

Market Update | March 4, 2026

Conflict in the Middle East: Navigating the first few days

Conflict in the Middle East has been underway for five days, and markets have moved sharply in response. We want to provide a clear summary of how financial markets are responding so far, and – more importantly – how we’re thinking about this situation as long-term investors.

The most meaningful market moves have been in energy, where global oil prices are 10% higher compared to Friday, and natural gas prices are up 2% in the US and 52% in Europe. Equities have sold off, but by far less than after the announcement of new tariffs last year, and domestic stocks have declined by far less than markets in Europe and east Asia.

Geopolitical conflicts – even war – are devastating realities, and geopolitical risk has been on the rise in recent years (Figure 1). Nonetheless, we firmly believe our long-term investor clients are best rewarded by sticking to their financial plan during periods of heightened uncertainty and even crisis.

Markets expected conflict in the Middle East but not of this scope

Financial markets had been expecting conflict between Iran, the US, and Israel to materialize.¹ However, the speed and scope of this conflict are significantly greater than investors likely anticipated in at least three ways. First, the US and Israel are seeking to eliminate the Iranian regime and its military forces, unlike in previous engagements that were targeted at individuals, groups, or specific military infrastructure. Second, Iran’s retaliation has spread to a wider geography than most analysts expected, hitting at least 10 countries including neighboring Gulf states and their energy infrastructures. Third, the disruption to oil and gas infrastructure – including production and transit – has exceeded expectations. Since March 1, zero oil and gas tankers have passed through the Strait of Hormuz – the narrow channel between Iran and Oman through which about 20% of global oil supply moves from the Persian Gulf to the open ocean. Iran’s attacks on neighboring states have already taken significant oil and gas infrastructure offline.

Figure 1: After a relatively calm decade, geopolitical risk has been on the rise in recent years



Source: Matteo Iacoviello, First Citizens Bank
 Data as of March 2, 2026
 Geopolitical Risk Index is from: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225.

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¹Prediction markets priced a roughly 1/3 chance of a conflict over the weekend and an over 50% chance by the end of March. Crude oil prices had risen 10% by Friday, 2/27, likely reflecting some geopolitical risk premium.

Financial markets have reacted with volatility, but price moves overall have been relatively benign

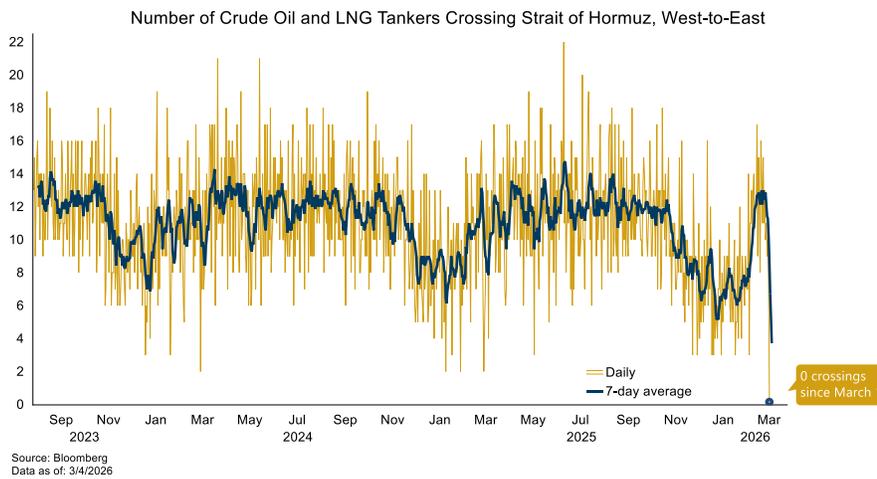
Despite significant volatility in global financial and commodity markets, US stocks are essentially flat since Friday's close, and many markets have been relatively benign given the scope of the conflict and the heightened level of uncertainty. In energy, crude oil has risen 10% since Friday, mirroring the 10% rise during the previous Iran conflict in June 2025 and staying far below the 33% surge seen during the 2022 Ukraine invasion. Stocks also reflect this resilience. The S&P 500 is down 0.1% from Friday as of this writing, a stark contrast to the 12.1% sell-off around last April's tariff announcements. European stocks are down roughly 4%, and Asian markets, which remain more exposed, are down about 7%.² Treasury yields have climbed 0.15% higher as investors weigh new inflation risks and pare back Fed rate-cut expectations for later this year. The Dollar has surged against major peers but still remains well below recent averages. Gold has remained volatile and is 2% lower compared to Friday.

Predicting outcomes may be futile, but key variables could help us understand the direction of travel

Navigating complex market shocks requires discipline and humility. In our approach we are careful to avoid overconfident predictions about fundamentally uncertain outcomes. That said, we think a structured approach following key variables might reveal, or at least help understand, the direction of travel.

- *What is happening with Iranian succession plans?* The optimistic case we see among investors is that Iran's new leader is relatively pragmatic and willing to engage with other countries on the path forward. If this outcome appears less likely, we may see more market volatility as investors price for a longer period of disruption.
- *Does Iran slow its pace of retaliation, and do Gulf states and potentially other aggressors remain on the sidelines?* Although strikes have been significant between the warring nations, other parties have remained noticeably quiet. Other major geopolitical powers have been slow to apply pressure, and Houthi rebels have not engaged shipping traffic in the Red Sea. In addition, Gulf states have so far resisted direct involvement despite being targeted by Iranian strikes.
- *How long does energy infrastructure remain disrupted?* About 20% of the world's oil and natural gas is not coming to market, posing significant risks to prices if the disruption persists. Much of these energy assets flow to Asia, where market volatility has been more extreme. However, given the global nature of energy markets, the longer this conflict endures with Iran inhibiting tanker traffic through the Strait of Hormuz, the higher oil and gas prices - and likely other commodities - will rise. With energy prices much higher than 5 days ago but still not reaching extreme levels, the market may need to see incrementally good news soon in order to avoid prices taking the next leg higher. News flow could remain noisy, so we will be watching for movement of tanker traffic through the Strait of Hormuz.

²Since Friday, the Euro Stoxx 50 is down 4% and the UK's FTSE 100 is down 3%. In Asian markets, Japanese stocks (Nikkei-225) is down 7%, Hong Kong stocks (Hang Seng) are down 5%, and in South Korea (KOSPI) stocks are down 18%.

Figure 2: No oil or natural gas tankers have passed through the Strait of Hormuz since March 1


Long-term investors are rewarded for focusing on fundamentals and sticking to their financial plan

One of our core investment views is that geopolitical factors, even significant ones, are independent of the long-term investment returns of a well-balanced portfolio. As with any major geopolitical shock there is almost always a “flight to safety” as investors move into safe haven assets. However, equity markets have generally recovered all if not most of their losses, sometimes in short order. The biggest takeaway is that while geopolitics can certainly drive volatility, long-term investors should avoid making decisions in the short-term during periods of heightened uncertainty.

Source for all market data: Bloomberg. Data as of 12:00PM EST on 3/4/2026.



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