

Iran and the Global Markets

Four years ago, in early 2022, we opened our first-quarter commentary by addressing “the economic implications of higher inflation, rising energy and commodity prices, COVID variants, actions from the Federal Reserve (the Fed), and the geopolitical consequences surrounding Russia’s invasion of Ukraine.” While COVID-related concerns have largely faded from the economic narrative, the remaining themes—particularly inflation, monetary policy, and geopolitical instability—remain strikingly relevant today. This quarter, we focus on the economic implications of U.S. intervention in Iran and examine how elevated oil prices may influence global markets.

Geopolitical Conflicts and Market Behavior

Armed conflict has been a near-constant backdrop for most of the modern era. Since World War II, major U.S.-involved conflicts—including Korea, Vietnam, the Gulf War, and the War on Terror—have collectively spanned roughly 50 of the past 87 years. Despite their human and political costs, the long-term impact of these conflicts on financial markets has historically been limited.

Every conflict creates economic winners and losers. Higher oil prices, for example, strain consumers but benefit energy producers and defense contractors. Yet, when we examine the performance of the S&P 500 during five major conflicts, all periods show positive annualized returns, most of them within a typical historical range.

Conflict	Time Period	Annualized S&P 500 Return
World War 2	September 1939 – September 1945	3.7%
Korean War	June 1950 – July 1953	8.8%
Vietnam War	November 1955 – April 1975	6.8%
Gulf War	August 1990 – February 1991	24.2%
War in Afghanistan/Iraq/Terror	October 2001 – August 2021	7.4%

While many attributed the 2022 market downturn to Russia’s invasion of Ukraine, persistent inflation was the more likely driver. Inflation remains above the Fed’s target even as markets have since reached new highs. Today, we are monitoring similar risks that could emerge in 2026 if geopolitical tensions continue to pressure energy markets.

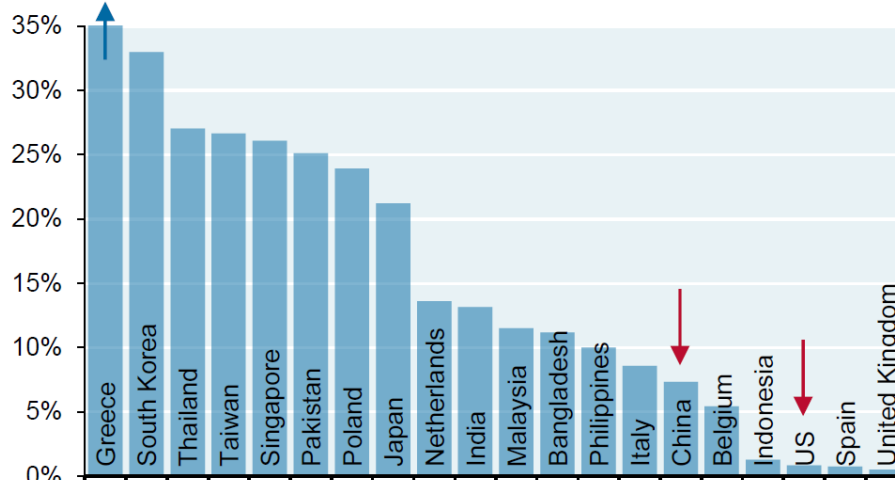
Oil's Role in the Modern Economy

Oil remains deeply embedded in global economic activity. Beyond fueling vehicles, it influences the cost of transporting goods, manufacturing, and countless supply chains. These pressures ultimately flow through to consumer prices. However, the stock market's sensitivity to oil has diminished. In the early 1990s, energy companies represented roughly 15% of the S&P 500. Today, they account for less than 5%. As a result, rising oil prices, while still meaningful, carry less weight in broad equity performance than they once did.

Concerns about the Strait of Hormuz have already pushed oil prices higher. While a potential closure would disrupt global supply chains, the direct impact on the United States (a net exporter of oil/gas) would be limited. Less than 2% of U.S. oil and natural gas imports pass through the Strait, meaning the economic burden would fall more heavily on parts of Europe and Southeast Asia.

Highest Strait of Hormuz oil and gas exposure as a share of energy consumption

Crude oil, condensate and LNG imports via the Strait of Hormuz as a share of primary energy consumption, 2024



Sources: EIA, IEEFA, OEC, Vortexa, JPMAM, 2025

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Additionally, U.S. household spending on gasoline and energy goods is near historic lows. Since 1970, it has been rare for energy to account for less than 2% of consumer spending—yet that is where we stand today. This suggests that even if oil prices rise, the relative impact on American households is smaller than during past spikes, such as the early 1980s or the 2005–2015 period. Having said this, oil and gas remain globally priced commodities. While we should not expect a supply shortage here at home, a prolonged shutdown of the Strait of Hormuz will lead to higher gas prices and potentially higher inflation.

Declining energy share of household spending

US spending on gasoline and other energy goods

Share of total consumer spending, percent



Source: FRED, BEA, JPMAM, December 2025

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Navigating Uncertainty with a Data-Driven Approach

At Legacy, our mission is to help you cut through the noise—whether from news headlines, social media, or market speculation—and stay focused on a disciplined, data-driven strategy aligned with your long-term goals.

Wars carry profound human costs, but their economic impact on global markets has historically been far smaller than public perception suggests. Similarly, while rising oil prices can create real financial pressure, today's U.S. economy is less vulnerable to energy shocks than in previous decades.

If you are concerned about how these developments may affect your financial plan, we encourage you to reach out to your Relationship Manager. If inflation—whether from energy or other expenses—is pushing your budget off track, we can update your plan accordingly. We

remain committed to managing your investments and financial strategy with prudence, discipline, and a long-term perspective.

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