

5 March 2026

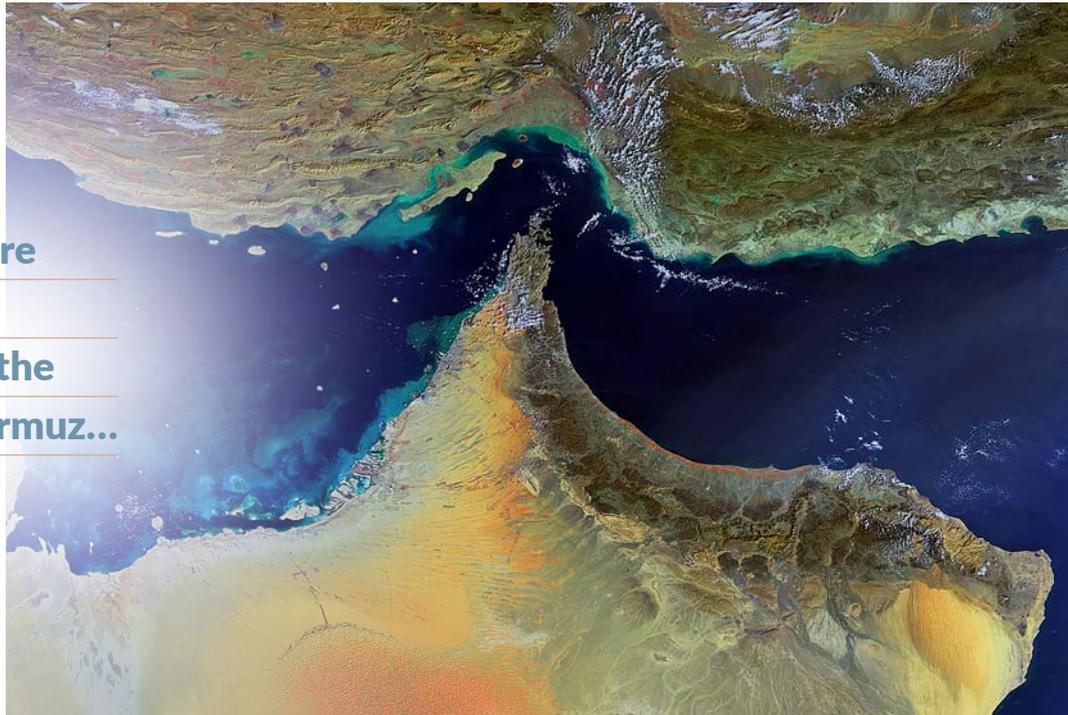
focus



Navigating Another Bout of Global Uncertainty

Investors have once again been reminded that geopolitics can quickly rear its head. Escalating conflict in the Middle East between Iran, the US, and Israel has pushed oil prices higher and unsettled global markets. Events are still unfolding, and markets naturally dislike uncertainty. But while geopolitical flare-ups can generate sharp short-term volatility, history suggests they are rarely the dominant driver of long-term investment returns.

...Markets are particularly focused on the Strait of Hormuz...



What has happened – and where things stand

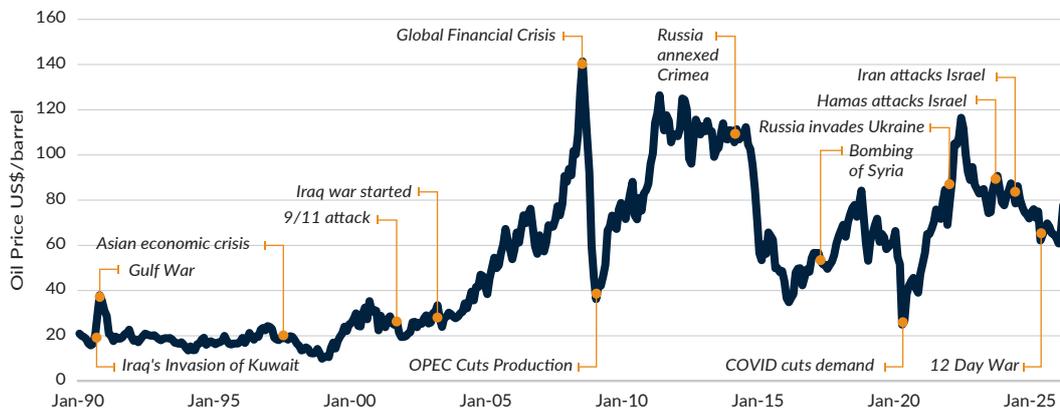
The immediate catalyst for market volatility has been a sharp escalation in hostilities in the Middle East. The long-running shadow conflict between Israel and Iran has shifted into open confrontation following coordinated military strikes by the United States and Israel at the end of February. While this note focuses on the financial and economic implications, it is important to acknowledge the tragic human cost of these events for military personnel, civilians and communities across the region.

The strikes targeted multiple sites across Iran and resulted in the death of Supreme Leader Ayatollah Ali Khamenei, along with numerous other senior Iranian officials.

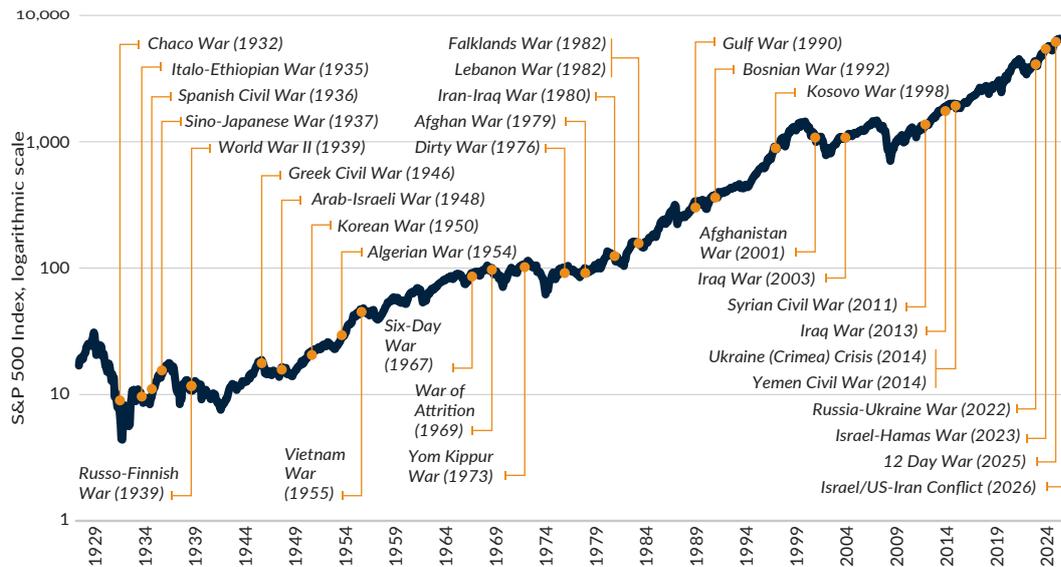
Iran and its allied proxy groups have since launched missile and drone attacks on Israeli positions and US military assets. The fighting has also struck civilian and infrastructure targets in several Arab countries, heightening fears of further escalation.

Markets are particularly focused on the Strait of Hormuz – a narrow but strategically vital shipping lane through which roughly one-fifth of global oil supply, and a similar share of liquefied natural gas (LNG), typically passes. Traffic through the Strait has effectively stalled due to heightened security risks and sharply higher insurance costs. Iraqi oil production has reportedly halted as storage capacity fills and tanker traffic remains restricted. Oil prices have risen in response and are now more than 10% higher since the conflict began.

OIL PRICES TEND TO SEE THE BIGGEST REACTION TO MIDDLE EAST GEOPOLITICAL SHOCKS



S&P 500 INDEX AND GEO-POLITICAL EVENTS



Source: Refinitiv, Forsyth Barr analysis

Many past flare-ups in the region have proved relatively short-lived from a market perspective, with prices retracing once tensions ease. In previous Middle East conflicts – including last year’s 12-day war involving Israel – the main

economic impact was a temporary spike in oil prices rather than lasting global damage. Markets have generally shown resilience once the immediate uncertainty subsides.

MSCI WORLD INDEX AND RETURNS FOLLOWING MAJOR EVENTS

Event	Date	1 Month	3 Months	6 Months	12 Months
Iraq's Invasion of Kuwait	2/08/1990	-7.2%	-10.1%	-6.6%	-0.7%
9/11 attack	11/09/2001	1.6%	4.3%	7.2%	-13.8%
Iraq war started	20/03/2003	2.8%	16.0%	22.3%	35.4%
Russia annexed Crimea	20/02/2014	-0.1%	1.3%	4.8%	6.8%
Bombing of Syria	7/04/2017	2.8%	3.7%	9.1%	11.2%
Russia invades Ukraine	24/02/2022	4.7%	-7.8%	-5.8%	-6.8%
Hamas attacks Israel	7/10/2023	1.5%	9.7%	19.6%	29.3%
Iran attacks Israel	13/04/2024	2.1%	8.3%	11.4%	3.6%
12-day war	13/06/2025	3.7%	9.0%	13.0%	

Source: Refinitiv, Forsyth Barr analysis

At the time of writing, the conflict is less than a week old. There remains a reasonable possibility that diplomatic and international pressure contains the situation. However, if tensions persist for months and materially disrupt energy infrastructure or major shipping routes, the economic effects could broaden.

While the impact on petrol prices is most talked about, oil prices also affect a wide variety of broader areas including influencing transport costs, manufacturing, food production and household energy bills. Sustained price increases can lift costs for both consumers and businesses, resulting in inflation.

Geopolitical shocks are not new

History offers perspective. Russia’s invasion of Ukraine in early 2022 triggered a sharp spike in oil and gas prices, significant share market volatility and fears of global recession as investors priced in prolonged supply disruption.

Over time, markets adjusted. Energy flows were rerouted. Alternative suppliers stepped in. Economies adapted. Although equity markets initially fell, they recovered and have performed strongly in the years since, even with the war ongoing. Corporate earnings, economic growth and interest rate expectations ultimately proved more important drivers of returns than the conflict itself.

...economies and markets are highly responsive and can quickly adjust...



A similar pattern was evident during the “Tanker War” phase of the Iran–Iraq conflict in the 1980s. Between 1984 and 1988, oil tankers in the Persian Gulf were repeatedly targeted, threatening shipments through the Strait of Hormuz. Shipping was disrupted, insurance costs surged and oil prices experienced bouts of volatility as markets feared broader shortages.

Yet global oil supply was not permanently derailed. Other producers increased output, strategic reserves provided support and international naval escorts helped secure shipping lanes (something US President Trump has already discussed doing). As uncertainty gradually eased, markets stabilised.

Across both episodes, the pattern is familiar: when supply risk rises, prices spike as worst-case scenarios are priced in. But higher prices also incentivise additional production and alternative supply, helping restore balance.

This cycle of sharp repricing followed by adaptation is common. Acknowledging that does not diminish the human cost of conflict. From an investment perspective, however, it reinforces an important reality: economies and markets are highly responsive and can quickly adjust.

In the past several years, the global economy has weathered a pandemic, severe supply chain disruptions, the highest inflation in decades, rapid interest rate rises and war in Europe. Each episode brought uncertainty and bouts of market volatility. Yet over time, economies have adapted, companies have adjusted, and markets have moved forward. While periods like this can feel uncomfortable, history reminds us that resilience, not crisis, has been the more enduring trend.

If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide you advice and assistance.

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