

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

### Key takeaways:

- Constrained Strait of Hormuz traffic keeps energy and shipping risks elevated despite the ongoing ceasefire.
- Markets have recovered, yet higher oil, gasoline and input costs keep inflation and growth risks in focus.
- Portfolio discipline remains important: confirm allocations, phase excess cash into markets and address diversification gaps deliberately.

The April 8 ceasefire between the U.S. and Iran continues to hold, though the two countries have exchanged military strikes in recent days and the Strait of Hormuz remains effectively closed as minimal shipping traffic moves through the corridor. Iran continues to threaten ships attempting to transit the Strait, while the U.S. continues to block ships originating from or destined for Iranian ports. [President Trump](#) rejected Iran's recent deal terms as unworkable while Iran suspended negotiations on June 1, leaving markets focused on when commercial shipping can resume safely and consistently.

The three-month military conflict involving the United States, Israel, and Iran continues to shape investor sentiment. Equity markets weakened soon after the conflict began, with the S&P 500 falling 9% from its January peak and developed international and emerging market equities declining 8% to 12% before rebounding. All three equity indices have gained 8% or more year-to-date and are at or near all-time highs, driven by strong corporate earnings growth despite concerns about inflation and policy risk.

### The Strait of Hormuz disruption reaches beyond energy

The Strait of Hormuz plays a central role in the global market outlook because it serves as one of the world's most important energy transit routes and there are few near-term alternatives at scale for Arabian Gulf country exports. 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 any disruption across that route can raise transportation costs and extend delivery times.

The Strait of Hormuz disruption also affects markets beyond oil and natural gas. Fertilizer exports from the region affect agricultural input costs. The Fertilizer Institute (TFI) reports nearly 50% of world nitrogen-based fertilizer exports typically travel through this corridor. When shipping slows, fertilizer availability tightens, farming costs rise, and food-price pressures can build over time, particularly in import-dependent regions.

Current traffic conditions show the severity of the disruption. According to [HormuzStraitMonitor.com](#), transit through the Strait of Hormuz stood at 7% of normal volume as of June 2, 2026. 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 full supply normalization even after the strait is fully reopened.

### Markets balance ceasefire relief against inflation risk

Stocks initially fell as oil prices jumped in March, but the ceasefire helped push oil prices lower and supported a recovery in stock prices. The S&P 500 recently reached new all-time highs, even as energy costs remain elevated. Brent crude oil

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has risen more than 70% from the start of the year, and national average retail gasoline prices have risen over 50%, renewing concern that [inflation](#) could accelerate while growth slows, creating a more challenging environment for both consumers and policymakers.

International equity markets experienced greater price 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 strong position as the world's largest oil producer and a net energy exporter, but that advantage does not fully insulate households or businesses from rising costs. Higher oil, LNG, and fertilizer prices can still reduce household purchasing power, raise business expenses and add to inflation through higher food and energy costs.

### **Scenario framework: Duration drives potential market impact**

The length of the shipping disruption through the Strait of Hormuz represents the key variable for markets, with additional risk if stress spreads to the Bab el-Mandeb Strait. The duration of commercial shipping constraints may differ from the duration of military operations, which adds uncertainty to the market outlook. We outline three scenarios below based on how long global energy supplies remain constrained:

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

In the best-case scenario, shipping resumes through the Strait of Hormuz within days after a negotiated settlement or improved U.S. naval protection restores confidence in safe commercial transit. A near-term reopening could support a further equity market rally, especially in hardest-hit sectors and geographic regions, as investors re-anchor on existing constructive trends in [corporate earnings](#), [economic growth](#) and relatively stable to moderating inflation.

- 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.
- The S&P 500 returns to its pre-conflict upward trend toward our 7,625 year-end price target, with 6,900 representing a short-term support level.
- Inflation expectations should remain contained in this scenario, with the 10-year Treasury yield holding in the recent range of 4.00 to 4.75%.

#### **Scenario 2 (base case): 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. Stable [labor markets](#) and [consumer momentum](#) could cushion some pressure on U.S. spending, but higher fuel and input costs would still create a more difficult environment in the interim.

- Equity markets could remain volatile during this period. The S&P 500 could break below its longer-term 200-day moving average with a traditional 10% correction near 6,600-6,700 and the post-conflict March low around 6,300 representing key support levels.
- This outcome would keep volatility within historical annual norms while creating opportunities for disciplined investors to rebuild U.S. equity positions with constructive economic fundamentals remaining intact.
- Higher [10-year U.S. Treasury yields](#) would give investors an opportunity to add to bond portfolios at relatively attractive interest rates.
- Global equities would likely produce more mixed results because a longer disruption could create more persistent inflation and short-term damage to economic growth. Energy importing economies, including Europe and parts of Asia, would face larger economic and market impacts than the U.S.

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

The tail-risk scenario assumes the Strait of Hormuz remains closed through the summer and into the fall, leaving energy prices elevated for months and potentially pushing oil and gasoline prices above levels seen in 2022. U.S. consumers could eventually exhaust the additional Federal income tax refunds received in 2026 from last year's tax cuts, while

persistently higher energy prices erode spending power. Oil importing nations could draw down existing oil supplies and potentially adopt policies that ration energy consumption.

Even after shipping resumes in an eventual resolution, a recovery could take time if regional infrastructure requires repair and energy producers have limited storage capacity for output that cannot leave the region. 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 because of their greater dependence on imported energy.
- 10-year U.S. Treasury yields could rise above 5% as greater inflation pressure builds. Over time, higher prices could reduce discretionary spending and increase recession risk, potentially pushing yields lower if investors expect the [Federal Reserve](#) to cut interest rates to ease tight financial market conditions.
- In this scenario, we would closely monitor the labor market for rising layoffs as companies adjust plans in response to higher short-term costs and pressure on profit margins.

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

The ceasefire supports our base case that oil transportation constraints may begin easing in the near term, but the truce remains fragile and a durable agreement could still take time to secure. Renewed conflict remains a risk, and ongoing uncertainty reinforces the need for portfolio discipline. As we weigh those risks, we continue to emphasize that economic fundamentals were solid as the conflict began and remain so for the time being. 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:

- **First, confirm your target allocation and rebalance if needed.** If you and your wealth professional determine that your portfolio no longer aligns with your risk tolerance or investment objective, build a plan to [rebalance your portfolio](#) toward the correct allocation. Equity market volatility can reveal changes in personal risk tolerance, and relatively [high bond yields](#) remain high compared with the past 15 years may allow you to reduce portfolio risk while staying aligned with your long-term plan.
- **Second, consider a phased approach if you hold excess cash.** If you are on the sidelines or find yourself with [excess cash](#) than your plan requires, you can use volatility to start [dollar-cost averaging](#) into your target positions. A measured approach can help you build exposure over the next few months without relying on a single-entry point during a fluid [geopolitical environment](#).
- **Third, address diversification gaps deliberately.** If you find you lack exposure to asset classes such as foreign stocks, smaller U.S. companies, global infrastructure or [credit-oriented fixed income](#), plan a measured transition now. We see meaningful forward opportunities across diversified asset classes such as residential mortgage-backed securities and high-yield [municipal bonds](#). Recent volatility may provide opportunities to add exposure in a disciplined way.

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. A structured review can help separate near-term market stress from long-term investment objectives. That discipline becomes especially important when geopolitical events create fast-moving risks across energy prices, inflation expectations and global equity markets.

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