

An investor's lens into the renewed Middle East conflict

2 March 2026

Key takeaways

- Renewed military conflict in the Middle East represents another geopolitical shock that has implications for regional stability, global energy markets, and global risk sentiment.
- That said, our view is this conflict will likely only have a short-term impact on global financial markets, and geopolitical-driven selloffs represent tactical buying opportunities.
- Investors should continue to stay invested but maintain a diversified portfolio.
- For those with higher risk appetite, any near-term market selloff is an opportunity to deploy cash and selectively add market exposure as the global economy continues to expand and corporate earnings remain resilient.

What happened?

In a planned, coordinated military offensive that began on 28 February 2026, the United States (US) and Israel launched broad strikes against Iran's strategic military and nuclear-related infrastructure. It has been confirmed that Iranian Supreme Leader Ayatollah Ali Khamenei was killed along with other top Iranian leaders like the defence minister and commander of the Islamic Revolutionary Guard Corp (IRGC).

The scale of the US/Israel strike on Iran surpasses that seen in June 2025 which only targeted nuclear facilities, with President Trump stating that military action will "continue, uninterrupted throughout the week, or as long as necessary".

Iran has retaliated by firing missiles on Israel and various Gulf states hosting US military bases, raising concerns that this could escalate into a regional confrontation.

How could this conflict potentially affect the global economy?

Via an energy supply and inflation shock

- The reported closure of the Strait of Hormuz represents the immediate macroeconomic risk as around 20% of global oil and liquefied natural gas (LNG) supply is shipped through this waterway.
- If shipping traffic in the Strait of Hormuz is disrupted for a significant period, it raises risks to global energy supply and a potential surge in oil prices.
- Such a scenario could create stress on oil-importing countries, reignite global inflation, and cause the US Federal Reserve (Fed) to delay rate cuts and other central banks to potentially consider monetary policy tightening.
- Keep an eye on Brent crude oil prices, which briefly surged as much as 13% to a 14-month high of USD82.37/barrel early this morning before paring gains.
 - That said, history suggests that any oil price spike due to Middle East tensions tends to be short-lived.
 - Major oil-producing nations (OPEC+) have already agreed to a bigger than expected supply increase of 206,000 barrels per day from April to cushion any oil supply shock.

Our assessment of the situation

- It is inevitable that this conflict will trigger uncertainty and affect market sentiment in the short-term.
- Nonetheless, Iran's ability to mount a prolonged conflict may be constrained by years of global sanctions, a degradation of military assets, and domestic political instability.
 - In addition, Iran's armed proxies, like Hamas and Hezbollah, have been severely decimated by Israel, further limiting its military capabilities.
- For reference, the previous conflict in 2025 quickly de-escalated, resulting in limited global impact.
- We think that this conflict will not have a long-term impact on inflation and economic growth.

Market implications

- Consistent with the outlook of limited impact on inflation and economic growth, our view is this conflict will only have a short-term impact on global financial markets.
- While risks are elevated and financial markets will face interim volatility, history shows that the market impact of geopolitical conflicts tend to be relatively contained and short-lived.
 - Looking back at past major conflicts, like the Gulf War, Russia's annexation of Crimea, and the Russia-Ukraine war, global equities typically declined between 4% - 8% before recovering within one to three months, even when conflicts remain unresolved.
- This reflects three key factors:
 - Geopolitical shocks rarely impair global production capacity and economic growth beyond the affected region.
 - Energy price spikes tend to serve as a temporary tax (price hike) rather than a structural economic impairment.
 - Financial markets tend to quickly reassess geopolitical uncertainties and stabilise when worst-case scenarios fail to materialise.

What can you do?

- Market volatility will likely be elevated in the near term, but we do not expect this conflict to develop into a sustained global market selloff unless there is a major disruption to oil supply or a broader superpower confrontation.
- History shows that geopolitical-driven market selloffs present tactical buying opportunities rather than a signal to structurally reduce portfolio risk.
- For conservative investors, stay invested and maintain a diversified portfolio with multi-asset strategies and investment grade bond funds.
- For investors with higher risk appetite, any near-term market weakness offers attractive entry points to increase market exposure as the global economy continues to expand and corporate earnings remain resilient. Explore opportunities in:
 - High-quality stocks with strong long-term earnings power.
 - Quality dividend-paying stocks for investment income.
 - The broader technology sector rather than a narrow focus on mega-cap companies.
 - Developed market financials where stable earnings allow a continuation of dividend payouts and share buybacks, while European and Japanese banks will likely benefit from higher net interest margins.
 - Asia ex-Japan and Chinese stocks given attractive stock valuations, corporate reforms, and expectations of improving corporate earnings.
 - Gold as a portfolio stabiliser.
- Speak to a UOB Advisor on how to position your portfolio according to your risk appetite and goals.



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