

Iran conflict: our latest thoughts

10 March 2026

It's best to stick to long-term strategies, rather than trying to trade on the unpredictable twists and turns of this war.

How have markets reacted so far?

Ten days after the Iran conflict broke out, it's worth considering where we stand.

There's been an increase in market volatility: the Vix index, often known as the US stock market's 'fear gauge' because it measures expected volatility in the S&P 500, reached a high of 35. But has since fallen back to 24, not far above its long-term average of 20.

Equities and risk sentiment have fallen sharply.

Major regional equity markets are between 2% and 10% lower since the crisis started (data to close of business on 9 March). Following a strong start to the year, that has left global equity indices, in aggregate, back where they started, although the UK's FTSE 100 is up 3.2%.

Yields on longer-dated government bonds have risen again as inflation, through

Quick take:

- Strait of Hormuz remains closed, crimping oil supplies.
- Oil price is extremely volatile, with a record intra-day trading range.
- But stocks and oil have gained ground after Trump suggests the end of the conflict is near.

higher oil prices, becomes a bigger threat, delivering capital losses to holders.

A balanced sterling-denominated portfolio, however, is roughly flat for the year so far. There's been some recent pain – but this has mostly involved giving back the gains from January and February. Markets remain volatile, responding to official statements and developments on the ground, with strikingly large movements within the same trading day.

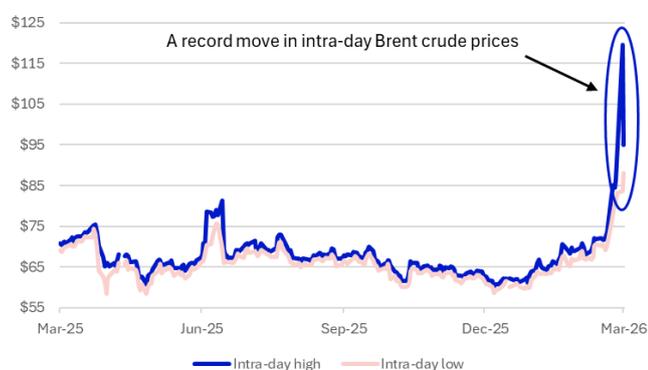
The greatest impact has been on commodities, especially energy, with the world focused on the Strait of Hormuz, the narrow body of water between Iran

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and Oman. The key question is how long the flow of energy through the Strait will be affected. This will determine how large any potential stagflationary shock might be. By that, we mean a shock that pushes up inflation and pushes down growth.

Most investors had initially thought the crisis would be relatively short-lived, so they made light of the impact. However, as the first week of hostilities unfolded, it became clear that the wider investment community (and possibly the US government) had underestimated the scale of Iran's reaction. The consequences included, most strikingly of all, the effective closure of the Strait because of Iranian attacks on shipping. Signs that events might drag on generated a sharp increase in energy prices as supplies were curtailed. The cost of a barrel of Brent crude oil rose from \$70 on the eve of the attacks to an intra-day peak on Monday close to \$120.



Source: FactSet, Rathbones; ICE front-month futures prices for Brent crude blend. Prices updated to midday on Tuesday, 10 March.

Moreover, fertiliser and its key chemical ingredients are also important commodities shipped through the Persian Gulf. With UK farmers already suffering from flooded fields and crops also disrupted by extreme weather in Southern Europe and North Africa, fresh food prices are likely to rise too.

And taking a wider view, many countries on the Asian sub-continent, notably India, count on fertiliser supplies from the Middle East. Shortages could unleash a humanitarian crisis.

Light at the end of the tunnel?

The last 24 hours have brought better news and a positive market response. The US and International Energy Agency (IEA) announced that they would consider releasing oil from strategic reserves. Initial estimates are for around 400 million barrels to be tapped. This is about a month's worth of the reduced supply from the Middle East, taking into account the fact that the Saudis are diverting as much oil production as they can to the Red Sea via pipelines, so that it doesn't have to pass through the Strait of Hormuz.

This display that governments are sensitive to the oil price helps to reduce its upside potential. In total, IEA member countries have more than 600 days' worth of imports in their reserves.

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The need to keep supplies flowing was emphasised by US plans to provide naval escorts through the Strait. The US also plans to offer a government-backed reinsurance facility for tanker owners.

But markets responded most positively to comments by US President Donald Trump on Monday evening, suggesting that he saw the end of hostilities approaching. At the same time, he warned Iran of even heavier bombardment if Iran continued to threaten the flow of oil through the Strait of Hormuz. In response, the oil price fell back to around \$90 and US equity markets, which had at one stage early on Monday been priced in for a 2.5% fall in futures markets, ended the day gaining almost 1%.

What action to take?

We're operating in a different market regime compared to the last 40 years, characterised by heightened geopolitical tension and inflationary pressure.

Geopolitical events are hard to predict and it's not advisable to trade them. In fact, history mostly suggests the right reaction is not to panic. Instead, the best policy is to stick to a long-term investment strategy.

However, there will be times when more action is required. This includes moments when the event acts as a catalyst to expose pre-existing risks and conditions.

The most likely trigger is a spike in commodity prices or a sea-change in sentiment towards risk, possibly because of reduced liquidity in the financial system – when it becomes harder to sell assets because of an absence of willing buyers. In the current situation, it's about commodities: the key question remains how long energy markets will remain affected.

When wars are counted in days, markets tend to regain their equilibrium fairly quickly. When counted in weeks, we enter more dangerous territory. When those wars affect the supply of essential commodities, especially oil, the odds move further against us. There's no shying away from the fact that investors face an uncertain situation today, as events unfold in the Middle East.

Our advice remains to stick with long-term portfolio strategies and not to act rashly. Diversification can cushion portfolios. Moreover, various 'tilts' can play a part in protecting against the negative effects. These include:

- Reduced exposure to long-duration bonds (bonds that have many years left to run)
- Owning quality stocks
- Portfolio diversifiers – assets that don't tend to move up and down in lockstep with other assets in the portfolio

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Within equities, we have long held the view that a bias towards higher-quality companies pays off in the long term. So we would expect them to be relatively resilient in the current environment, even if there's some risk to demand from their customers as higher energy prices and interest rates eat into disposable income.

On the fixed income side, our decision to invest in shorter-dated bonds has been beneficial as they've avoided the worst of the sell-off suffered by longer-dated instruments, whose prices are much more sensitive to interest rate changes. This stance is dependent on our thesis that inflation is set to be higher and more volatile than before the pandemic period. This is largely because of rising geopolitical risk.

Staying invested

Going back to first principles, just as we suggested a week ago, it still doesn't look as though the current situation is to anyone's benefit. Given this, one has to have a modicum of belief that we're not headed into some form of mutually assured destruction.

That would still suggest not materially reducing overall market exposure. All the more so as any rallies can be quite sharp and immediate on any news of a resolution – we've already seen this. We also recommend that regular savers

maintain their commitments and take advantage of lower prices.

Even so, we remain prepared for further disruption and volatility in the short term.

The announcement that the late Ayatollah Khamenei will be succeeded by his son suggests that Iran is defiant. Trump has called this unacceptable. This suggests that he will continue the conflict.

But the fact that the US administration has set a changing, and sometimes contradictory, list of objectives for success means it has given itself choices. It can decide what success is – and de-escalate when it asserts that success has been achieved. As we've witnessed with other decisions from Trump, this could happen at any moment – and there would be no time for investors to react.

It's important to remain vigilant and ready to respond accordingly. But sticking with long-term strategies and well-constructed portfolios remains the best advice in the current situation. This is preferable to dramatic risk reductions or shifts in strategic asset allocation. That's the best way to buckle up and get through the current turbulence.

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