

Iran conflict scenario update: Reopening the Strait of Hormuz and market implications

On April 7th, just ahead of President Trump's self-imposed deadline for reopening the Strait of Hormuz, the President announced a two-week ceasefire agreement with Iran. The agreement aims to reopen the strait for the duration of the truce, and markets responded quickly as equities rallied while oil prices and interest rates fell. Even so, conditions remain fragile, shipping traffic is still limited, and U.S. officials are pursuing broader talks aimed at securing a more permanent agreement.

Military action involving the United States, Israel, and Iran lasted five weeks and the conflict continues to influence investor sentiment even after the ceasefire announcement. Iran used missiles and drones against Israel and regional oil exporters, while equity markets remain below 2026 all-time 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% before rebounding post-announcement. U.S. interest rates moved lower as investors now see a possibility of a 0.25% Federal Reserve rate cut later this year.

Why the Strait of Hormuz matters to global markets

The Strait of Hormuz remains central to the market outlook because it is one of the world's most important energy transit routes and offers few near-term alternatives at scale. The U.S. Energy Information Administration (EIA) estimates that roughly 20% of global oil supplies and global liquefied natural gas (LNG) shipments moved through the strait in 2024. Risks also extend beyond Hormuz because the Bab el-Mandeb Strait carries about 12% of global trade and can drive up transportation costs and delivery delays if disruption spreads across the region.

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 corridor. When shipping slows, fertilizer availability tightens, farming costs rise, and food-price pressures can build 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 stood at 5% of normal volume as of April 9, 2026, despite the ceasefire. Asia faces particular vulnerability because it imports large volumes of Middle East oil, and tanker shipments can take 30 days to reach Asian ports from the Middle East, which delays any full normalization of supply even after the strait is fully reopened. This is likely to keep oil prices elevated and markets nervous.

Market transmission and regional sensitivity

Markets have reacted quickly to the surge in energy prices. The recent equity selloff reflects sharp gains in oil and natural gas prices, with Brent crude oil and wholesale gasoline prices up more than 70% from the start of the year. Those moves have revived concern that [inflation](#) could accelerate and growth could slow, creating a more difficult backdrop for both consumers and policymakers.

International equity markets have come under greater pressure 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 relatively stronger position as the world's largest oil producer and a net energy exporter, but that advantage does not fully shield the

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economy from rising fuel and input costs. Higher oil, LNG, and fertilizer prices can still erode household purchasing power, increase business expenses, and add to inflation through higher food and energy costs.

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 not match the duration of military operations in Iran, which means market pressure could outlast the most visible phase of the conflict. 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, as insurers return, U.S. naval protection improves transit security, and markets gain confidence that commercial flows can quickly restart.

- This resolution would be welcomed by markets, with foreign equities the likeliest leaders. Foreign stock declines in March 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%-4.50%.
- 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 the next 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

The ceasefire reinforces our base case that oil transportation constraints may begin to ease in the near term, but the truce remains fragile and a durable agreement could still take time to secure. The risk of renewed conflict remains real, and ongoing uncertainty argues for portfolio discipline. As we weigh those risks, we continue to emphasize that economic fundamentals were solid as the conflict began. While we await resolution and evaluate emerging opportunities and risks, we encourage investors to take this opportunity to evaluate their long-term investment plan against current risk tolerance and liquidity needs. 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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