Situation analysis June 23, 2026

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

Key takeaways:

- A fragile Strait of Hormuz reopening keeps energy, shipping and inflation risks central to the market outlook.
- Oil and gasoline prices have declined from conflict highs, but renewed disruption could pressure consumers, businesses and policymakers.
- Portfolio discipline remains important: confirm allocations, phase excess cash into markets and address diversification gaps deliberately.

Middle East diplomacy has improved, but the conflict involving the United States, Israel and Iran continues to shape the market outlook. Recent negotiations support a gradual restart in Strait of Hormuz shipping activity, while regional tensions and uneven implementation keep the reopening fragile. Markets remain focused on whether commercial traffic can resume safely and consistently, because a durable reopening could lower energy costs while renewed disruption would quickly rebuild the inflation pressures that weighed on investors earlier this year.

The nearly four-month military conflict continues to influence investor sentiment through oil prices, shipping costs, inflation expectations and global growth assumptions. 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. Major equity indices have since recovered as investors refocused on resilient consumer spending, strong corporate earnings growth and signs that Gulf energy supplies may begin moving more freely.

The Strait of Hormuz disruption affects oil, shipping and food prices

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 has few near-term alternatives at similar 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 any disruption across that route can raise transportation costs and extend delivery times.

The disruption 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.

Recent transit updates point to a partial improvement, not a full return to normal. Public shipping data and industry commentary indicate that vessel movement through the Strait has increased from the most constrained phase of the disruption, but activity remains below pre-conflict patterns. According to Hormuzstraitmonitor.com, ship throughput is 34% of normal volumes as of June 23, 2026. U.S. officials have also indicated that military support is helping facilitate some energy shipments, while Gulf producers, including Kuwait, have signaled that production can recover faster if shipping lanes continue to normalize.

How the Iran ceasefire is affecting stocks and inflation

Stocks initially fell as oil prices jumped in March, but signs of diplomacy and improving supply expectations helped push

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oil lower and supported a recovery in stock prices. Brent crude rose sharply earlier in the conflict before declining as investors priced in a higher probability of renewed Gulf supply flows. U.S. average gasoline prices also eased from their recent highs, giving consumers some relief during the summer travel season.

Those price declines reduce near-term inflation concerns, but they do not eliminate the risk. Energy costs can move quickly when geopolitical events affect supply routes, insurance costs or producer output. Higher oil, liquefied natural gas and fertilizer prices can reduce household purchasing power, raise business expenses and add to inflation through higher food and energy costs.

International equity markets remain more exposed to renewed energy 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. That advantage does not fully insulate households or businesses from rising costs, but it may help the U.S. economy weather an energy shock better than many import-dependent economies.

Scenario framework: Three scenarios driving stock market volatility and oil prices

The disruption of global oil supplies through the Strait of Hormuz represents a key variable for markets, with additional risk if stress spreads to the Bab el-Mandeb Strait. A political agreement can lower the risk premium in oil prices, but physical shipping, insurance coverage, vessel positioning, producer logistics and security conditions determine how quickly energy reaches global customers. We outline three scenarios below based on the impact on oil prices and global energy supplies:

Scenario 1 (low-impact case): De-escalation and near-term normalization

In the low-case scenario, shipping through the Strait of Hormuz improves as diplomacy holds, security risks decline and commercial operators regain confidence in safe transit. A near-term normalization 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 8,040 year-end price target, with the 50-day average price of 7,300 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 (mid-impact case): Gradual reopening coupled with global oil conservation efforts

In the mid-case, shipping conditions gradually improve, coupled with global efforts to reduce immediate energy demand. 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 6,900 representing a key support level.
- 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 (high-impact case): Ongoing shipping constraints with elevating energy prices

The high-impact scenario assumes the Strait of Hormuz remains virtually closed 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 some countries' energy rationing programs are exhausted.

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 Strait reopening.

- Global equity markets may reach correction territory, with the S&P 500 falling below the post-conflict March low around 6,300 and 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 fragile reopening supports our view that oil transportation constraints may begin easing in the near term, but renewed conflict remains a risk and a durable agreement could still take time. Ongoing uncertainty reinforces the value of portfolio discipline rather than rapid shifts based on headlines. As investors evaluate risks and opportunities, we continue to emphasize that economic fundamentals were solid as the conflict began and remain constructive for now.

While we await resolution of current negotiations 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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