Situation analysis August 6, 2026

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

Key takeaways:

- Ongoing U.S.-Iran fighting threatens Strait of Hormuz shipping, keeping oil prices, inflation and global market risks elevated.
- Energy and fertilizer disruptions could raise household and business costs, with import-dependent European and Asian economies facing greater exposure.
- Markets have recovered as economic and earnings trends remain supportive, but disciplined allocation, phased investing and broad diversification can help investors manage conflict-driven volatility.

Ongoing U.S.-Iran fighting and limited diplomatic progress continue to threaten commercial traffic through the Strait of Hormuz. The United States and Iran have exchanged attacks, Iran has expanded strikes across Gulf states, and tanker attacks in the Strait of Hormuz and the Bab el-Mandeb Strait have increased pressure on critical shipping routes. The Strait of Hormuz carries roughly 20% of global oil supply, so prolonged restrictions could keep crude oil and transportation costs above pre-conflict levels.

The conflict reaches markets through energy prices, shipping costs, inflation expectations and the outlook for global growth. When fighting began, the S&P 500 fell 9% from its January peak, while developed international and emerging market equities declined 8% to 12%. U.S. and developed international markets have since recovered near all-time highs as investors focused on resilient consumer spending, strong corporate earnings growth and prospects for improving Gulf energy flows.

How the Iran conflict affects oil prices and global shipping

The Strait of Hormuz ranks among the world's most important energy transit routes, and few alternatives can handle a similar volume in the near term. Risks extend beyond Hormuz because disruption at the Bab el-Mandeb Strait can raise transportation costs and lengthen delivery times. That route carries about 12% of global trade and connects the Red Sea with the Gulf of Aden. Recent attacks by Yemen-based Houthi rebels have impeded shipping through the passage and reduced the value of an important alternate route.

The economic effects also reach food production. The Fertilizer Institute reports that nearly half of global nitrogen-based fertilizer exports typically travel through the region, linking shipping conditions to farming costs. Slower shipments can tighten fertilizer supplies and eventually lift food prices, particularly in countries that rely heavily on imported energy and agricultural products.

Strait of Hormuz shipping shows only a partial recovery

Recent shipping data indicate improvement, but traffic remains far below normal. Hormuzstraitmonitor.com reported that shipping volume through the strait reached 20% of normal as of August 4. Producers have started preparing to restore exports, although damaged infrastructure, security concerns and delayed cargoes could slow the recovery.

Kuwait Petroleum Corporation said it could restore 70% of its production within at least six weeks after the strait reopens, while Saudi Arabia has restarted exports from Gulf ports and moving oil delayed during the conflict. These steps could improve supply gradually, but renewed attacks or tighter shipping restrictions could reverse that progress quickly.

How higher energy costs can affect inflation and global markets

Oil and gasoline prices rose sharply when the conflict began, then eased as diplomacy improved the outlook for Gulf energy supplies. The latest escalation renewed upward pressure and showed how quickly geopolitical events can change energy costs. Lower prices for gasoline, diesel and jet fuel would ease pressure on household budgets, while a sustained increase could lift inflation and reduce spending on other goods and services.

Higher oil, natural gas and fertilizer prices can raise transportation, manufacturing and farming expenses. Businesses may absorb part of those increases, but a prolonged disruption would increase the likelihood that companies pass more costs to customers. The resulting pressure could broaden from energy into food, travel and other consumer prices.

European and Asian markets face greater exposure because many economies in those regions import a large share of the energy they consume. The United States produces more oil than any other country and is a net energy exporter, but global price increases still reach U.S. households and businesses. Domestic production, resilient consumer spending and rising corporate profits may help the U.S. economy absorb an energy shock better than many import-dependent economies.

Iran conflict risk framework: Supply disruption and market adaptation

Our two-by-two framework evaluates two separate forces: the severity of oil-flow restrictions and the market's ability to adapt. Adaptation can include adjusting supply through drawing down commercial inventories or government reserves, increasing production, using alternate suppliers and routes, or reducing demand. Because these forces can move independently, a physical disruption does not automatically lead to a specific oil-price or stock-market outcome.

Market adaptation	Strait of Hormuz closed	Strait of Hormuz open
Higher adaptation	**Disrupted but absorbing** Transit remains blocked, but reserve and inventory draws, higher production, alternate routes and lower demand cushion supply. Prices rise, then moderate.	**Calm and flexible** Oil flows freely while supply and demand adjustments keep markets balanced. Prices move back toward levels supported by production and consumption.
Lower adaptation	**Supply shock** Transit remains blocked with few offsets, low inventories and limited unused production capacity. Prices rise sharply and shortages persist.	**Open but fragile** The strait remains open, but low reserves, damaged infrastructure or restocking needs leave prices sensitive to another disruption.

We currently classify conditions as "disrupted but absorbing." Red Sea attacks have constrained an alternate route, while inventory draws, added production, adjusted shipping patterns and changes in demand continue to soften the loss of supply. Conditions would move toward a "supply shock" if restrictions persisted as inventories fell, unused production capacity narrowed or attacks closed additional routes.

This framework directs attention to the duration of lost supply and the strength of available offsets instead of each new headline. Oil prices may remain elevated even when markets continue to absorb the disruption, while weakening buffers can turn a manageable interruption into a broader economic shock. We will continue to track shipping volumes, inventories, reserve releases, production capacity, alternate routes and demand responses for signs that conditions have shifted.

Portfolio guidance for geopolitical market volatility

The fragile transportation environment creates meaningful risk, and negotiations may take time to produce a durable agreement. Current uncertainty favors portfolio discipline rather than rapid shifts based on daily headlines. Economic fundamentals entered the conflict on solid footing, and consumer spending and corporate earnings remain supportive for now.

Investors can use the current period to compare their long-term plan with their risk tolerance, liquidity needs and target allocation. A structured review can identify changes that support long-term objectives without relying on a forecast for the conflict. We continue to emphasize three practical 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 that remain elevated 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.

Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio. Diversification and asset allocation do not guarantee returns or protect against losses.

Past performance is no guarantee of future results. All performance data, while obtained from sources deemed to be reliable, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for direct investment. The **S&P 500 Index** consists of 500 widely traded stocks that are considered to represent the performance of the U.S. stock market in general. The **MSCI EAFE Index** includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East (EAFE). The **MSCI Emerging Markets Index** is designed to measure equity market performance in global emerging markets.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Investment in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The **municipal bond market** is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issues of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in **real assets** such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults).

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