Market Volatility Amid Geopolitical Conflict

In recent weeks, the escalation of conflict between the United States, Israel, and Iran has introduced a renewed sense of uncertainty into global markets. What began on February 28th, 2026, as a series of targeted strikes has since developed into a broader regional confrontation, with retaliatory attacks extending across the Middle East and raising questions about wider economic implications.

As is often the case in moments such as these, the flow of information has not made the situation easier to interpret. Developments are reported continuously, often with incomplete detail, and the tone of coverage shifts as quickly as the facts themselves. It becomes harder to distinguish what is known from what is anticipated, and what is significant from what is simply amplified.

For investors, this may create a familiar but uncomfortable dynamic: uncertainty around the events themselves and their potential impact. In moments like this, the greatest financial risk is often not the event itself, but how we respond to it.

What is happening, and why it matters

The current phase of the conflict began when the United States and Israel launched coordinated strikes on Iranian military installations and nuclear-related facilities. Iran has since responded with missile and drone attacks targeting U.S. military bases and strategic sites across the region.

The escalation is no longer confined to a single location. Activity has spread across the Persian Gulf and surrounding areas, including near key U.S. bases in Iraq and the Gulf states, as well as along maritime routes critical to global energy supply.

For markets, the most immediate impact is economic rather than political, with energy at the center.

The Strait of Hormuz, connecting the Persian Gulf to the Gulf of Oman, carries roughly one fifth of global oil supply and remains one of the most sensitive points in the global energy system. Even limited disruption has historically been enough to affect pricing.

Recent reporting suggests that over 1,000 cargo vessels have been unable to transit the strait following developments in the conflict, highlighting the scale of potential disruption to energy flows.[1] Market reactions have therefore been driven as much by uncertainty around access as by disruption to supply.

Transmission to the real economy

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Movements in energy markets tend to filter through the economy with relatively little delay. Higher oil prices raise transportation and production costs, which gradually feed into the price of goods and services.

Estimates suggest that sustained increases in oil prices can lift inflation while placing some pressure on growth. Morgan Stanley has estimated that a 10% increase in oil prices could raise U.S. CPI by approximately 0.35% over a three-month period.[2]

For households, the effect is often felt first in fuel and energy bills, and then more gradually across a wider set of expenses. In financial markets, the adjustment tends to be more immediate, as expectations shift in response to a range of possible outcomes.

This is why volatility tends to increase. It reflects a widening of uncertainty rather than a settled view of what lies ahead.

Putting market reactions in context

Financial markets have encountered geopolitical shocks many times before. While each event has its own context, the pattern of response is often similar. Prices adjust quickly, risk is reassessed, and over time the focus returns to underlying economic conditions.

Historical evidence suggests that regional conflicts, while disruptive, do not typically alter long-term market direction unless they result in sustained economic damage, particularly through energy or trade.[3]

This does not diminish the seriousness of the current situation. It does, however, provide perspective on how market reactions tend to evolve.

Behavior under uncertainty

When markets feel unsettled, the first effects are often behavioral, shaping what we notice, how we respond, and the choices we make.

As uncertainty increases, attention tends to narrow. News becomes more prominent, and short-term developments carry more weight than they otherwise might. Maintaining a longer-term view becomes more difficult, particularly when coverage feels urgent or unsettling.

There is often a noticeable shift in decision-making. Investors feel a greater need to act, even when the appropriate course is not immediately clear. Short-term market movements can take on greater significance, while the discomfort associated with losses becomes more acute.

Loss Aversion: Research in behavioral finance has long shown that losses tend to feel more impactful than gains, which can lead to more defensive positioning during periods of stress.[4]

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Tip: If you're feeling concerned, have your financial professional provide perspective with historical context, showing how similar market moves played out over time. This reduces the urge to react to short-term losses.

Herding: At the same time, individuals often look to the actions of others for guidance, reinforcing broader market movements in the process.[5]

Tip: When you feel tempted to follow the crowd, pause and review your own plan. Discuss potential moves with your financial professional to ensure any decision aligns with your long-term goals rather than short-term market trends.

In this environment, even well-intentioned decisions can become shaped by the surrounding noise. The distinction between responding thoughtfully and reacting instinctively becomes less clear.

What you can do

In periods such as these, perspective becomes particularly valuable.

Financial plans are generally constructed with the expectation that markets will not move in a straight line. Volatility, while uncomfortable, is part of the landscape rather than an exception.

This is where the role of a financial professional often proves most useful. Their role is to help interpret the relevance of current developments. An external perspective can make it easier to assess whether these developments meaningfully change long-term objectives or simply introduce short-term noise.

In practical terms, this may involve revisiting allocations, considering exposure to near-term risks, or making adjustments where circumstances warrant it. In many cases, it means maintaining an existing course of action, particularly where that course was designed with uncertainty in mind.

A final perspective

The current conflict is serious, and its economic implications, particularly through energy markets and inflation, are real. At the same time, it is likely that much of what is being reflected in markets today relates to uncertainty rather than outcome.

For investors, the more relevant consideration is how events are interpreted and acted upon. While markets will continue to adjust, the decisions made during periods of uncertainty tend to have a more lasting effect. In moments like this, calm judgement and experienced guidance matter most.

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Sources

[1] Reuters (2026), *Reporting on Strait of Hormuz shipping disruptions*

[2] Morgan Stanley (2026)*, Iran Conflict: Seven Takeaways for Investors*

[3] Zacks Investment Research (2026), *Market Response to Conflict: What Investors Should Know*

[4] Kahneman, D. & Tversky, A. (1979), *Prospect Theory: An Analysis of Decision Under Risk*

[5] Bikhchandani, S. & Sharma, S. (2001), *Herd Behavior in Financial Markets*

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