First Citizens Wealth

Making Sense

**Market Update** | March 19, 2026

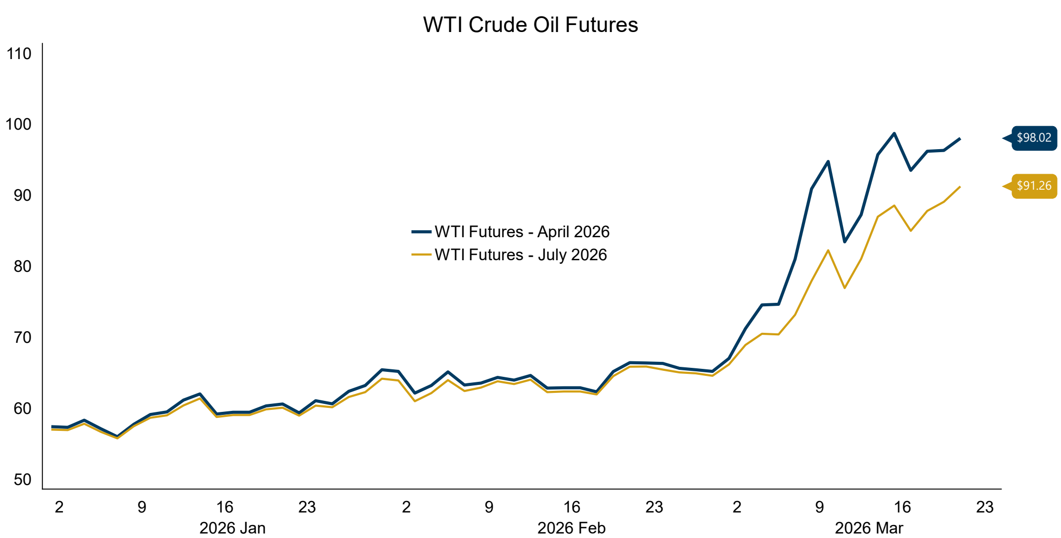
# Conflict in the Middle East: Interruption becomes disruption

Financial markets are adapting to the reality of a more prolonged and intense conflict in the Middle East than expected at the start of the month. Oil prices are significantly higher, and global equities are about 4-8% lower. Although the probability of the downside scenario has increased, we think investors are still pricing for two-sided risk, including for a meaningful probability of a near-term resolution that brings a swift end to the global energy supply shock.

## Key observations

- Global financial markets are having to adjust to the possibility of the Iran war being more than a brief interruption.
- The ongoing disruption to Middle East energy infrastructure is the largest supply disruption in the history of the global oil market.[i]
- The balance of geopolitical and energy-market developments has skewed negatively in the past week, in our view. That said, tail risk remains significant in both directions: energy supply disruptions could impair markets substantially, but markets are likely still priced for the possibility of a ceasefire and swift restoration of global energy infrastructure.
- The ongoing situation does not fit any convenient historical template. Yields are rising during a risk off event, and US inflation was already becoming more of a risk before March. Fed Chair Powell yesterday dismissed “stagflation” concerns as a 1970s phenomenon. But discussion of slow growth and high inflation may persist regardless of terminology.
- The war is affecting commodities outside of crude oil. Helium, fertilizer, sulfur, and other commodity supplies are disrupted, which could affect input costs for food, industry, and even tech.

**Figure 1: Oil prices have risen by ~50%, and futures imply prices are expected to remain high**




Source: Bloomberg, First Citizens Bank
Data as of 3/19/2026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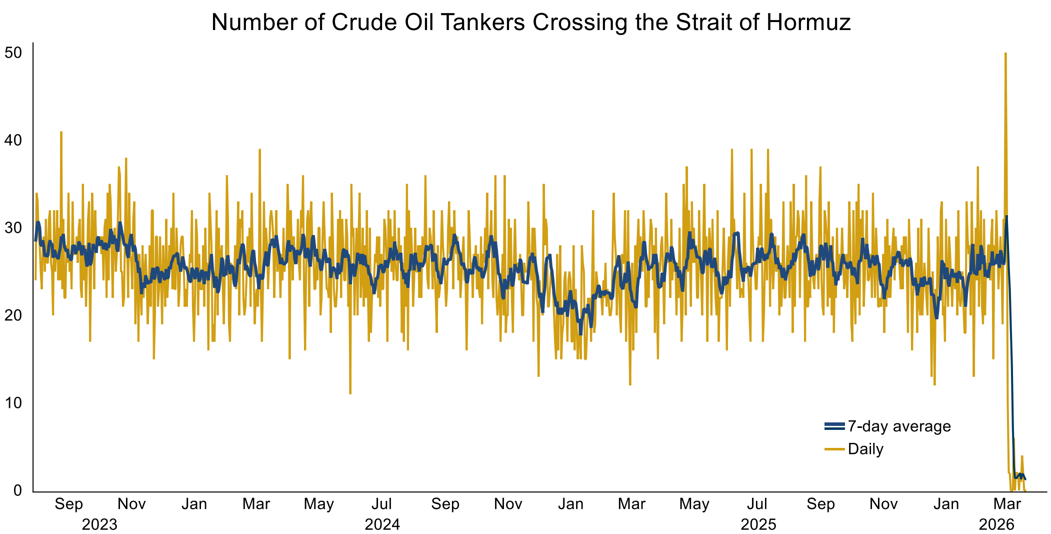
## The conflict increasingly appears like more than a brief interruption

The market consensus two to three weeks ago was for this conflict to resemble a brief, contained military operation with limited retaliation and a swift resumption of energy supply flows. Steadily over the last 20 days, this view has eroded, and markets are now contending with the reality of a more protracted conflict with farther-reaching consequences. Analysts have marked inflation forecasts and recession risk up modestly to moderately higher, but they are also apparently leaving plenty of room in their outcome distributions for this conflict to terminate.

## This is the largest supply shock in the history of the global oil market

The war in the Middle East is creating "the largest supply disruption in the history of the global oil market."[ii] About 20% of the world's crude oil flows through the Strait of Hormuz, and since March 1 this has slowed to a halt. There are limited alternate routes for Middle East oil to transit, and storage facilities are already reaching capacity, leading Gulf countries to decrease oil production.

**Figure 2: Disruption of crude oil flows is driving global supply issues**




Source: Bloomberg, First Citizens Bank
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## The geopolitical and energy-market news has skewed negatively, but tail risk remains very much two sided

On the positive side, some traffic through the Strait of Hormuz could rise slightly if Iran and the US appear intent on avoiding a deeper energy supply shock. In addition, to the surprise of many analysts, other forces have remained on the sidelines and not disrupted other shipping lanes, such as in the Red Sea.

On the negative side, Iran has begun directly attacking Gulf energy infrastructure, including Qatar's massive liquefied natural gas complex as well as Saudi, UAE, and Qatari refineries and processing plants. In addition, the military conflict has not moved closer to a ceasefire, as many market analysts expected earlier in the conflict.

We think market pricing reflects investors perceiving significant probability for both tail-risk outcomes: 1) further escalation and a protracted energy supply disruption, and 2) termination of military conflict and swift resumption of energy flows.

## There is no neat or convenient historical template for this situation

We see commentators rushing into narratives about how today's situation resembles 1973 (embargo), 1979 (Iranian revolution), 1991 (Gulf War), and 2007 (oil price surge). We find little value in these comparisons outside of general education and awareness. Each episode has its own unique combination of economic, inflation, equity market, and geopolitical factors.

Fed Chair Powell yesterday dismissed "stagflation" concerns as a 1970s phenomenon. But discussion of slow growth and high inflation may persist regardless of terminology.

That said, one of our core investment views is that a well-balanced portfolio can weather even significant adverse events, so long as the investor remains committed to time in the market rather than attempting to time markets. This is always the case, but we think it is especially important during periods of heightened uncertainty.

## The longer the conflict endures, the more likely the downside market scenario becomes

Aside from energy markets, we are also seeing data and anecdotes of significant disruptions in markets for helium, fertilizer, petrochemicals, and other chemicals. These embedded commodities are everywhere, but invisible – and the longer this conflict goes on, the more we expect to hear about commodity disruptions outside of energy, which ultimately will affect basic consumer prices and household expenses.

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[i] Oil Market Report - March 2026 – Analysis - IEA
[ii] Oil Market Report - March 2026 – Analysis - IEA