



THE EXPERTS

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Iran Conflict Update

FOR FINANCIAL ADVISERS AND THEIR RETAIL CLIENTS

The US-led attack on Iran has evolved from a geopolitical flashpoint into an economic shock. The conflict has affected global energy prices, transport, insurance and financial risk well beyond the Middle East.

Inflation Risk Is Back

The most immediate transmission mechanism is oil. The Strait of Hormuz is one of the world's critical energy corridors, handling around a fifth of global maritime oil and gas trade. Brent crude has surged more than 50% since the first attack. That kind of move doesn't stay in the petrol station — it bleeds into transport costs, heating bills and production inputs across the economy. In the UK, petrol is up roughly 14p per litre, and diesel is around 28p, since the end of February, directly squeezing disposable income for households still bruised from the cost-of-living crisis.

This feeds straight into CPI, which the Bank of England watches closely. If energy prices stay elevated, the BoE loses its ability to cut interest rates — and the risk of interest rate hikes can't be dismissed.

Winners And Losers

Not all sectors suffer equally. Energy companies such as BP, Shell, Exxon, Chevron and Total are the obvious beneficiaries, with higher crude prices bolstering revenues. Transport-heavy sectors, such as global airlines, have taken a hit due to their reliance on energy. Consumer-facing businesses, including retail, leisure and travel companies, face a double squeeze of rising input costs and weakening consumer demand and this has been reflected in falling share prices.

Investors may have expected UK equities to hold up better than other developed markets. However, US equities have been most resilient due to stronger economic growth and the country's position as a new exporter of oil and gas. Emerging markets have also sold off sharply, as East Asian economies' heavy reliance on Middle Eastern oil imports has left them acutely exposed to the supply disruption.

Globally, small and mid-caps have struggled as they are typically more exposed to domestic consumption and less able to pass costs on to customers and tend to suffer more from falling investor confidence.

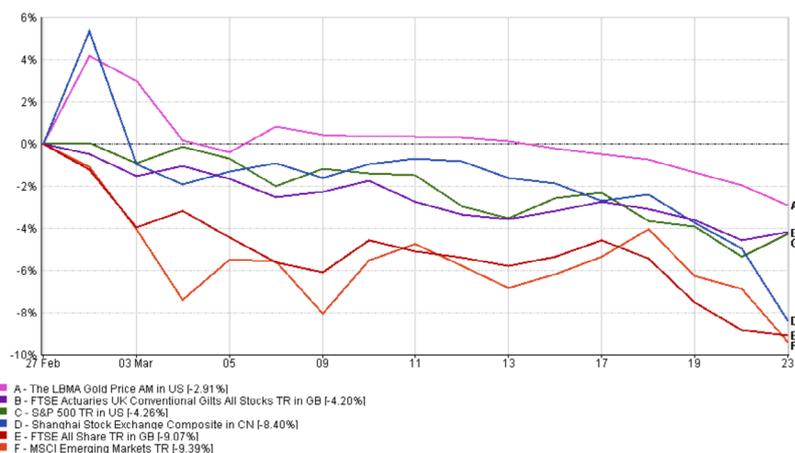
Investor caution means the US dollar has appreciated but not all assets have met expectations. Gold has fallen back. Inflation fears have driven a sharp shift in rate expectations, pushing government bond prices down.



Chart 1 - Fears Of A Long War Have Weighed On Global Markets

The Bigger Picture

The conflict is now in its fourth week and the longer it goes on, the more investors see this as an inflation shock rather than a short-term dislocation driven by geopolitics. Stagflation (a combination of rising inflation and low to no growth) has become a real risk. Even if military activity ends soon, the impacts on growth, inflation, and commodity prices could linger. The longer energy and commodity supplies remain disrupted, the greater the potential economic damage.



27/02/2026 - 23/03/2026 Data from FE fundinfo2026

Outlook

Source: FE Analytics. Total return in local currency. 28/02/2026 to 23/03/2026

Markets are closely monitoring whether this remains a short, concentrated campaign or escalates into a prolonged regional conflict. The two scenarios lead to very different outcomes. A short conflict would likely see energy prices retreat, limiting damage to growth and inflation expectations, with equity markets recovering and bond yields stabilising. A prolonged conflict would keep oil prices elevated, accelerating inflation, forcing central banks to consider rate rises and adding downward pressure to equities and bonds.

The duration of the war will not be determined just by Donald Trump's ability to stomach the rising costs. The willingness of Iran, Israel and other regional powers to continue the conflict will also play a part. However, the US remains the single most important factor in determining when the fighting stops.

There are signs that President Trump is now looking for a way to bring the fighting to an end and get the Strait of Hormuz reopened. Trump began the week with claims that the US is talking to Iran about a "complete and total resolution of our hostilities". Government bonds rallied and global equity markets gained as the price of oil dropped from \$112 to around \$100 a barrel. The dollar has declined slightly. Meanwhile investors will be keenly observing what happens to oil and gas exports as the Strait of Hormuz has become the world's most consequential economic indicator.

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