Markets brace for uncertainty after U.S. and Israel strike Iran

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U.S. and Israeli forces, on February 28, carried out joint military strikes on Iran, killing Ayatollah Ali Khamenei, Iran's supreme leader for 37 years, and several other key figures. The joint attacks occurred after a third round of unsuccessful negotiations between Tehran and Washington regarding Iran's nuclear program. In response, Iran fired ballistic missiles and drones at U.S. assets and allies across the region, targeting Saudi Arabia, Bahrain, Kuwait, Qatar, the United Arab Emirates, and Jordan. The wider economic impact of this conflict will depend on how long these tensions last and how much they disrupt global trade. Here is what to keep an eye on in terms of potential near-term consequences for investors.

Key market and economic takeaways

Since the strikes began:

- Oil prices have climbed while stocks have fallen. Brent crude oil, the global energy benchmark, rose about 8% earlier today.
- Investors seeking safety have fueled a rally in the U.S. dollar and Swiss franc.
- Yields across the U.S. Treasury yield curve advanced by six to seven basis points in early trading today, as the market anticipates potential inflation should high oil prices persist.
- Safe-haven assets, such as gold, have attracted attention as investors look for stability.

The "chokepoint" effect: Energy markets

- **Oil and natural gas**: The most immediate impact will likely be on crude oil and natural gas. Historically, Iran's primary leverage has been its perceived ability to create a chokepoint in the Strait of Hormuz, a narrow strategic waterway through which roughly 20% of the world's oil and global liquefied natural gas (LNG) pass.[1] However, action by U.S. naval forces may limit what Iran can actually accomplish. To the extent that it can disrupt shipping, Iran will likely do so selectively, as movement of its own oil vessels is critical to its economy. As of this morning, the Strait is empty, as insurers have constrained container ship access.
- **Supplies:** The largest potential impact from the conflict will depend on how much Iranian production might be disrupted, and for how long. We expect to see a spike in oil prices due to tight supplies.

[1] U.S. Energy Information Administration, June 2025. https://www.eia.gov/todayinenergy/detail.php?id=65504.

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Overall, Iran produces an estimated 3.5 million barrels of oil equivalent (BOE[2]) a day, and accounts for about 3% of global supply.[3] Exports are estimated at about 1.5 million barrels per day. Against that backdrop, we do not believe there is much excess capacity in the global oil market to offset supply risk despite a promise by OPEC Plus (OPEC+)[4] to increase production. Currently, a lengthy shipping and supply disruption is not priced into the energy market.

- **Price spikes:** If maritime traffic through the Strait pauses or slows, the aftermath of the attacks will quickly ripple through the global economy. Analysts suggest prices could hover around $80–$85 per barrel and potentially advance to $100 should the situation persist.

Financial markets: Flight to quality

- **Equities:** Global stock markets could see a sharp, 5%–10% "knee-jerk" sell-off. Due to energy costs, sectors like airlines, retail, and manufacturing would be hardest hit, while defense and aerospace stocks would likely gain.
- **Safe havens:** Gold has already climbed above $5,400 per ounce in anticipation of a conflict. In a full-scale invasion scenario, capital would flow rapidly into gold, U.S. Treasuries, and the Swiss franc.
- **U.S. dollar:** Paradoxically, despite the U.S. role in the conflict, the dollar often strengthens during global instability as investors seek the world's reserve currency. The U.S. dollar index (DXY), which measures the value of the dollar against a basket of six major foreign currencies, has already risen more than 2% from the Jan. 27 low of 96.22.
- **Fixed income:** There is potential for some volatility in the bond markets. Short-term effects include a rally in U.S. Treasuries as investors shift into safe-haven assets. Risk assets—aside from those that benefit from higher oil prices—could see some credit spread widening.

The magnitude of the move in U.S. Treasury yields and risk assets will depend on the depth and duration of the conflict. Short-maturity Treasury yields, including the two-year note, could rise as markets price in higher inflation expectations from elevated oil prices, while the yield on the 10-year Treasury could fall as investors seek safe-haven assets in a risk-off environment.

What investors are watching

- The higher oil price scenario may affect the headline U.S. consumer price index (CPI) and create misleading optics around how the Fed may respond. Fortunately, the central bank uses core inflation (core personal consumption expenditures [PCE]) as its signal of choice. Headline energy and food costs can be volatile and, therefore, are not as dependable. We still believe there is a high bar for the Fed to hike rates in this scenario.
- There are many what-ifs as significant geopolitical events unfold, and this one may be more meaningful than others in the recent past, given direct U.S. involvement in the Middle East and the implications for oil.

Investment considerations

The impact of geopolitical conflicts on financial markets can be difficult to forecast; however, once the initial shock and short-term market responses dissipate, asset prices generally revert to being influenced by underlying fundamentals and long-term trends. Unless there is a shift in investment objectives, investors are advised not to make significant adjustments to portfolio allocations solely in response to geopolitical developments. Nonetheless, short-term portfolio impacts resulting from adverse market events and shifts in investor sentiment underscore the importance of maintaining diversification.

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[2] Barrels of oil equivalent (BOE) per day: A unit used to combine oil and natural gas production into a single, standardized measure of daily energy output.

[3] Bloomberg L.P., as of February 2026.

[4] Organization of the Petroleum Exporting Countries. March 2026, https://www.opec.org/pr-detail/593-1-march-2026.html.

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