U.S.–Iran Conflict: What's Happening and What It Means for Markets

Services
Investment Management

March 19, 2026

Over the past five days, markets have been navigating the most significant geopolitical event in the past several years. Below, we address the questions we're hearing and what this means for your portfolio. Please don't hesitate to reach out with any questions. We are here to help you navigate uncertainty with clarity and confidence.

1. What happened between the U.S., Israel, and Iran?

Over the past week, the United States and Israel launched coordinated military strikes against Iran, prompting retaliatory attacks by Iran against Israel, U.S. military bases, and energy infrastructure across the Persian Gulf. The most significant economic impact so far has occurred in energy markets. Iran declared the Strait of Hormuz closed to commercial shipping, a critical chokepoint through which roughly 20% of the world's oil supply passes. As a result, major marine insurers withdrew coverage for vessels operating in the region, effectively halting tanker traffic. Oil prices have surged roughly 12% over the past five days as markets react to the potential disruption in global energy supply.

2. Why haven't stock markets fallen more sharply?

Despite the severity of the conflict, U.S. equities have remained relatively stable. The S&P 500 has traded roughly flat since the conflict began, reflecting a measured response from investors. Two factors explain the resilience. First, history shows that most geopolitical shocks tend to have short-lived impacts on financial markets. Investors have learned that selling into the initial panic often proves costly. Second, reports have emerged that Iranian intelligence has indirectly contacted U.S. officials to explore a potential diplomatic resolution, leading markets to assign some probability to a near-term off-ramp. Corporate bond markets reinforce the equity market's relative calm. High-yield credit spreads are largely unchanged from pre-conflict levels, suggesting investors do not currently see a major threat to economic stability.

3. Why haven't bonds provided their usual protection?

In most geopolitical crises, Treasury bonds rally as investors seek safety, with falling yields and rising bond prices helping offset stock market volatility. This specific event is different due to the threat of inflation. Rising oil prices feed directly into consumer prices through gasoline, transportation costs, and broader supply chains. Several Federal Reserve officials have already suggested that higher energy prices could reduce the likelihood of near-term rate cuts. As

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markets move to reflect the potential for higher inflation and fewer rate cuts, bond yields have risen rather than fallen. For diversified portfolios, this means the traditional cushion provided by bonds has been weaker than usual during this event.

4. Will this situation affect gas prices?

If the Strait of Hormuz remains closed for an extended period, higher gasoline prices are likely. The strait handles roughly one-fifth of the world's oil supply, making it one of the most important energy transit routes globally. Oil prices have already risen more than 10%, while European natural gas prices surged over 50% in the early days of the conflict. A brief disruption lasting a week or two would likely produce only temporary increases at the pump. However, a longer closure could place sustained upward pressure on energy costs and inflation. Adding to the picture, a new 15% global tariff is scheduled to take effect soon, creating a second potential source of inflationary pressure.

5. What We're Watching

Three indicators will help determine whether this situation remains contained or becomes more economically significant. First, credit spreads. If corporate bond spreads begin widening meaningfully, it would suggest investors are starting to price in real economic damage. Second, the duration of the Strait of Hormuz closure. The longer the disruption lasts, the greater the risk that higher energy prices become embedded in inflation expectations. Third, the diplomatic

track. Reports of back-channel communication between Iranian and U.S. officials could provide a potential path toward de-escalation. These indicators will likely drive market behavior in the coming days.

6. What does this mean for portfolios?

Despite five days of significant geopolitical conflict, the direct impact on diversified portfolios has been limited. U.S. equities remain roughly flat, credit markets are stable, and volatility has risen but remains contained. History suggests that most geopolitical shocks are resolved without lasting damage to financial markets. At the same time, this event carries an unusual feature: a direct disruption to global energy supply. If the Strait of Hormuz remains closed for an extended period, the economic consequences could grow. For now, the most important principle is discipline. Long-term investment outcomes are typically harmed not by volatility itself, but by emotional reactions to it. Our current approach is to remain invested while closely monitoring developments and reassessing if conditions materially change.

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The S&P 500 Index or Standard & Poor's 500 Index is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

The Russell 2000 index measures the performance of approximately 2,000 small-cap US equities.

The MSCI EAFE Index is a stock market index that measures the performance of large- and mid-cap companies across 21 developed markets countries around the world. Canada and the USA are not included.

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The Nasdaq 100 Index is a stock index of the 100 largest companies by modified market

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The Russell 1000 Growth index is an index that tracks large cap, growth stocks. This benchmark is important for investors that might tilt their investments towards large cap growth. Growth stocks, in comparison to value stocks, are considered companies with a more growth potential, and a higher risk profile.

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The Dow Jones Industrial Average, or simply the Dow, is a stock market index that indicates the value of 30 large, publicly owned companies based in the United States, and how they have traded in the stock market during various periods of time. These 30 companies are also included in the S&P 500 Index. The value of the Dow is not a weighted arithmetic mean and does not represent its component companies' market capitalization, but rather the sum of the price of one share of stock for each component company. The sum is corrected by a factor which changes whenever one of the component stocks has a stock split or stock dividend, so as to generate a consistent value for the index.

The Bloomberg US Aggregate Bond Index is used as a benchmark for investment grade bonds within the United States. This index is important as a benchmark for someone wanting to track their fixed income asset allocation.

The Bloomberg US Corporate Index covers performance for United States corporate bonds. This index serves as an important benchmark for portfolios that include exposure to investment grade corporate bonds.

The Bloomberg US Corporate High Yield Index covers performance for United States high yield corporate bonds. This index serves as an important benchmark for portfolios that include exposure to riskier corporate bonds that might not necessarily be investment grade.

Treasuries, also known as Treasury securities, are debt obligations issued by the United States government. They are used to raise cash needed to fund government operations and help finance the federal deficit. Treasuries are backed by the full faith and credit of the US government, making them one of the safest investments. They are an important instrument in monetary policy, allowing central banks to control the money supply.

The Prime Rate is the interest rate that commercial banks charge their most creditworthy corporate customers. The prime rate is derived from the federal funds rate, usually using fed funds + 3 as the formula.

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