

# ECONOMIC AND MARKET IMPLICATIONS OF THE US-IRAN CONFLICT

Q&A with GW&K's Global Strategist, William P. Sterling, PhD

## Q: What is the latest on the impact of the US-Israeli military campaign against Iran on global energy markets?

**A:** The situation has escalated intensely since the joint US-Israeli strikes on Iran began on February 28. What started as a “soft blockade” of the Strait of Hormuz has become a near-total shutdown of the waterway. Iran has threatened to attack any tanker transiting the strait, maritime insurers have refused to provide coverage for ships in the region, and commercial traffic has ground to a halt. The scale of the disruption is historic: the roughly 20% of global supply that has been taken offline is approximately twice the supply disruption caused by the Suez Crisis of 1956 – 1957, making this the largest oil supply disruption on record.

The consequences have cascaded rapidly through the region's production capacity. With Gulf producers unable to export crude through the strait, storage facilities have filled, forcing major production cutbacks. Iraq has slashed output by roughly 60%, dropping from approximately 4.3 million barrels per day (bpd) to under 2 million bpd, and has declared force majeure. Kuwait and the United Arab Emirates have also begun cutting production. Meanwhile, on March 8, Israel carried out air raids targeting Iranian oil infrastructure for the first time since the war began, further threatening the supply outlook.

The oil market's response has been extraordinary. Brent crude surged past \$100 per barrel on Sunday, March 9, for the first time since 2022, briefly touching \$119 a barrel overnight before settling near \$99. West Texas Intermediate (WTI) crude futures posted a weekly gain of approximately 36% — the largest in the history of the futures contract dating back to 1983. The mood in the market has shifted decisively from the initial complacency when Brent was trading near \$78 a barrel in the early days of the conflict, to one of notable concern. US gasoline prices have jumped roughly 50 cents per gallon in the past week to \$3.48, the highest of President Trump's two terms.

## Q: Why does it now look as though oil prices could stay higher for longer than markets initially assumed?

**A:** Several factors have converged to make a sustained period of elevated prices more likely than markets initially priced in. First, the conflict has lasted longer than many traders originally expected, and there are no signs of an imminent ceasefire. President Trump last week demanded Iran's unconditional surrender, raising fears of a prolonged war. Iran's regime, fighting for its very existence, has shown no willingness to capitulate. The open-ended nature of the conflict — with the stated objective of regime change rather than a limited military operation — makes any timeline for resolution inherently uncertain.



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Second, the disruption has effectively wiped out global spare production capacity, the shock absorber that normally prevents energy crises from intensifying. Saudi Arabia and the United Arab Emirates, which together hold most of the world's spare capacity, have been cut off from global markets by the closure of the strait.

Third, the conflict has spilled beyond oil into the broader energy complex. Qatar, a major liquefied natural gas (LNG) producer, has been forced to throttle production due to the war, sending European natural gas prices sharply higher and amplifying the global inflationary impulse. Iran has also been blamed for attacks on energy facilities in Qatar, Saudi Arabia, and Kuwait, raising the specter of permanent damage to regional infrastructure that could take months or years to repair. Qatar's energy minister has warned that oil prices could reach \$150 per barrel within weeks as Middle Eastern countries shut down production.

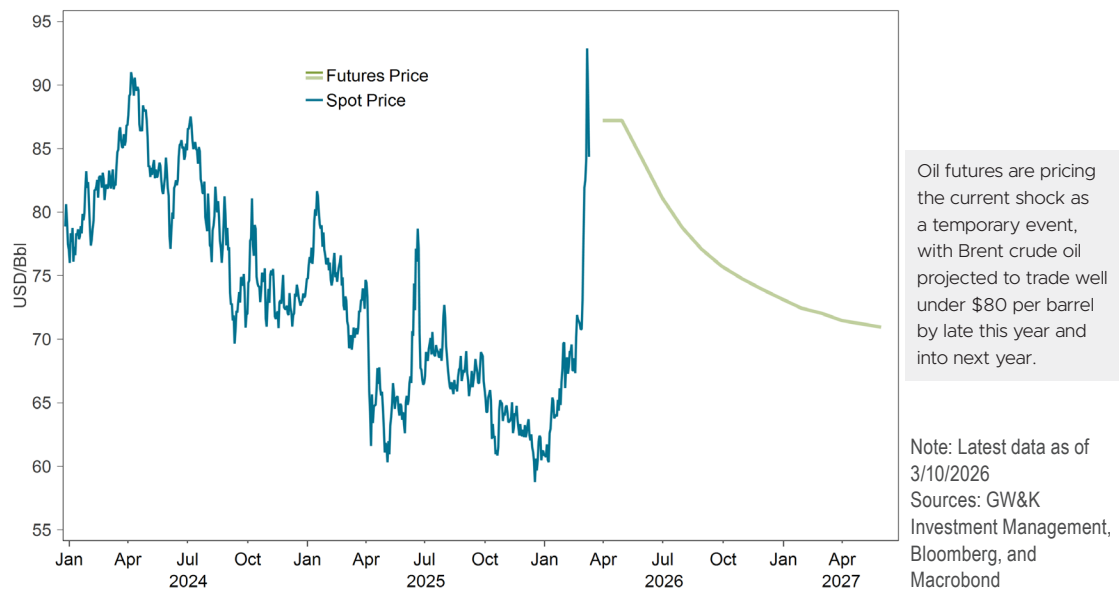
**Q: How does the current oil price spike rank historically?**

**A:** By several measures, this is one of the most dramatic episodes in the history of the oil market. WTI's weekly gain of roughly 36% is the largest in the 43-year history of crude oil futures trading, dating back to 1983. Brent's weekly gain of approximately 28% was its largest since April 2020. Both benchmarks set or approached all-time records for the largest single-day increase in dollar terms, with gains exceeding \$10 per barrel in a single session — the previous record of \$10.75 per barrel was set during the commodity super-cycle in June 2008.

In terms of the underlying supply disruption, the current episode is in a class of its own. As noted above, the estimated 20% of global supply that has been disrupted is roughly double the previous record set during the Suez Crisis. Risks of a higher-for-longer scenario for oil prices are fundamentally larger than during the Russia-Ukraine conflict, when Brent also briefly touched these levels. According to the US Energy Information Administration, the Strait of Hormuz is the world's most important oil chokepoint because large volumes of oil flow through the strait.\*

Despite the dramatic surge in spot prices, the oil futures curve is in steep backwardation, meaning that markets are pricing the current shock as a temporary event (**Figure 1**). Futures markets expect oil to decline back to around \$76 per barrel — close to the 2024 – 2025 average — sometime in the second half of 2026 or early 2027 as the conflict resolves and traffic through the strait resumes.

**FIGURE 1**  
Futures-Implied Trajectory for the Price of Brent Crude Oil



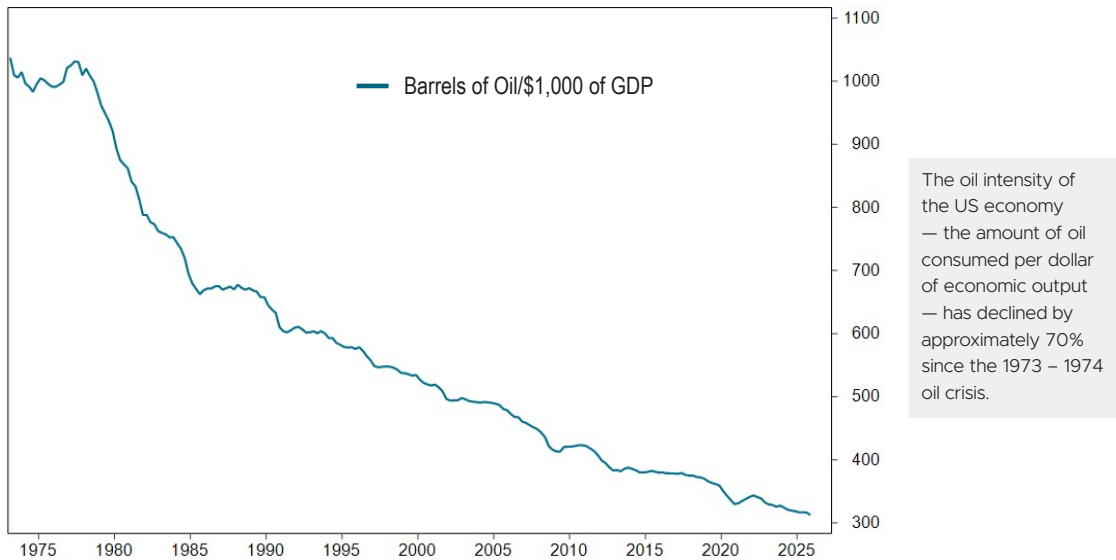
\*Candace Dunn and Justine Barden, "The Strait of Hormuz is the world's most important oil transit chokepoint," Today in Energy, US Energy Information Administration, November 21, 2023.

**Q: Why is the US economy relatively resilient to this oil shock, even though it is not immune?**

**A:** The United States is far better positioned to absorb an energy shock than it was during the oil crises of the 1970s, for several structural reasons. Most importantly, the US has been a net exporter of petroleum since 2019, with domestic production currently running at approximately 13.4 million barrels per day — 22% higher than five years ago. This energy independence means that a significant portion of the windfall from higher global oil prices accrues to American producers and their workers, partially offsetting the drag on consumers.

The economy's vulnerability to oil shocks has also diminished dramatically due to long-term improvements in energy efficiency. The oil intensity of US GDP — the amount of oil consumed per dollar of economic output — has declined by approximately 70% since the 1973 – 1974 oil crisis (**Figure 2**). The share of consumer spending devoted to gasoline and motor fuel was just 1.8% in December 2025, compared with more than 5% in the aftermath of the 1979 Iranian revolution. As an analytical rule of thumb, every \$10 increase in the price of a barrel of oil adds approximately 0.2 percentage points to headline inflation and creates roughly a 0.1% drag on GDP growth. In short, that is the arithmetic of a moderate stagflationary impulse to the US economy.

**FIGURE 2**  
Barrels of Oil/\$1,000 of Real GDP



Sources: GW&K Investment Management, BEA, Energy Information Administration, and Macrobond

Even with its relative advantages, the US is not immune to global energy market dynamics. Oil is a globally traded commodity, and disruptions anywhere affect prices everywhere. The US still imports roughly a third of the oil it consumes, particularly heavier grades of crude needed for diesel, kerosene, and other fuel products. Furthermore, natural gas prices — already elevated before the war due to cold winter weather — have spiked further as the Qatar LNG shutdown has rippled through global gas markets. If the conflict drags on and energy prices remain elevated for an extended period, the cumulative drag on consumer spending and business investment could become more meaningful, particularly for lower-income households for whom energy costs represent a larger share of their budgets.

### **Q: How is the US Federal Reserve expected to handle the inflationary pressure from the oil shock?**

**A:** The Federal Reserve (Fed) is widely expected to maintain a cautious, wait-and-see approach, treating the oil price surge as a supply shock to be “looked through” rather than an inflationary spiral to be fought with tighter policy. This is consistent with how central banks have generally responded to geopolitical energy shocks in the post-Chairman Volcker era. Fed fund futures still give high odds for two 25 basis point (bps) rate cuts in 2026, but have pushed out the timing of the first cut to the Federal Open Market Committee’s July meeting. That said, the elevated level of uncertainty around energy prices may narrow the Fed’s window for the rate cuts that markets had been anticipating before the conflict, particularly if energy-driven inflation feeds into broader price expectations.

### **Q: Are there underlying vulnerabilities in the financial system that this geopolitical uncertainty could expose?**

**A:** Even prior to the Iran conflict, there had been growing investor concern regarding vulnerabilities within the private credit markets. Over the past economic cycle, underwriting quality in the private credit space has deteriorated, resulting in portfolios increasingly characterized by a lack of transparency and by illiquidity. The primary systemic risk is not necessarily an immediate wave of localized defaults, but rather a “search for liquidity” spillover effect. If investors panic regarding the macroeconomic outlook and cannot easily exit their illiquid private credit positions, they could be forced to sell higher-quality, liquid assets in the public investment-grade and high-yield bond markets. This dynamic could lead to a broader, unwarranted widening of credit spreads across the wider financial system. We think this risk scenario is unlikely, but it is one we are keeping in mind.

### **Q: What are policymakers doing to contain the damage, and how should US investors position themselves?**

**A:** On the policy front, the G7 finance ministers are discussing a joint release of strategic petroleum reserves. The Trump administration has also announced a \$20 billion insurance program for oil tankers in the Persian Gulf and signaled its intent to provide naval escorts for commercial ships, though neither measure has yet restored confidence among shipping companies. These efforts may help at the margin, but the core issue remains the open-ended nature of the military conflict.

For equity investors, the key lesson from history remains relevant: avoid panic. For perspective, we examined the 20 largest quarterly increases in WTI crude oil between 1946 and 2026 (**Figure 3**). Stocks were higher 12 months later in nearly 74% of those instances, with a median 4-quarter return of +12.0%. Asian and European equity markets, which are far more dependent on Middle Eastern energy imports, have been hit considerably harder than the US in the initial sell-off. This relative US resilience is consistent with America’s structural advantages as a major energy producer. While the initial phase of the conflict has created significant short-term volatility, the historical template continues to suggest that panic-selling equities solely in response to an oil price spike often proves counterproductive for long-term investors.

Finally, while financial markets have initially focused on the economic implications of higher energy prices due to the Iran conflict, the focus will eventually shift to its aftermath. This could occur sooner than anticipated if Trump seeks a quick off-ramp, as the situation runs counter to promises he made to his base for low inflation, a strong economy, and avoiding foreign conflicts. And while it may seem like a long shot now, investors should not rule out the potential for a regime change in Iran, which could see long-lasting changes happen in the Middle East.

**FIGURE 3**
**How Do Stocks Perform After Major Oil Price Spikes**
*S&P 500 Index Return After the 20 Largest Quarterly WTI Crude Oil Price Increases (1945 – Present)*

Quarter	Oil Price	Oil QoQ Chg (%)	S&P 500 Index Return			
			1 Quarter	2 Quarters	3 Quarters	4 Quarters
1974-Q1	\$10.11	134.6	(8.5)	(32.4)	(27.0)	(11.3)
1990-Q3	\$39.50	131.7	7.9	22.6	21.3	26.7
2020-Q2	\$39.27	91.7	8.5	21.2	28.1	38.6
2026-Q1	\$94.62	65.0	?	?	?	?
1979-Q2	\$25.64	54.7	6.2	4.9	(0.8)	11.0
1999-Q1	\$16.75	43.7	6.7	(0.3)	14.2	16.5
2009-Q2	\$69.89	40.7	15.0	21.3	27.2	12.1
2008-Q2	\$140.00	37.8	(8.9)	(29.4)	(37.7)	(28.2)
2004-Q3	\$49.65	34.0	8.7	5.9	6.9	10.2
2022-Q1	\$100.28	33.3	(16.4)	(20.9)	(15.3)	(9.3)
2019-Q1	\$60.17	33.3	3.8	5.0	14.0	(8.8)
2002-Q1	\$26.33	33.1	(13.7)	(28.9)	(23.3)	(26.1)
1999-Q3	\$24.47	31.8	14.5	16.8	13.4	12.0
1994-Q2	\$19.36	30.9	4.1	3.4	12.7	22.6
1988-Q4	\$17.25	29.2	6.2	14.5	25.7	27.3
2023-Q3	\$90.79	28.5	11.2	22.5	27.3	34.4
2005-Q1	\$55.41	27.5	0.9	4.1	5.7	9.7
2016-Q2	\$48.27	26.1	3.3	6.7	12.6	15.5
2011-Q4	\$98.83	24.8	12.0	8.3	14.6	13.4
2015-Q2	\$59.44	24.6	(6.9)	(0.9)	(0.2)	1.7
<b>Average</b>		<b>47.9</b>	<b>2.9</b>	<b>2.3</b>	<b>6.3</b>	<b>8.8</b>
<b>Median</b>		<b>33.3</b>	<b>6.2</b>	<b>5.0</b>	<b>12.7</b>	<b>12.0</b>
<b>% Higher</b>			<b>73.7%</b>	<b>68.4%</b>	<b>68.4%</b>	<b>73.7%</b>

Note: Data for 2026-Q1 based on data as of 3/9/2026

Sources: GW&amp;K Investment Management, Bloomberg, S&amp;P Global, and Macrobond

Despite oil spikes often being associated with economic headwinds, the S&P 500 has historically performed reasonably well in the quarters following the largest monthly oil price surges.

The median 4-quarter return of +12.0% is not bad, and stocks were higher 12 months later in nearly 74% of cases.

**DISCLOSURES:**

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