



March 2026

# The Middle East in turmoil: conflict scenarios, economic consequences, and portfolio positioning

The US-Israel versus Iran conflict is now in its third week, and notwithstanding President Trump's claims that the situation from Washington's perspective is "...very complete, pretty much"<sup>1</sup> flurries of media headlines convey apprehension.

The emotions transmitted in reporting are understandable. Above all else, wars are tragic, and the complexity and difficulty of predicting how events may unfold recalls Nobel Prize-winning Colombian author Gabriel García Márquez's phrase: "It is easier to start a war than to end it"<sup>2</sup>

Financial market reactions have arguably been restrained, so far. Major developed country share markets have fallen by relatively low single digits (albeit Asian markets have experienced steeper falls), and bond yields have fluctuated but not dramatically so.

See the appendix for how the US S&P Index has fared during major geopolitical events dating to World War II. The historical perspective emphasises that muted market reaction to current Middle East hostilities is broadly consistent with the past.

<sup>1</sup> Trump says "the war is very complete," and he's considering taking over Strait of Hormuz - CBS News

<sup>2</sup> One Hundred Years of Solitude (1967), Gabriel García Márquez

# Oil prices and the impact on economies, inflation, and interest rates

Our investment process casts a wide net to assist with decision-making, culminating in portfolio positioning. Actively contemplating multiple scenarios, rather than fixating on a single view of the world, distinguishes the way we interrogate economies, markets, and events, and consequent asset class return expectations.

Below is an abridged representation of some of the scenarios we envisage for the present conflict, potential paths for oil prices, and inflation and economic growth implications.

Scenario	Likelihood	Oil price path	Global inflation impact	Global and US growth impact (GDP)
Medium term de-escalation within 3-6 weeks	Medium - High	Brent oscillates US\$76-\$90 near-term; fades toward pre-war levels by Q4	Mild increase in headline	Global: minor negative impact; US: very minor if disruption is brief
Prolonged skirmish/intermittent disruption for longer than 2 months but no escalation	Medium - Low	Brent US\$85-\$100 for several months before fading	Mild impact on headline depending on duration	Global: moderate negative impact; higher if Financial Conditions Index (FCI) tightening persists
Swift deal/policy circuit-breaker	Medium	Oil spikes fade quickly; trending to US\$60-\$65 by year-end as confidence in supply returns	Mild increase in headline, then mean-reversion	Global: minor, short-term impact
Material Hormuz outage/broader escalation	Low	Brent >US\$100 with upside asymmetry	Significant increase in headline	Global: moderate negative impact (worse if sustained FCI tightening)

As at 16 March 2026  
**Source:** MLC Asset Management

# Oil price less influential than assumed?

Rising oil prices are generating plenty of commentary, but its power over the global economy may be less than assumed, we believe.

In calm times, roughly 25% of the world's oil trade, and around 20% of liquified natural gas (LNG), transits the Strait of Hormuz,<sup>1</sup> the narrow waterway shared by Iran, Iraq, Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar. This passageway is particularly important for Asia, with China, India, Japan, and South Korea receiving about 80% of the oil and gas that moves through the Strait.<sup>2</sup>

Even so, we estimate that 30-50% of Middle East oil supply can be rerouted through pipelines and ports, including those in the Red Sea and the Gulf of Oman. In our view, much of the recent rise in oil prices appears to stem from apprehension this conflict could be prolonged, impairing energy supply and placing upward price pressures for an extended period.

That said, owing to greater energy efficiency, the global economy's reliance on oil is markedly lower than in the 1970s, the time of the first global oil price shock. On our analysis, the world needs to see a much larger oil price spike, for a risk capable of inducing a meaningful global slowdown.

Once decision makers in Washington, Jerusalem, and Tehran signal de-escalation, we believe financial markets will likely look through the hostilities, as they did with Ukraine-Russia. All up, the Strait of Hormuz' closure is very disruptive in the short-term, however, it is not yet a decisive blow to the global economy.

<sup>1</sup> The Middle East and Global Energy Markets – Topics - IEA

<sup>2</sup> The global price tag of war in the Middle East | World Economic Forum

# House asset allocation views and portfolio positioning

Our 'base case' scenario is that current events do not materially alter the global economy's trajectory. Though the oil price has moved higher, our modelled effects reveal modest impacts in headline inflation and a modest drag on global growth at current levels. In the US, an additional US\$10 increase in the oil price historically trims only about 0.1 basis point from GDP owing to current oil dependence being materially lower than during past geopolitical events.

However, volatility will likely remain elevated until policy circuit breakers emerge. We are closely monitoring flows, sentiment, and our portfolio positioning. While the market has de-risked moderately to date, there remains a risk that the floor has not yet been reached. Against this backdrop, we would summarise some of our current positioning as follows:

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## **Look to opportunistically add to risk asset exposure**

Having progressively moved our house asset allocation view of risk assets back towards neutral, we now believe higher volatility and bearish sentiment may create a more attractive entry point for risk assets, particularly emerging market shares.

We believe global earnings remain resilient, driven by robust productivity, the ongoing AI investment boom, and reduced energy import dependence. Overall, fundamentals outside the Middle East remain strong and supportive and liquidity is still ample.

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## **Short-duration position (fixed income)**

Our short-duration fixed income exposure protects against oil price spikes and risks to short-term breakeven inflation. Still, following recent yield spikes, we have begun gradually reducing our duration underweight.

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## **Currency positioning**

We have retained our overweight AUD position on the back of positive momentum for the domestic currency, and factoring in current RBA hawkishness towards raising rates.

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## **Alternatives and unlisted assets**

Where allowed within various investment suites, we continue to hold positions in both unlisted and alternative assets which provide a diversified stream of returns to investors.

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# Staying clear-eyed and calm

In headline-driven markets, investor sentiment can swing rapidly between extremes. Our role is to remain a disciplined, long-term steward of our clients' capital, not a reactive participant driven by momentum or market anxiety.

Even so, volatility will likely remain elevated until policy circuit breakers emerge at which point volatility should reduce.

With Middle East events unlikely to alter the long-term economic trajectory, our proactive positioning allows us to navigate this period with confidence. We view the current volatility as an opportunity to capture value rather than a fundamental threat to our clients' portfolios.

# Appendix: reflections from history

While the past is an imperfect predictor, historical patterns offer a roadmap for navigating the current clash. The US S&P 500 Index is a useful gauge of investor responses to geopolitical events, with its history dating back to World War II (WWII) providing a clear reference point for market resilience (**see chart, on next page**).

On average, the S&P 500 Index has bottomed out in about 19 days and fully recovered its losses in roughly 6 weeks (42 days).

Share markets typically sell off on the uncertainty generated by major conflicts. However, once the scope of a conflict is better understood (even if the news is still "bad"), investors begin to price in what they judge to be the most likely outcome and then move forward.

Said differently, current restrained investor reactions and market price moves appear broadly consistent with past behaviour.

The 307-day recovery following the December 1941 attack on Pearl Harbor (**see chart, on next page**) is a notable outlier. We think the lengthy time to recovery was reflective of the United States' five-year involvement in a global total war to defeat Nazi Germany and the Japanese empire, rather than today's destructive but regional fight.

Although the duration of the current conflict is uncertain, it is difficult to envisage anything approaching the scale, global reach or human cost of WW II.

## S&P 500 index's behaviour amid geopolitical events

Geopolitical event	Event date	One day return <sup>1</sup>	Total drawdown <sup>2</sup>	Days to bottom <sup>3</sup>	Days to recovery <sup>4</sup>
Pearl Harbor attack	7/12/1941	-3.8%	-19.8%	143	307
North Korea invades South Korea	25/6/1950	-5.4%	-12.9%	23	82
Cuban missile crisis	16/10/1962	-0.3%	-6.6%	8	18
Kennedy assassination	22/11/1963	-2.8%	-2.8%	1	1
Iraq's invasion of Kuwait	2/8/1990	-1.1%	-16.9%	71	189
9/11 terrorist attacks <sup>5</sup>	11/9/2001	-4.9%	-11.6%	11	31
Madrid bombing	11/3/2004	-1.5%	-2.9%	14	20
London subway bombing	7/7/2005	0.9%	0.0%	1	4
Russia's invasion of Ukraine	24/2/2022	-2.1%	-7.1%	13	23
Israel-Hamas war	7/10/2023	0.3%	-4.5%	14	19
Iran's attacks on Israel	14/4/2024	-1.2%	-3.0%	5	15
<b>Average (20+ events)</b>		<b>-1.1%</b>	<b>-4.7%</b>	<b>19</b>	<b>42</b>

<sup>1</sup> **One day return:** S&P 500 return on the **first trading day after the event** (or nearest trading day if markets were closed).

<sup>2</sup> **Total drawdown:** The **peak to trough decline** after the event, measured from the market level immediately prior to the event.

<sup>3</sup> **Days to bottom:** Number of **trading days from the event date to the trough**.

<sup>4</sup> **Days to recovery:** Number of **trading days from the event date until the S&P 500 recovered back to its pre-event level**.

**Source:** LPL Financial, CFRA, and How Does War Affect the Stock Market? Immediate vs. Long-term Effects



# ASSET MANAGEMENT

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