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# focus

## Iran Conflict: An Acute Energy Shock, Not a Permanent One



**Investors have once again been reminded that geopolitics can quickly come to the fore.** Conflict in the Middle East has disrupted energy supplies, pushed oil and gas prices sharply higher, and unsettled global markets. While geopolitical events can disrupt the global economy and trigger market volatility, it's important to remember that such events are finite and are rarely the main driver of long-term investment returns.

**...For markets, the key question is how long shipping through the Strait of Hormuz remains disrupted...**



**From shadow conflict to open warfare**

In late February, US and Israeli strikes on Iran escalated a long-running shadow conflict into open warfare.

While this article focuses on the financial and economic effects, it is important to recognise the human cost to military personnel, civilians, and communities across the region. For markets, the key question is how long shipping through the Strait of Hormuz remains disrupted.

The Strait is a narrow but strategically vital shipping route through which roughly one-fifth of global oil supply and a similar share of liquefied natural gas (LNG) typically passes. According to the International Energy Agency, crude oil and oil product flows through the Strait have fallen

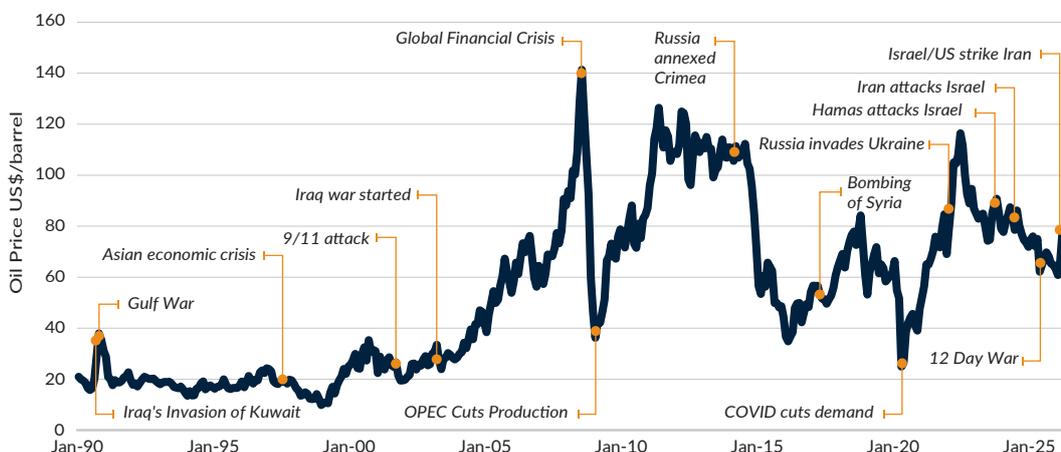
from around 20 million barrels a day before the conflict to a trickle, with Gulf producers cutting output by at least 10 million barrels a day.

Brent crude has spiked to as high as US\$119/bbl, up from roughly US\$70 before the conflict, and both oil and gas markets remain highly volatile.

**An acute energy shock**

Past flare-ups in the region have typically been short-lived from a market perspective, with energy prices retracing once tensions ease. This episode, however, has already proved more disruptive than a typical Middle East shock. The market is no longer dealing only with headline risk; it is dealing with a genuine energy supply shock, tighter financial conditions, and renewed inflation concerns.

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



Source: Refinitiv, Forsyth Barr analysis

At the time of writing, the conflict is in its fourth week. A near-term diplomatic breakthrough is not obvious, and attacks on energy assets and shipping continue. If disruption to Gulf production and shipping persists for months rather than weeks, the risk is that a temporary oil shock turns into a sharp global economic slowdown.

The rise in petrol prices is the most visible effect, but higher oil and gas prices affect much more than the cost of filling up. They influence transport costs, manufacturing, food production, freight costs, and household energy bills. They can also lift bond yields and may affect the path of interest rates if central banks worry that energy-driven inflation will prove persistent.

### Geopolitical crises are finite

Geopolitical crises can be severe, but they are not indefinite. The hardest part for markets is not knowing how far a conflict will escalate or how long the disruption will last. That uncertainty can drive a sharp rise in market volatility. Yet even serious geopolitical shocks tend to follow a pattern: they erupt, intensify, and eventually either de-escalate or become more contained.

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.

However, as the war continued, the initial shock steadily faded. Energy flows were rerouted, alternative suppliers stepped in, economies adapted, and worst-case fears eased. The dislocation itself proved finite even though the conflict continues.

A similar pattern was seen during the 'Tanker War' phase of the Iran-Iraq conflict in the 1980s. Between 1984 and 1988, oil tankers in the Persian Gulf were 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.

Global oil supply, however, was not permanently derailed. Other producers increased output, strategic reserves provided support, and international naval escorts helped protect shipping lanes. As uncertainty gradually eased, markets stabilised. Over time, what had initially looked like a threat with no clear end became a more manageable and, ultimately, finite shock.

### S&P 500 INDEX AND GEOPOLITICAL EVENTS



Source: Refinitiv, Forsyth Barr analysis

### 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

**...reacting to every  
twist in the news  
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investment strategy...**



**Look beyond the headlines**

Ultimately, the course of the conflict in Iran remains inherently uncertain. Markets can speculate on possible outcomes, but they cannot know with confidence how long disruptions will last, how severe they will become, or how policymakers and producers will respond. That uncertainty is uncomfortable, but it is also unavoidable. For investors, short-term geopolitical developments are among the hardest events to forecast with any consistency.

That is why reacting to every twist in the news flow is rarely a sound investment strategy. Shocks can unsettle markets and push asset prices around sharply in the near term, but long-term returns are usually shaped more by broader fundamentals such as economic growth, interest rates, and corporate earnings.

For most investors, the more useful question is not how the conflict will unfold over the next few weeks or months, but how they want their portfolio positioned over the medium to long term. That means staying focused on diversification, risk tolerance, and the opportunities that can emerge during periods of market volatility. Investors are generally better served by being set up for the long-term direction of markets than trying to react to short-term events.

**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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