Lebanon was attacked by Israel, presumably due to Hezbollah's statements in solidarity with Iran.

Furthermore, the diplomatic mess resulting from this war is ensnaring many others. The UK, France, and Germany expressed a desire for diplomacy and have not joined combat operations. NATO has expressed support for the US and Israel but has not committed troops either. Russia and China condemned the strikes and backed Iran. Most recently, Spain came under fire after denying the US access to its military bases for Trump's bombing campaign. Trump quickly threatened to "cut off all trade with Spain" in response.

Increasing the uncertainty is the open question of the legality of the strikes themselves. President Trump did not seek or get approval from Congress. Several Republicans appear to have joined the Democrats in calls to limit President Trump's military authority related to the operations in Iran. That vote is set this week and it's not clear what will come from it, but it is unlikely to get enough votes to survive a Trump veto.

Hence, we appear to have a prolonged war in the Middle East. To be sure, the destruction in Iran and potentially the surrounding areas will be significant. However, that has very little impact on most portfolios. Saudi Arabia has the largest stock market of the impacted countries and most of that is Saudi Aramco which should do well with oil prices higher. The Saudi market is just ~0.6-0.8% of global equities. UAE is next at just ~0.2-0.3%. If you combine all major Middle Eastern markets, you would get to ~1.5% to 2.0%.

The more important impact for financial markets will be what happens regarding oil, trade through the Hormuz Strait, and future defense spending. Oil matters for obvious reasons. The Middle East controls ~30% of global oil supply and distribution of that oil will almost certainly be impacted. Oil price spikes can directly impact inflation, central bank policies, and corporate margins globally. As mentioned earlier, the impact will be felt more in Europe than in the US. Europe has tried to wean itself off Russian oil and natural gas in the wake of the Ukraine war and now will suffer another supply shock. The US is better insulated, but we will feel an oil price spike too. If oil prices rise, it might give the Fed room to pause rate cuts. It might also cause some earnings misses as expectations for costs change for companies that use a lot of oil as inputs.

Second, the Strait of Hormuz is now in danger of potential closure. The strait is a narrow waterway between Iran and Oman, connecting the Persian Gulf to the Arabian Sea. Roughly 20% of the world's daily oil consumption passes through the strait. Any blockage, even temporary, would spike oil prices and unleash inflationary pressure on the world economy. Iran's Revolutionary Guard Corps has publicly declared the Strait "closed" and commercial ships have been rerouted. The longer the Strait is closed, the more pressure on oil prices. Working in our favor is the fact that China does a lot of business through the Strait. Estimates are that roughly 50% of the China's oil comes through the Middle East through the Strait of Hormuz. While China might not be an ally to the US in the overall war, they will certainly be lobbying to get the Strait open again quickly.

Finally, the increased military action will likely place even more attention and importance on defense spending, both here in the US and abroad. We have already started to see this trend play out for the last year. More importantly, the character of defense spending is also changing. Increasingly, money is being spent on intelligence gathering programs, light technology like drones, and other robotics initiatives. We of course still need tanks and missiles, but the pace of growth in the new areas of defense technology is dramatic.

What Does it Mean for Investors?

It is very likely the financial impact of this war will be short-term and minimal. Oil prices will create some negative surprises for companies. Shipping constraints will create others. However, the world will adjust and move forward, mostly unscathed. On the margin, this war makes us more attractive to US Equities. The cost will certainly be felt

more in Europe and Emerging Markets. Most of our strategies are US Equity heavy anyway. If there is a meaningful adjustment that comes from it, it will be based on the influence the war will have on the Fed. If the Fed sees more inflation pressure as a result of structurally higher oil prices, we might not get the same level of interest rate cuts. Even if that comes to pass, there is plenty of other stimulus planned to fuel the US economy. If we do anything based on the war, it will likely be to take advantage of any overselling that might occur in Europe or Emerging Markets. Otherwise, we will continue to slowly rotate away from US growth assets and shift exposure more towards value, quality, and non-cyclical equities.

All the best,



Chris Roth
CIO
5T Wealth, LLC
Main (707) 224-1340
Cell (707) 637-7222
Chris@5twealth.com

5T Wealth, LLC
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