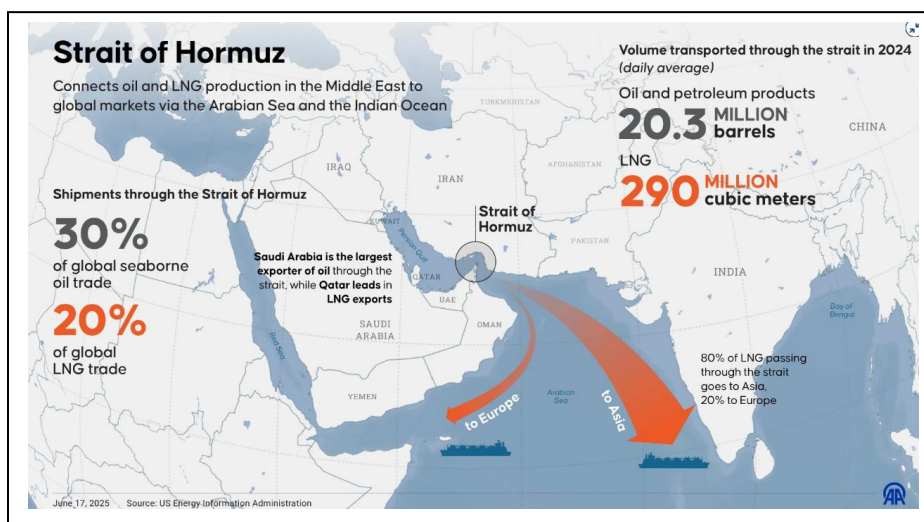


Investment Note- Iran Conflict Update

3/11/2026

Over the past week rising geopolitical tensions in Iran have introduced a significant risk premium into global energy markets, raising concerns about oil supply disruption, inflationary pressures, and broader macroeconomic spillovers. The **duration and scope** of hostilities will determine whether this event remains a temporary volatility shock or escalates into a sustained economic headwind.

The reason why the Iranian conflict is significant is that 30% of the world's oil and 20% of LNG flows through the Straits of Hormuz so disruption can have significant impact on the global economy. A prolonged disruption (beyond one month) risks a stagflationary supply shock. The market is currently pricing the turmoil to be short-lived.

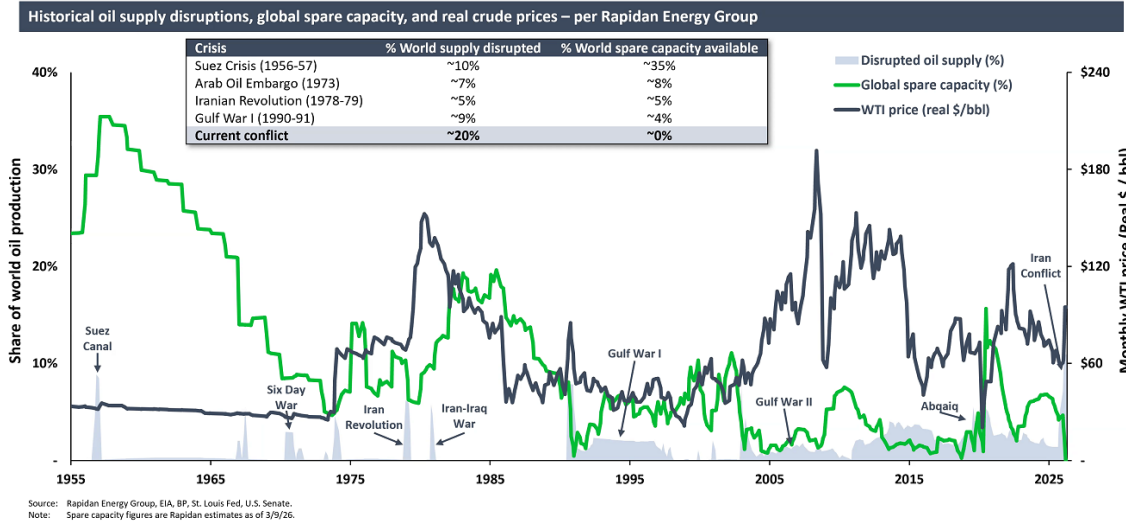


This is one of the largest supply disruptions. The US has had independence and a buffer but growth in shale is slowing and that could have long term structural implications. American consumer expenditures increased for almost everything except for energy in the last 2 decades; might not enjoy that trend going forward. Power generation and energy supply was a long term consideration already and forecasted prices were probably trending higher anyways because of AI demand, this conflict brought the timeline forwarded especially if sustained.

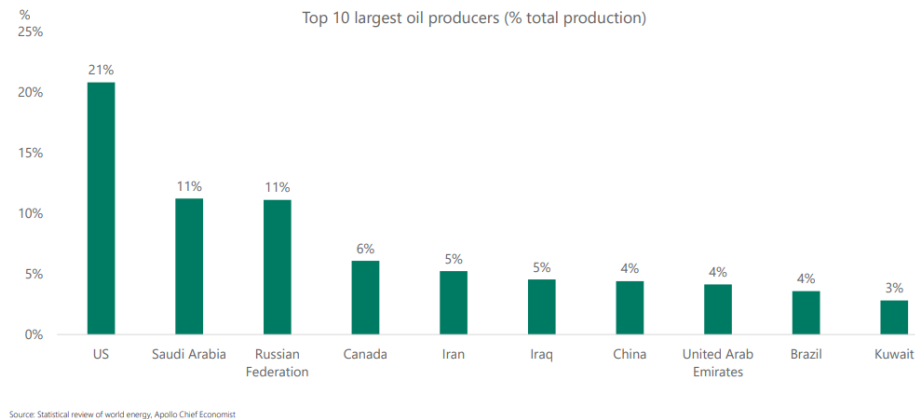
But the US is better able to weather the shock compared to most countries and also compared to our own history from the 1970s. The result is that both the growth and inflation impact from oil shocks has fallen over time. The US is much more energy efficient compared to 1980s in the wake of Iranian revolution. According to JP Morgan, while the US economy has grown more than 3x since 1980, it consumes nearly the same amount of oil. This is due to utilizing more fuel efficient vehicles and has

turned into a largely services based economy and has new energy sources. As a result, it is not as vulnerable as in the 1970s.

Historically, oil tends to be very volatile when the geopolitical risk in the Middle East rises:



Another significant difference compared to the 1970s is that the U.S. is now the world's largest producer of oil and natural gas, so the primary risk is higher prices, not a physical supply shortage.



The following are the economic and market impacts from major oil shocks since 1970:

Exhibit 1: Major Oil Price Shock (1970–Present): Economic and Financial Market Impact

Shock Period	Example Oil Price Move (EIA first purchase price)	S&P 500 Price Return One Year Later (%)	Federal Reserve Response (summary)	US Real GDP Growth Next Calendar Year (%)	US CPI Inflation Next Calendar Year (%)
1973–74 Arab Oil Embargo	October 1973: \$3.39 → January 1974: \$6.87 (~+103%)	-36.2	Inflation fight complicated by oil shock; mid-1970s tightening.	-0.5	11.0
1979 Iranian Revolution/ 2nd Oil Shock	January 1979: \$9.46 → January 1980: \$17.86 (~+89%)	25.9	Volcker disinflation; aggressive rate hikes beginning 1979.	-0.3	13.5
1990 Gulf Crisis Spike	July 1990: \$14.03 → October 1990: \$30.86 (~+120%)	10.2	Shift toward easing during 1990–91 recession.	-0.1	4.2
2007–08 Oil Spike	July 2007: \$69.23 → July 2008: \$128.08 (~+85%)	-38.5	Aggressive rate cuts during Global Financial Crisis.	-2.6	-0.4
2022 Ukraine Energy Shock	December 2021: \$70.56 → June 2022: \$113.77 (~+61%)	-11	Rapid tightening cycle beginning March 2022.	2.9	4.1

Note: Market returns are S&P 500 price index (excluding dividends), oil moves are simple point-to-point comparisons (not peak-to-trough modeling); GDP and inflation reflect next calendar year after event start.
Source: US Energy Information Administration (EIA US Crude Oil First Purchase Price), World Bank, Morgan Stanley Wealth Management Global Investment Office as of March 2, 2026

The conflict and destabilization could go longer than expected; even if outright war stops, infrastructure has been damaged and restarting facilities takes time even for things like aluminum facilities. The Red Sea can help stabilize a bit, but Houthis in Yemen are anti-Saudi and an Iranian proxy and have shown willingness to interfere throughout that route. Asia and Europe are going to be affected and governments already looking to curb demand like Philippines encouraging remote work to reduce power consumption. This goes for both oil and LNG while US and Canada have self-sufficiency buffers for now.

Measures are being taken to blunt the supply shock. The International Energy Agency (IEA) has asked member states to release 300-400 mn barrels of oil from their strategic reserves. It is estimated that the members hold 1.2 bn barrels of oil. Both Japan and Germany announced that they will release some of their reserves. The US might ease Russian oil restrictions in order to increase the effective supply. In addition, it appears that China has received 12 mn barrels of Iranian oil through the Straits of Hormuz since the conflict began which should also ease pressure on global supplies.

During times of heightened geopolitical risk (particularly related to oil), uncertainty tends to cause markets to price escalation risk in bursts, keeping volatility elevated as investors reassess energy supply risk. The risk of stagflationary shock often results in the following financial market effects:

- Stronger U.S. dollar due to safe-haven flows
- Equity market declines (with the US outperforming international markets)
- Wider credit spreads
- Higher interest rates as inflation worries trump growth concerns
- USD appreciation

The market turbulence caused by events in the Middle East is occurring against a positive economic backdrop. The US economic growth figures are solid. ISM Manufacturing PMI in February had its first back-to-back expansionary ISM readings since September 2022 while the ISM Services PMI Index reached its highest level since July 2022. Moreover, industrial production and durable goods results were solid and capex investment continues to be strong. Because growth is solid and inflation is above target, we expect that the Federal Reserve will keep monetary policy unchanged at next week's FOMC meeting.

We came into this year having an outlook of inflationary growth. The positive economic growth backdrop has driven a very strong earnings season which wrapped up last Friday. 4Q-2025 S&P 500 earnings growth came in at 14%, which is outstanding. Despite the market volatility, the S&P 500 is only 4% away from its all-time high. Due to an outlook of higher inflation, we have also been cautious on assuming interest rate risk, recommending a duration in the 3-5 year range. Due to higher inflation

expectations, since the conflict began the 10 Yr US Treasury yield has risen 25 bps, which is a significant upward move in a short period of time.

Even if the impact of an oil shock lasts several months, the supply disruption can keep inflation high for some time. The longer the conflict drags on, particularly if there is more significant damage to energy infrastructure in addition to constrained shipments through the Strait of Hormuz, the global economy could be at risk of a more prolonged energy supply shock. Due to elevated uncertainty, economic impacts from military conflicts have tended to have a medium term impact:

Exhibit 2: Military Conflicts (1940–Present): Economic and Financial Market Impact

Event (start date)	S&P 500 Price Return One Year Later (%)	Federal Reserve Response (summary)	US Real GDP Growth Next Calendar Year (%)	US CPI Inflation Next Calendar Year (%)
Germany invades France (May 1940)	-22	Pre-WWII policy regime; rates low, gold-standard legacy constraints fading.	-11.6	5.1
Pearl Harbor (December 1941)	0.4	War finance framework; yield curve caps and Treasury-Fed accord era.	18.9	10.9
Korean War (June 1950)	11.2	Treasury-Fed Accord (1951) restored Fed independence; tightening bias.	8.7	5.9
Cuban Missile Crisis (October 1962)	32.0	Moderate tightening cycle early-1960s expansion.	4.4	1.2
Arab Oil Embargo (October 1973)	-36.2	Inflation fight complicated by oil shock; policy tightening mid-1970s.	-0.5	11.0
Iranian Hostage Crisis (November 1979)	25.9	Volcker disinflation; aggressive rate hikes to break inflation.	-0.3	13.5
USSR invades Afghanistan (December 1979)	26.2	Continuation of Volcker tightening cycle.	-0.3	13.5
Iraq invades Kuwait (August 1990)	10.2	Easing cycle into 1990–91 recession.	-0.1	4.2
Operation Desert Storm (January 1991)	32.3	Accommodative policy during recovery phase.	3.5	3.0
9/11 Attacks (September 2001)	-16.7	Emergency liquidity; 50bp rate cut (Sept. 17, 2001).	1.7	1.6
Iraq War (March 2003)	27	Accommodative stance following early-2000s easing.	3.9	2.7
Russia invades Ukraine (February 2022)	-11.0	Rapid tightening cycle beginning March 2022.	2.9	4.1
Hamas attacks Israel (October 2023)	33.6	Restrictive policy stance after 2022–23 tightening cycle.	2.8	3.0

Note: Market returns are S&P 500 price index (excluding dividends), GDP and inflation reflect next calendar year after event start. Source: World Bank, BEA/BLS Long-Term Series, Hartford Funds (S&P 500 one-year price returns; Morningstar/Ned Davis Research), Morgan Stanley Wealth Management Global Investment Office as of March 2, 2025

When geopolitical shocks occur the market has historically fallen for a few weeks immediately after the event and then recovers a few weeks later. As the graph above shows, generally the market is up a year later. It is important during these times not to overreact to the sentiment driven sell-off, rely on the strength of asset allocation and stick to the long term investment plan.

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