

## Iran conflict scenario update: Strait of Hormuz and market implications

Military action involving the United States, Israel, and Iran has entered a second month, and the conflict continues to pressure global markets. Iran has used missiles and drones against Israel and regional oil exporters, while equity markets have pulled back from earlier highs. The S&P 500 fell nearly 9% from its January peak, and both the developed markets MSCI EAFE Index and the MSCI Emerging Markets Index declined 8% to 12%.

Recent headlines have added to uncertainty rather than resolved it. [President Trump](#) signaled progress in cease fire talks, which temporarily buoyed markets, and said the United States would delay strikes on Iran's energy infrastructure until April 6 to allow negotiations to continue. At the same time, Iran has maintained a defiant posture, attacks have continued across the region, and the conflict widened again on March 28 amid concerns that disruption could extend beyond the Strait of Hormuz to the Bab el-Mandeb Strait which connects the Red Sea with the Gulf of Aden and the Pacific Ocean.

### Why the Strait of Hormuz matters to global markets

The central market issue is the effective disruption of shipping through the Strait of Hormuz, a critical energy corridor with limited near-term alternatives. The U.S. Energy Information Administration (EIA) estimates that roughly 20% of global oil supplies and global liquefied natural gas (LNG) transited the strait in 2024. The Bab el-Mandeb strait adds another layer of risk because it carries about 12% of global trade and can amplify transportation costs and delivery delays if disruption spreads.

The Strait of Hormuz also matters beyond oil and natural gas. Fertilizer shipments that move through the region affect agricultural input costs, and the Fertilizer Institute (TFI) reports that nearly 50% of nitrogen-based fertilizer exports originate from countries west of the strait and typically travel through this route. When shipping slows, fertilizer availability can tighten, raising farming costs and contributing to food price inflation over time, especially in import-dependent regions.

Current traffic conditions show how severe the disruption has become. According to [HormuzStraitMonitor.com](#), transit through the Strait of Hormuz stands at 5% of normal volume as of March 29, 2026. News reports also indicate that some Iran-linked tankers appear to be transiting with disabled transponders and that Pakistan is hosting ceasefire talks between the U.S. and Iran, while [Lloyd's List](#), a shipping newsletter, reports Iranian linked goods still dominate vessels exiting the Strait.

### Market transmission and regional sensitivity

Markets have responded quickly to the surge in energy prices. The equity selloff reflects sharp moves in oil and natural gas, with Brent crude oil and wholesale gasoline prices up more than 70% from the start of the year. Those price gains have renewed investor concern that [inflation](#) could reaccelerate just as growth slows.

International equity markets have reacted more sharply than U.S. stocks because many European and Asian economies import a large share of the energy they consume. The U.S. enters this period from a stronger relative position as the world's largest oil producer and a net energy exporter. Even so, higher oil and LNG prices can still erode household purchasing power, lift business costs and weigh on growth, while rising fertilizer prices can add a second inflation channel through food costs.

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### Scenario framework: Market scenarios based on the duration of Strait of Hormuz disruption

The most important variable for markets is the length of the shipping disruption through the Strait of Hormuz and, potentially, the Bab el-Mandeb Strait. That timeline may differ from the duration of military operations in Iran. We outline three scenarios below based on how long global energy supplies remain constrained in transit:

#### Scenario 1 (best case): De-escalation and near-term normalization

In the best-case scenario, shipping resumes through the Strait of Hormuz within days, likely over the next week, even while U.S. and Israeli strikes may continue, as insurers return, U.S. naval protection improves transit security, and markets gain confidence that commercial flows can restart. This outcome has become less likely as the conflict has extended beyond four weeks.

- This resolution would be welcomed by markets, with foreign equities the likeliest leaders. Recent foreign stock declines reflect their significant dependence on imported energy. With a near-term resolution, these regions would avoid the worst scenarios and strong fundamental trends in place prior to the conflict would remain intact.
- Until this scenario materializes, we would watch closely to validate equity price trends remain intact. This includes the S&P 500 remaining in an upward trend, holding above long-term support around 6,600.
- Also, we would confirm that inflation expectations remain contained with the 10-year Treasury yield holding in the recent range between 3.95%-4.35%.
- We anticipate the market reaction to a short-term resumption of shipping traffic through the Strait of Hormuz would anchor on existing constructive trends in [economic growth](#), [corporate earnings](#) and relatively stable-to-moderating inflation.

#### Scenario 2 (base case): Strait of Hormuz reopening within two to six weeks

In the base case, shipping conditions improve over a period of two to six weeks as insurance coverage broadens, the U.S. Navy helps secure passage, and military pressure sharply reduces Iran's ability to disrupt transit. A closure of this length would keep energy prices elevated and push inflation higher in the short term, even if [labor-market](#) stability and earlier [consumer momentum](#) cushion some of the pressure on U.S. spending. Equity markets could remain volatile during this stretch, with the S&P 500 potentially breaking below its 200-day moving average and moving toward a more traditional correction near 6,300 before conditions stabilize.

- This resolution would offer opportunities for investors to rebuild U.S. equity positions amid constructive economic fundamentals.
- The rise in [10-year U.S. Treasury yields](#) would afford investors an opportunity to add to bond portfolios at relatively attractive interest rates.
- Global equities would be more mixed; the longer duration could lead to somewhat more persistent inflation in coming months and some damage to economic growth. Energy importing economies, would suffer larger impacts to markets, including Europe and Asian economies.

#### Scenario 3 (tail risk): Disruption extends through the summer

The tail-risk scenario assumes the Strait of Hormuz remains closed through the summer, leaving energy prices elevated for months and potentially pushing oil above levels seen in 2022. Even after shipping resumes, recovery could take time if regional infrastructure requires repair and producers have limited storage capacity for energy that cannot leave the region. In that case, supply constraints could last well beyond the initial military phase of the conflict.

- Global equity markets may reach [correction territory](#), potentially down as much as 20%, with foreign markets under greater pressure as they are dependent on imported energy.
- 10-year U.S. Treasury yields could rise above 4.5%, because investors must price for greater inflation pressure, but heightened growth risks could eventually push yield levels lower if investors anticipate the [Federal Reserve](#) cuts interest rates to alleviate tight financial market conditions.
- With higher inflation, consumers will be under pressure, and the longer horizon for price pressure could start to hurt corporate profit margins. We would closely watch the labor market for dislocations, with companies resetting plans in the face of higher short-term costs.

#### Client guidance: Three recommended actions for your portfolio

Our base case is for some alleviation of oil transportation constraints in coming days or weeks, with a small but real risk

the conflict lingers through the summer. As we weigh these risks, we emphasize economic fundamentals were strong as we entered this conflict. While we await resolution and evaluate emerging opportunities and risks, we encourage investors to take this opportunity to evaluate their long-term investment plan relative to risk tolerance. Through this evaluation we encourage the following three actions:

- 1) **Confirm target allocation and rebalance if needed.** If you and your wealth professional find you are in the wrong allocation, begin a plan to [rebalance your portfolio](#) into the correct allocation. Equity market volatility can often uncover a new understanding of personal risk tolerance. Additionally, bond yields remain high relative to the past 15 years, often allowing you to reduce portfolio risk while remaining on track for your plan.
- 2) **If holding excess cash, consider a phased approach to investing.** If you are on the sidelines or find yourself with [excess cash](#), current volatility presents an opportunity to start dollar-cost averaging into your portfolio. Use the opportunity of the decline in global equity markets to build toward your target position over the next few months.
- 3) **Address diversification gaps deliberately.** If you find you are missing asset classes, such as foreign stocks, smaller U.S. companies, global infrastructure or credit oriented fixed income, such as residential mortgage-backed securities or high-yield [municipal bonds](#), plan your transition now and begin a measured plan to rebalance now. We see significant forward opportunities across these asset classes and recent volatility offers an opportunity to add these diversified opportunities to your investment portfolio.

If you have questions about how current conditions relate to your plan, contact your wealth professional to review risk alignment, liquidity needs and any planned rebalancing decisions.

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