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# The Iran War, the Economy, and Your Portfolio



*The wisest action in times of volatility and high emotion may be to maintain a steady course.*

The war with Iran has extended for weeks, and it's unclear how long the conflict might last or how it might be resolved, though there are reports of talks with Iran. Any war carries tragic consequences for those who are directly involved, but wars also have broader economic effects, and it's natural to be concerned.

## Oil as a global commodity

The most immediate economic challenge is the closure of the Strait of Hormuz, a narrow passage out of the Persian Gulf that normally carries about 20% of the world's oil.<sup>1</sup> Although Iran has threatened traffic through the strait before, this is the first time that it has been effectively closed.<sup>2</sup>

Most of the oil that passes through the strait is headed for Asia, with two-thirds destined for China, India, Japan, and South Korea.<sup>3</sup> When the strait closed, China had sufficient oil reserves for about 200 days, but other Asian countries are at greater risk.<sup>4</sup>

The United States is the world's largest oil producer and receives a minimal amount of oil through the Strait of Hormuz.<sup>5</sup> So why does closure of the strait affect the price of gas at your neighborhood service station?

Oil is a global commodity, and disruption of the oil supply anywhere in the world can drive prices higher due to global supply and demand. Moreover, while the U.S. exports more petroleum products in general than it imports, it imports more crude oil than it exports. Different types of oil are required for different purposes, and there are challenges in transporting oil to market. In some cases, for example, it may be cheaper and more efficient for a refinery in New Jersey to use oil from Algeria or Nigeria than oil from Texas.<sup>6</sup>

## Prices at the pump

The price of oil accounts for about half the price of gasoline at the pump, which is why prices shot up so quickly.<sup>7</sup> Prices could drop if the strait is reopened, but this may take weeks or months, as even a greatly weakened Iran can threaten tankers, and providing military escorts is difficult.<sup>8</sup>

The 32 member nations of the International Energy Agency have agreed to release 400 million barrels of oil from their strategic reserves, including 172 from the United States with the possibility of more to come. This is the largest such distribution in history, roughly equivalent to a one-month supply of oil that would normally flow through the strait, but it

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may take four months to deliver the full amount.<sup>9-11</sup> In other steps, the Trump administration temporarily lifted sanctions on Russian and Iranian oil currently at sea and suspended a law requiring transportation between U.S. ports to be on U.S. vessels.<sup>12</sup>

Despite these efforts, prices are likely to remain high until the strait is fully open and the war reaches some level of resolution. It may help to keep in mind that gas prices tend to be volatile in general, and current levels are still below the peak prices after Russia invaded Ukraine in 2022. When adjusted for inflation, they are significantly lower than prices in the late 2000s and early 2010s.<sup>13</sup>

## Natural gas

The Strait of Hormuz also carries about 20% of the world's liquefied natural gas (LNG). Most of this goes to Asia and Europe, which saw LNG prices rise by 67% in the first week of the war. The United States is the largest LNG producer in the world and, unlike oil prices, is largely insulated from global LNG price pressures.<sup>14</sup> However, U.S. prices rose at an annual rate of 10.9% in February, before the Iran war, due to increased cold-weather demand.<sup>15</sup>

## Inflation and the economy

Higher fuel costs cascade through the economy, with the potential to increase prices on travel and any goods or services that require transportation. Inflation was already stubborn before the war, and at their March meeting, Federal Reserve officials projected it would remain moderately elevated before dropping to a more optimal level in 2027 and 2028. The Fed held interest rates steady for now but still projected one rate cut this year, though Fed Chair Jerome Powell emphasized that the current situation left little room to ease monetary policy.<sup>16</sup>

The good news is that the United States and other developed countries are less dependent on oil than in previous crises due to higher U.S. output, increased use of alternate energy sources, and more fuel-efficient vehicles.<sup>17</sup> The U.S. economy has been remarkably resilient, and though recent data indicates slower growth, the economic situation was still solid when the war began.

While wars can strain a nation's economy, they can also stimulate it through increases in government spending, employment, production, and technical innovation.<sup>18</sup> Moreover, the ultimate goal of the current conflict, to neutralize the threat from Iran, could lead to more stable energy prices in the long term.<sup>19</sup>

## Staying the course

The stock and bond markets have been volatile since the war began, and you can expect more volatility if the conflict continues. Although paper losses can be disconcerting, it's

important to remember that the current volatility follows an extended period of high returns, and market movements in response to geopolitical events tend to be temporary.<sup>20</sup>

An analysis of market performance after previous U.S. military incursions beginning with Operation Desert Storm in 1991 found that the stock market was up by an average of 12.5% a year after the incursion began.<sup>21</sup> While past performance does not guarantee future results, this illustrates the fundamental investment precept that the wisest action in times of volatility and high emotion may be to maintain a steady course.

*All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Projections are based on current conditions, subject to change, and may not come to pass.*

1, 3, 5) U.S. Energy Information Administration, 2023–2024 (most current data)

2, 4, 9, 14, 16, 18, 19) *The Wall Street Journal*, March 8–18, 2026

6, 7, 11, 12, 13, 17, 21) *The New York Times*, March 5–20, 2026

8) AP News, March 11, 2026

10) U.S. Department of Energy, March 11, 2026

15) Marketplace, March 11, 2026

20) MarketWatch, January 21, 2026

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