



# Markets Bulletin

## Middle East Conflict - March 2026

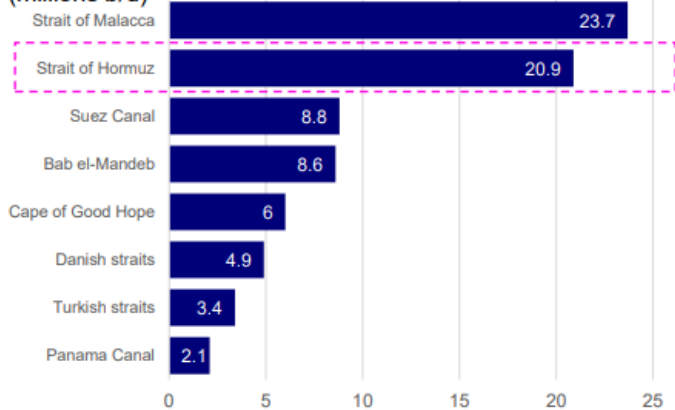
The ongoing conflict in the Middle East has become an important source of uncertainty for the global economy and financial markets. While the situation continues to evolve, the economic effects are being felt through higher energy prices, increased market volatility and renewed inflation concerns.

Rather than focusing on military developments, this bulletin considers what the conflict could mean for the global economy, financial markets and investors over the remainder of the year.

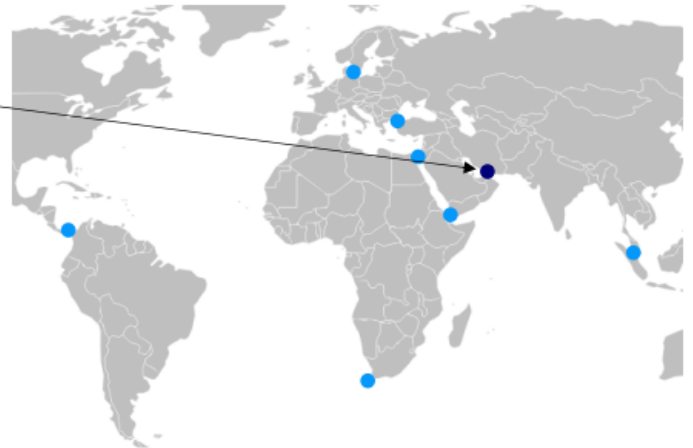
Around one fifth of the world's oil and gas shipments pass through the Strait of Hormuz. Major energy producers such as Saudi Arabia, Iraq, the UAE and Qatar rely heavily on this route to export oil and gas. Any disruption, even temporary, can quickly push global energy prices higher. Alternative routes (pipelines or overland transport) exist but cannot absorb anything close to the same volumes. Markets price in the risk of interruption and not just actual closures. This is why oil prices can surge on threats, attacks, or heightened security risks, even when physical flows continue.

### Why the Strait of Hormuz Matters

**Daily transit volumes of petroleum and other liquids (millions b/d)**



**Key transit chokepoints**



Sources: US Energy Information Administration (EIA) analysis, based on Vortexa tanker tracking and Panama Canal, Apollo, as of 6 March 2026 & Invesco Fund Managers

One of the key risks linked to the conflict is the Strait of Hormuz, a narrow shipping route that connects the Persian Gulf to global markets. The Strait matters not just because of the volume of oil and gas that passes through it, but because it represents a single point of failure in the global economic system. Its importance is best understood across four interconnected dimensions: energy flows, global trade, inflation dynamics, and financial markets.

Most of the oil and gas that travels through the Strait is destined for Asian economies, including China, India, Japan and South Korea. These countries depend heavily on imported energy and are also central to global manufacturing and trade.



Higher energy costs in Asia feed through to higher manufacturing and export costs and have significant repercussions for global supply chains. This is why risks around the Strait matter even to economies that are relatively energy independent, such as the U.S.

The Strait is not just important for oil and gas. It is also used to transport petrochemicals, fertilisers, metals and other industrial goods. Disruption could therefore affect agriculture and food prices, manufacturing, construction and industrial output. This in turn adds to inflation pressures well beyond energy markets.

### Why Kharg Island Matters

Kharg Island is a small but strategically critical Iranian island that plays a central role in the country's oil exports. While it receives less attention than the Strait of Hormuz, developments involving Kharg Island could materially increase escalation risks in the Middle East.

The island is Iran's main oil export terminal, handling the majority of its crude shipments through deep water facilities that are difficult to replace. As a result, Kharg Island represents a vital economic lifeline for the Iranian state.

Strategically, Kharg Island is best viewed as an economic pressure point rather than a conventional military target. Any sustained disruption would significantly weaken Iran's ability to generate oil revenues, with direct implications for government finances and regional influence.

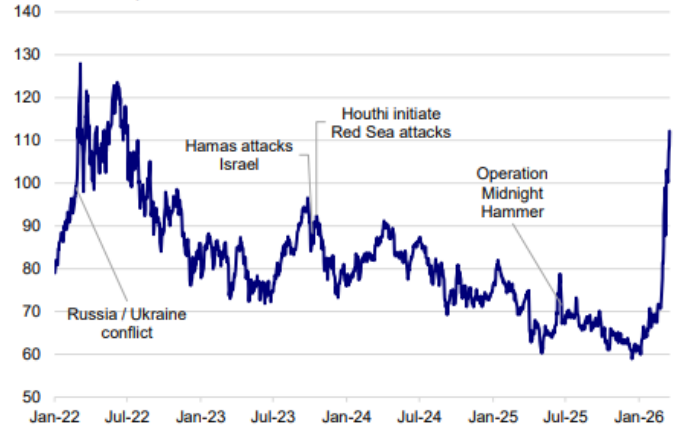
Risks surrounding Kharg Island are closely linked to the Strait of Hormuz, as oil exports from the island must pass through the Strait. Markets therefore tend to view developments at Kharg Island as a signal of broader threats to global energy flows.

Any direct US action against Kharg Island would represent a major escalation and would likely increase the risk of retaliation across the region. Such a scenario would raise the likelihood of sustained energy price volatility, slower global growth, and heightened market volatility.

### Economic Implications of Escalation

Oil prices have already reacted sharply to the conflict, with Brent crude briefly approaching \$120 per barrel before easing back. Even after this pullback, prices remain well above levels seen before the conflict began.

**Oil: Brent \$/bbl 1<sup>st</sup> future**



Source: Invesco, Bloomberg, as of 21 March 2026

*Futures markets indicate expectations of elevated oil prices beyond the near term, consistent with prolonged geopolitical risk.*

If oil prices stay in the \$85–\$100 range, this would act as a drag on global economic growth and place renewed upward pressure on inflation. Higher energy prices effectively work like a tax on consumers and businesses, leaving less money available for spending and investment.

In the United States, higher fuel costs are already feeding through to household budgets. While the U.S. is relatively protected due to domestic energy production, prolonged price increases would still weaken consumer spending over time.

A prolonged or effective closure of the Strait of Hormuz — whether due to physical disruption, security risks or higher insurance costs — could place over \$1 trillion of global trade at risk. Industries that rely heavily on energy, transportation and global supply chains would face higher costs, delays and pressure on profit margins. These effects could spread through the global economy as companies pass on costs to consumers.

If disruption remains limited, the global economy may continue to grow at a moderate pace. However, this outlook is fragile. A sustained rise in oil prices back toward \$120 per barrel would significantly increase the risk of a global slowdown. In such a scenario, US economic growth could fall, and the likelihood of a global recession would rise.

Europe and Japan are particularly vulnerable due to their reliance on imported energy. Higher inflation would also complicate central bank decisions at a time when markets had been expecting interest rate cuts.

## How Long Could the Conflict Last? “Two Clocks”

A major source of uncertainty for markets is the duration of the conflict, which can be thought of in terms of two competing timelines:

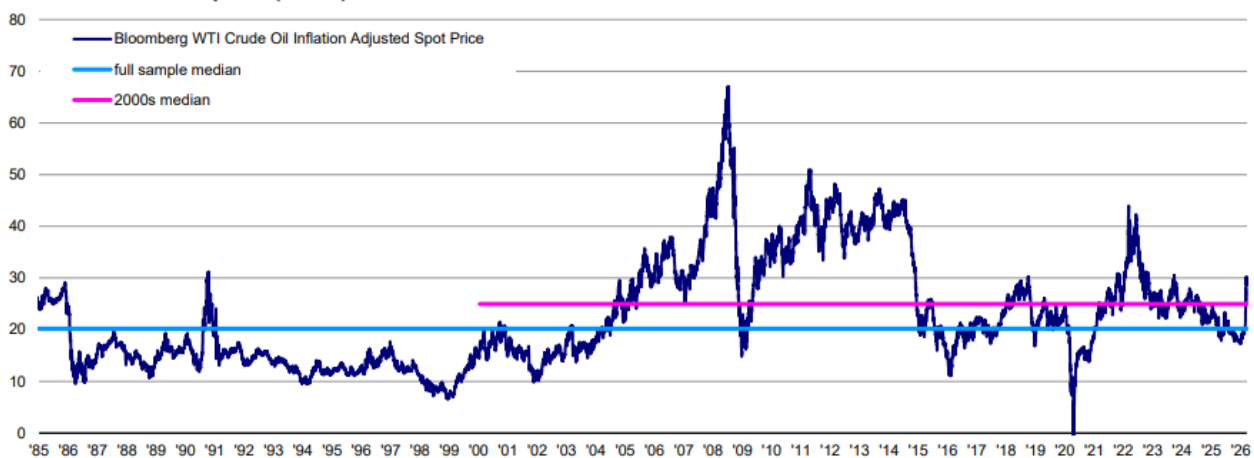
**The Military Clock** - From a military perspective, the conflict appears more likely to be prolonged rather than quickly resolved. Strategies on both sides suggest an extended period of pressure rather than a decisive short term outcome.

**The Political Clock:** - Political tolerance for escalation is much lower. In the U.S., domestic politics, market sensitivity and upcoming elections limit appetite for a long conflict. Gulf states are also under pressure due to their exposure to energy infrastructure, shipping routes and financial markets.

When military realities and political pressures diverge, the risk of miscalculation increases — a factor that tends to raise market volatility.

## Market Implications

### Real WTI crude oil price (Index)



Sources: Invesco Fund Managers & Bloomberg, as of 21 March 2026. Index is calculated by dividing spot West Texas Intermediate crude oil by the U.S. Urban consumer price index.

In previous cycles, inflation adjusted oil prices have been higher, suggesting that the current shock is serious but not without precedent.

Historically, financial markets have eventually recovered from geopolitical oil shocks. However, the initial reaction is usually negative, with investors becoming more cautious. This has led to higher oil and commodity prices, increased stock market volatility and stronger U.S. dollar.

In more severe scenarios, the global economy could face stagflation, where inflation remains high even as growth slows — a particularly challenging environment for risk assets.

## Response From Central Banks

Central banks around the world are responding cautiously to higher oil prices and increased geopolitical uncertainty. Their main concern is preventing temporary energy shocks from turning into persistent inflation.

The U.S. Federal Reserve has kept interest rates unchanged and is taking a wait and see approach. Policymakers have stressed that it is too early to judge the full economic impact of the conflict. While the Fed does not want to overreact to short term energy price movements, higher oil prices are likely to delay interest rate cuts. Any easing will depend on clear evidence that inflation pressures continue to ease.

The European Central Bank (ECB) has also left rates unchanged but has become more alert to inflation risks. Policymakers are watching closely for signs that higher energy prices feed into wages and broader price increases. Although no immediate action is planned, the ECB has signalled it is prepared to raise rates if inflation proves more persistent than expected.

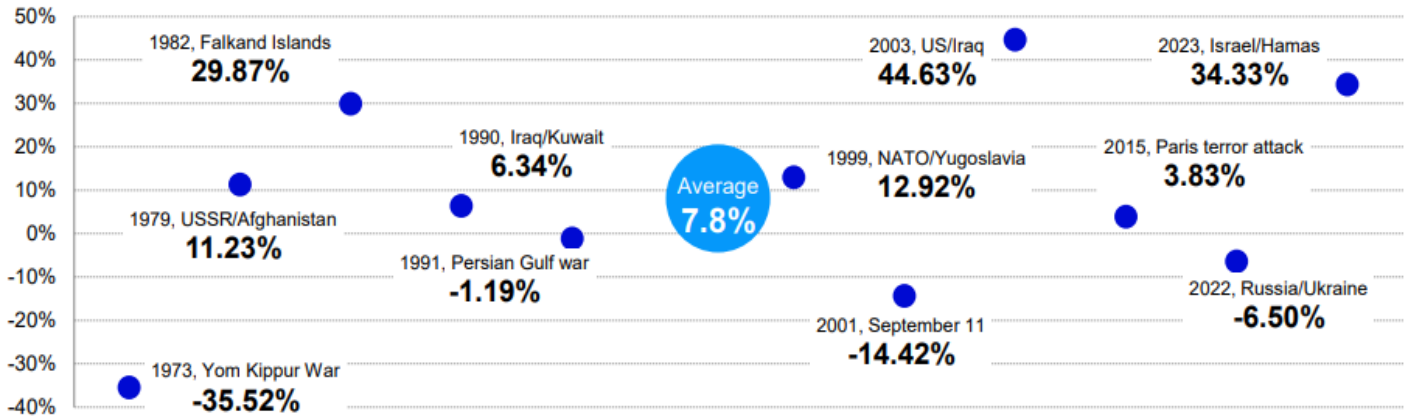
The Bank of England has taken a more cautious tone, removing earlier guidance that pointed toward rate cuts. Policymakers are particularly mindful of the risk that energy prices could reignite domestic inflation, as seen in 2022. While internal debate continues, interest rates may need to remain higher for longer if inflation pressures persist.

Across most of Asia, central banks are expected to keep rates unchanged, as higher food and energy prices limit the scope for easing. China is a notable exception, where modest rate cuts remain possible to support a gradual recovery.



## Bottom Line for Markets & Portfolios

### MSCI World Index returns one year after peak in Geopolitical Risk Index



Source: Economic Policy Uncertainty, 31 December 2025 & Invesco Fund Managers

The chart above shows that the returns one year after the peak of a geopolitical risk event do tend to be positive, with an average return of 7.8%. Therefore, moving out of the market during a downturn could result in you crystallising a paper loss and missing out on the recovery, when it inevitably comes.

The conflict in the Middle East — particularly the risk surrounding the Strait of Hormuz — represents a key vulnerability in the global economic system. If escalation is contained, the economic impact may remain manageable. However, the risks are clearly skewed to the downside. Prolonged disruption would likely lead to higher energy prices, slower growth and sustained market volatility.

We are already seeing the ramifications from this energy shock across other industries including agriculture, manufacturing and travel and this disruption shall continue and broaden the longer the conflict goes on. The longer it progresses, the greater the disruption to supply lines and the greater the repercussions for the global economy.

Our portfolios are diversified across sectors and asset classes, however even with the benefits of diversification, our portfolios shall also be negatively impacted if this conflict persists and escalates. If you are investing for the medium term, approximately five years plus, then our advice would be to stay invested.

If, however you know that you are going to need to access cash in your portfolio over the next twelve to eighteen months, then it maybe an option to sell down a sufficient amount now to cover your requirements. By having the available cash set aside, you do not run the risk of selling down holdings at a time when markets could be significantly lower.

By increasing your portfolio allocation to cash you do however risk missing out on the market recovery when it does arrive. What also needs to be considered is the rate of inflation and the affect that this can have on the future spending power of your cash holdings. Currently, the bank base rate is 3.75%, however banks and cash accounts will pay a significantly lower level of interest on your cash holdings. If the rate of inflation does increase, which is now a real possibility, and interest rates remain as they are, then the real value of cash holdings shall reduce further.

As an investor it is worth considering what your future plans are and if you will need to access your portfolio over the short term to meet these objectives. If you feel that a discussion with your Investment Director shall be beneficial, then please feel free to contact them.

We shall continue to keep you informed of details regarding market performance and factors affecting the global economy via our Market Bulletins. Copies of these can be found in the documents section of your Personal Finance Portal (PFP).

Should you have any queries or concerns, please do not hesitate to contact your Investment Director.



Kevin Hunt, Dip PFS, Cert PFS (DM)  
Investment Manager  
Technical Team



## Risks & Disclosures

- Past performance is no guarantee of comparable future results. Unit prices can fall as well as rise.
- Diversification does not guarantee investment returns and does not eliminate the risk of loss.
- The projected results and statements contained within this document that are not historic facts are based on current expectations.
- Any statements made speak only as of the date of this document and involve risks, uncertainties and other factors that may cause actual results, performance or actions to be materially different from any future results, performance or actions.
- Assumptions and projections made involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are impossible to predict accurately and are beyond the control of Burley Fox Limited.
- Burley Fox Limited does believe that any assumptions made for projected results or forward looking statements are reasonable as at the date of this document. Any of the assumptions made could be inaccurate and, therefore, there can be no assurance that the projected results or forward looking statements made will prove to be accurate.
- In light of the significant uncertainties inherent in the projected results and forward looking statements within this document, the inclusion of such information should not be regarded as a representation as to future results or that any forward looking statements shall be achieved.

The General Data Protection Regulations (GDPR) became effective in the UK from the 25 May 2018. Burley Fox Limited has published a new Privacy Policy so you understand how we use and protect your data. A copy of this document can be found on our website here.

<https://www.burleyfox.com/documents/BFL-Privacy-Notice-2018-V1.pdf>

