

Keeping a Long-term Perspective on Events in Iran

Key Takeaways

- The U.S. and Israel launched a joint attack on Iran, **killing Iranian Supreme Leader Ayatollah Ali Khamenei**. Iran responded with a wave of strikes across the Middle East.
- The most direct economic impact of the attack is likely **higher oil prices**, which will be a headwind for global economic growth.
- While we expect a **period of heightened volatility**, we remind investors that long-term investment plans often incorporate decades of market history, which include periods like this one.
- We encourage investors to **remain focused on their long-term investment objectives**.

What Happened?

The U.S. and Israel launched a major military strike on Iran, killing the country's Supreme Leader, Ayatollah Ali Khamenei. Since the initial attack on February 28, hostilities have escalated, with continued U.S. and Israeli aerial bombardments targeting Iranian military and government infrastructure. Vowing retaliation, Iran has launched drone and missile attacks against the U.S. and its interests across the region. Casualties have mounted on multiple sides, while European governments have called for de-escalation amid rising concerns about broader regional instability.

The strike represents a significant escalation relative to prior regional conflicts, introducing uncertainty around

Iran's leadership transition and the potential for wider regional involvement. For markets, the primary concern is not the conflict itself, but whether it disrupts global energy flows, shipping routes, or broader financial conditions.

What Does It Mean for the Economy?

While Iran produces only 4% to 5% of the world's oil, roughly 20% to 25% of global oil supply (and about 20% of liquefied natural gas) flows through the Strait of Hormuz – a 21-mile waterway bordered by Iran to the north and Oman and the UAE to the south. Reports indicate Iran's military may be restricting traffic through the strait, though Iran's Foreign Minister has stated the country has no intention of formally closing it.

The U.S. economy has become significantly less dependent on oil over time, as it has transitioned from a manufacturing-based economy (which is highly oil-intensive) to a service-based economy that requires far less energy input. Additionally, the United States is now the world's leading oil producer, meaning higher oil prices can partially support domestic investment and job growth in the energy sector.

More broadly, higher oil prices tend to affect the U.S. economy in three primary ways. First, they create inflationary pressure by raising gasoline prices as well as production and transportation costs. Second, they can reduce consumer spending, as households divert disposable income toward higher energy expenses. Third, supply shocks tend to slow overall economic activity as businesses and consumers adjust to a new and uncertain energy price environment.

What Does It Mean for Markets?

We expect markets to experience elevated volatility over the coming weeks as the scope and duration of the conflict become clearer. U.S. equity markets had already shown signs of unease this year, including a rotation away from AI-related companies toward more tangible sectors such as industrials, energy, and materials, alongside growing concerns about potential risks within credit markets.

A review of past U.S. military actions in the Middle East shows that markets may react in the near term but have historically stabilized as investors refocus on economic fundamentals – like broadening growth and a resilient labor market, which remain strong.

Because geopolitical developments are unpredictable and fast-moving, we encourage investors to rely on diversification of asset classes and investment strategies to help manage risk.

What Should Investors Do?

Periods of geopolitical conflict can be unsettling, and heightened headlines often lead to short-term market volatility. Long-term investment plans and asset allocation strategies, however, are often built using decades of market data that already incorporate world wars, regional conflicts, political crises, and other periods of significant uncertainty. These frameworks are designed with the expectation that geopolitical disruptions will occur from time to time.

Periods like this also highlight the difficulty of making investment decisions based on geopolitical headlines. Market reactions often occur quickly and unpredictably, and markets frequently begin to recover before geopolitical outcomes become clear. As a result, attempts to time market movements around evolving events have historically proven challenging. Maintaining a disciplined investment process – grounded in diversification, risk management, and long-term objectives – remains the more reliable approach during periods of uncertainty.

While the current environment may feel uncomfortable, history suggests the most prudent course for long-term investors is to remain invested, stay diversified, and stay focused on long-term objectives.

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