Implications of the Iran Conflict: Initial Investment Perspectives

March 3, 2026

Dear Clients and Friends,

We write to offer our initial perspective on investment implications of the start of hostilities in Iran over the past several days.

It is impossible to predict how events will unfold following the initial air strikes over the weekend. Critical questions are unknowable including whether kinetic activity will be confined mainly to Iran or, conversely, spread beyond the region. The response by China, if any, to losing an important oil supplier and strategic ally is an open question and could accelerate China's deployment of its growing military capabilities. Whatever leadership succeeds the theocracy that has ruled Iran since 1979, the loss of its fourth ally within barely more than a year further isolates Russia and highlights, for now at least, the position of the U.S. as the world's dominant military power. The identity and form of a successor government in Tehran is unknown, as is the desire of the Iranian people to embrace the West despite enduring decades of oppression and economic hardship inflicted on them by their own government. Lives lost on all sides are heart-breaking, and we extend our sympathies to all families suffering loss, wherever they live. Once started, wars are unpredictable.

The economic implications of a U.S. intervention in Iran seem somewhat easier to assess and are generally encouraging for investors. The three previous Middle East conflicts in which the United States had primary military involvement were Desert Storm in 1991 and the wars in Afghanistan and Iraq in 2001 and 2003, respectively. Oil prices were volatile in the months surrounding each conflict, however in all cases oil prices were flat to down in the 3- and 6-month periods following the initial invasion. The Federal Reserve lowered interest rates in each war, and bond yields were lower still six months after each invasion. In all three cases the price-to-earnings multiple of the S&P 500 rose. Earnings were generally higher a year after each invasion although the data is skewed by other factors. The immediate reaction in U.S. markets to this conflict has been benign; despite sharply negative futures Monday morning – the first trading day following news of the attack – the S&P closed in positive territory for the day, and the 10-year Treasury yield edged up only slightly to 4.0%. Cold-hearted as it may sound, markets often respond favorably to war, and it is certainly possible this pattern will repeat itself in the months ahead.

However the war develops, we are confident our clients' portfolios will weather the volatility ahead. Our investment strategy is designed for periods such as this one, grounded as it is in owning the world's strongest companies, defined by wide economic moats, fortress balance sheets and management teams that have the experience and temperament to be fiduciaries for shareholders. Our companies are generally self-financed through robust operating cash flows and have the financial strength and competitive position to prevail in adverse economic environments. While stock price volatility is inevitable in all markets, our investments are driven by intrinsic value, not market sentiment, and we remain highly confident in the prospects of the companies in which you own fractional interests as clients of Douglass Winthrop Advisors.

Please let your portfolio manager know if you have any questions or topics you would like to discuss. You are in good hands, and we look forward to serving as your most trusted financial partner now and in the years ahead.