



News or events that may affect your investments

March 9, 2026

Global Investment Strategy team

## Q&A: What's next for investors from the Iran War

### Key takeaways

- Similar to the previous two Gulf Wars, the investment problem right now appears as an irreducible uncertainty about the capabilities of each side. But we foresee limited oil price impact for the U.S. economy.
- We see some additional but likely transitory downside risk to fixed income, gold, and equities (especially international markets) and upside for commodity prices.
- This report provides a short primer for our economic and market expectations for a war of direct U.S. military involvement over a period of weeks. The questions and answers below explain why we believe the duration will be shorter, and what market and investment implications imply for our investment guidance.

### What it may mean for investors

- The still uncertain duration of the conflict underscores our preference for diversified portfolios but, whether diversified already or not, we see a potential opportunity for all investors to rebalance portfolios.

#### 1. How long can this war go on?

**The strategy and tactics on both sides seem set but, generally speaking, the constraints on two fighters often boil down to limited time. We reiterate our view that the limit this time likely comes down to days and weeks.**

We see clear strategies: The U.S. wants to remove Iran's regime, while the regime wants to survive. The tactics on both sides appear to be escalate to deescalate. President Trump has promised to intensify the bombing. For its part, Iran appears to us to be escalating horizontally – i.e., geographically – to build geopolitical pressure for the U.S. and Israel to withdraw. Our March 2 report noted that Iran's initial attacks on Israeli and U.S. regional bases could escalate to attack its neighbors directly.<sup>1</sup> In fact, Iranian missiles and drones last week hit airports, hotels, and office buildings in the Gulf states and a British military base on Cyprus. Even the threat of closing the Strait of Hormuz (the Strait) effectively shut down tanker traffic and sent energy prices surging. Iran's tactics appear to target increased international political pressure on the U.S. The Gulf states won't want to lose the appearance of being safe places for foreign investment, and European and Asian allies might urge the U.S. to back down.

**Investment and Insurance Products: > NOT FDIC Insured > NO Bank Guarantee > MAY Lose Value**

1. Wells Fargo Investment Institute, "New fighting in the Middle East and market impact", March 2, 2026.  
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But time likely limits both sides. According to the Pentagon, Iran’s missile and drone attacks have broadened to other countries but are lower in volume by 90% and 83%, respectively, since the first day of fighting.<sup>2</sup> Some of the reduction is likely tactical conservation, but the Pentagon briefings report that Iran is losing weapons and the capacity to make more.

Israel and the U.S. also face resource constraints that are likely to limit attacks more as the fight continues. Israel just opened a second front in an effort to destroy Iran’s proxy force, Hezbollah, which is based in Lebanon. Considering that the U.S. has a given supply of sophisticated munitions at any moment in time, the U.S. may have to pull weapons from other parts of the world to continue its fight. All while European and Asian allies worry aloud about escalation risks and high energy prices, and while a much longer war risks overlapping with the U.S. midterm campaign season, likely to the detriment of the president and his party.

We believe the physical and political constraints may force changes in tactics, and so our base case is that the war lasts weeks, not multiple months. But to reiterate from our March 2 report, as constraints bind harder, wartime decision makers sometimes escalate, instead of making a more logical choice to deescalate. Duration most likely depends on whether the tactics escalate or deescalate, as the history of previous Gulf wars shows, and as we illustrate next. Of course past events are not a guarantee of the future.

**2. How might the latest oil price increase compare with past spikes for economic and market impacts?**

**Similar to the previous two Gulf Wars, oil and other capital markets are struggling early in the conflict, while uncertainty about duration seems irreducible. Our view for limited duration is consistent with a temporary oil price impact for the U.S. economy.**

As we wrote in our March 2 report, we believe that the frenetic intensity of attacks will continue for days or weeks, not months. In that case, history suggests that the surge in oil and liquid natural gas prices may fall quickly once either side gives up its goal. In Gulf War I, for example, the Brent crude oil price per barrel more than doubled in 1990, while the U.S. and its allies prepared to liberate Kuwait (Table 1). The allies eventually liberated Kuwait on February 26, 1990, and the post-liberation Brent price quickly returned to its pre-invasion price. Gulf War II developed differently but with a similar pattern. Oil market fears of an invasion began to grow in December 2002, U.S. forces finally entered Iraq on March 19, 2003, and the Iraqi government fell on April 9. Of course past performance is not a guarantee of future results.

**Table 1. Crude oil prices spiked around the start of conflicts, fell sharply upon resolution**

Event	Crude oil price spike*	Crude oil price bottom
Gulf War I (Liberate Kuwait from Iraq)	\$16.00-\$38.00 (Jun. 8, 1990-Oct. 9, 1990)	\$16.10 (Feb. 18, 1991)
Gulf War II (Remove Iraqi President Hussein from power)	\$27.75-\$33.21 (Dec. 19, 2002-Mar. 12, 2003)	\$24.28 (Apr. 10, 2003)

\*Price range shows the lowest Brent nearby futures contract price in the three months before the event, up to the peak price during the event. We date Gulf War I from the invasion of Kuwait on August 2, 1990, Gulf War II from the beginning of U.S. airstrikes on Baghdad on March 19, 2003.

Sources: Bloomberg, Organization for Economic Cooperation and Development (OECD), and Wells Fargo Investment Institute. Data are quarter-ending Brent crude oil prices per barrel, as of the quarters shown. The prices are collected by the OECD and reported by Bloomberg.

The role of expectations may be worth remembering here. Table 1 illustrates how investor worries about a possible oil supply cutoff drove Brent crude oil prices up in the days and weeks preceding the decisive events

2. Jared Malsin, et al. “Its Missile Threat Degraded, Iran Is Taking Fewer Shots at More Targets”, *The Wall Street Journal*, March 6, 2026.

(February 26, 1990 and April 9, 2003). Yet, the price spike reversed quickly each time market confidence began to grow about a resolution, even if the fighting in both cases continued past the decisive dates.

Two points follow from our analysis on these first two questions. First, oil market pricing during the Gulf Wars did not require a complete end to the fighting to reverse the oil price surge. Second, considering the tactics we now observe from each side, the U.S. and Israel appear to be watching the clock more carefully, while Iran takes a more patient approach. As we see it, either the U.S. and Israel break the will of Iran's regime, or they pull back to defend tanker traffic in the Strait, taking advantage of Iran's much reduced military capacity and its need for safe passage through the Strait for its own oil revenue. While the clock is ticking, a months-long halt on tanker traffic seems unlikely.

Two important differences for the U.S. economy versus that of 1990 and 2003 are that the U.S. is much more a service-oriented economy today (less energy intensive) and, even more importantly, is a net oil exporter now. For specialized imports (heavy-grade crude), the U.S. relies on Canada. This change means the U.S. economy is unlikely to suffer an oil shortage and a corresponding dip in growth.

But oil prices are global prices, and we do expect a short-term rise in oil prices to bump gasoline prices and consumer price inflation modestly. Fortunately, the U.S. economy is not where it was in the 1970s, with high and rising inflation expectations already in place. If the energy supply interruption in the Gulf proves to be temporary, as we expect, the inflation bump likely will be short and does not change our outlook for economic or earnings growth this year.

Ultimately, much depends on the war's duration. Just as in the previous two Gulf Wars, the problem right now for investors and markets is the difficulty of assessing how far each side may go to achieve its objective and, finally, how long it will take for one side to achieve its objective.

### 3. Where can/do we expect oil prices to end up? How impactful is a disruption in the Strait of Hormuz or energy infrastructure?

**Crude oil prices have reached roughly \$90 per barrel, but prices for oil to be delivered a few months out are lower. This pattern suggests to us short-term price volatility because of the uncertain duration of the conflict, but easing uncertainty and oil prices by summer.**

Near-term disruptions in the Strait are creating acute shortages of oil, refined products, and liquid natural gas. The Strait ranks among the world's narrowest and is the gateway to the Persian Gulf. Twenty percent of the world's daily oil and liquid natural gas supplies travel through that maritime door. Although the Strait is not physically closed, we see tanker crews waiting outside the Strait for an end to the uncertainty about the duration of the conflict. Meanwhile, the Gulf oil producers are filling their tanks but must store it while there is almost nowhere to offload it.<sup>3</sup> Once the tanks fill, a production shut-in could come within weeks. Also, Asian economies depend heavily on liquid natural gas, but Qatar, one of the largest producers, shut its production last week as a precautionary measure.

The Organization of the Petroleum Exporting Countries (OPEC) has little available oil export capacity outside the Persian Gulf ports. U.S. shale producers have reserves available to tap but recently have shown little appetite to increase production. U.S. producers could be enticed to produce more, if current oil price levels persist for at least several months. But our view is that this is a temporary disruption, due to logistics, not a 1970s-style structural or permanent loss of supply. Current pricing seems to agree: Per barrel prices for West

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3. Saudi Arabia and the United Arab Emirates have a pipeline to the Red Sea. They are using this, but its capacity is about 6% of daily global oil supply, far short of the 20% lost while tankers will not enter the Strait.

Texas Intermediate crude oil futures contracts settled on March 6 at \$90.90 for April 2026 delivery and \$77.94 for July 2026.

**4. Does this alter our equity market outlook for equity targets or sectors? Should an investor consider buying any dips here or does this alter the calculus of our 2026 outlook for potential equity market opportunity?**

**The war does not alter our outlook unless the surge in crude oil prices to above \$90 persists for months, which is not our base-case.**

We do see potential opportunities for rebalancing away from energy equities into broader equities, such as U.S. Large-Cap/Mid-Cap, and sectors we believe less affected by energy prices, such as Information Technology. We also remain most favorable on Financials, and favorable on Industrials and Utilities.

**5. How do equity market technicals look? Where is support?**

We see the S&P 500 Index (6831) as still in an uptrend, with near term support at 6710 (December lows), with a cluster of support around the 200-day moving average of 6579. If the S&P 500 Index begins a sustained rebound, we would regard the 6905 level as minor resistance on the way to new highs.

**6. Why haven't assets that are traditionally perceived as "flight to quality" like U.S. Treasuries and gold gone up in price?**

**Rising political risk has often pushed investors to gold and U.S. Treasuries. But Treasury and gold prices may both decline if investors fear that energy prices may drive inflation and lower economic growth internationally.**

Even a transitory inflation increase may push investors to demand higher U.S. Treasury yields. If the dollar strengthens because the U.S. is a net energy exporter, or by higher relative interest rates, gold can face headwinds. Additionally, some international investors may be selling liquid assets, like gold, to cover sharp equity losses in countries that depend on imported energy. Another hint that energy price uncertainty is now a key for markets is the weakness in the Swiss franc. Switzerland's political neutrality has often attracted investors when international conflict flares, but so far in March the franc has slid against the U.S. dollar. The Swiss import almost all their energy.

**7. Why have credit markets behaved well up to this point in the conflict?**

**We believe the initial transmission from the Iran War to the U.S. credit markets flows through higher energy prices, inflation expectations, and Treasury yields, not through a deteriorating earnings or balance sheets.**

We saw corporate fundamentals entering this year in solid shape, with manageable leverage, relatively ample liquidity, and low near-term default risk, especially in investment-grade and higher-quality high yield. Until higher oil prices persist long enough to damage demand, liquidity, or policy expectations, we think credit spreads can remain comparatively stable even amid heightened geopolitical uncertainty.

**8. What is our market outlook should global energy prices rise, even if only temporarily?**

**Asia and Europe seem more vulnerable than the U.S. to a global energy supply squeeze.**

We believe that the uncertain duration of suddenly lower energy supply and higher prices should land disproportionately on international markets. Taiwan, China, Japan, and Europe are all large energy importers. Conversely, countries that are net energy exporters, like Canada, Mexico, Brazil, and Argentina may benefit economically from higher energy prices. We expect higher inflation and slower economic growth while the energy shortage continues. By contrast, the U.S. is well supplied with oil and natural gas and likely will see

higher energy prices (because energy is priced globally) and some transient inflation but not suffer a slower economy. We believe the difference should benefit U.S. equity markets generally and favor the U.S. dollar over other currencies. With respect to sectors, Information Technology has remained resilient due to its secular growth and quality characteristics while Materials and Consumer Staples are down the most, due to concerns about input costs and the health of the consumer/economy.

For fixed-income markets, long-duration bond prices (duration is a measure of interest-rate sensitivity) can fall when rising inflation erodes the value of future fixed-income payments. A price discount causes yields to rise, albeit while geopolitics are uncertain.

Looking past these immediate events, our 2026 outlook is unchanged. We expect stronger equity prices by year-end (our target range for the S&P 500 Index remains 7400-7600. Our bias is for bond yields to generally climb higher (bond prices lower), especially if positive U.S. macroeconomic fundamentals retake control. Our view is that consumer-led economic growth will move real (inflation-adjusted) interest rates higher. The cost of the war could widen the U.S. federal deficit and raise the premium that investors require to hold U.S. Treasuries. We believe the Treasury also is likely to increase issuance of coupon-paying debt, and this also could boost the term premium and weigh on prices. Our expectations for the combined effect of these potential scenarios should keep pressure on the 10-year yields to move higher toward our 2026 year-end target range of 4.25% – 4.75%.

#### 9. Does this conflict change expectations for the Federal Reserve (Fed) to cut interest rates in 2026?

**We have been expecting a pair of quarter-point interest rate cuts, but the risk now is for fewer 2026 rate cuts.**

Fed officials already sounded cautious at their January 2026 policy meeting. Since then, the Labor Department's February jobs report showed weak employment growth in the same week that a new war poses the risk of an inflation bump with uncertain timing. The signals are noisy and conflicting, but we may not have to wait long for more guidance. The Fed's policy committee meets again on March 17-18, 2026. We think a rate cut at that meeting is unlikely. Looking ahead, we are holding our target but acknowledge the risk for fewer cuts.

#### 10. What should investors be doing within their portfolios when geopolitical risks rise?

**The still uncertain duration of the conflict underscores our preference for diversified portfolios but, whether diversified already or not, we see a potential opportunity for all investors to rebalance portfolios here.**

With the U.S. suddenly involved in a war in the Middle East, now may be a good time to assess how we prefer to approach risk. War and COVID are examples of unexpected negative surprises, for example, but the accelerating pace of automation (including artificial intelligence) has been a positive surprise but to a degree that remains to be seen in the years ahead. Put simply, it may be possible to hedge against known risks (e.g., Fed policy decisions and elections that come with regular frequency), but risks that arrive unpredictably and have uncertain duration can exert a combination of upside and downside pressures across different capital markets. So far in March 2026, commodity prices are higher, while equities and fixed income values are lower.

Given our base-case that the conflict will wind down in the coming weeks and months and that the jump in oil prices will be temporary, today we favor rebalancing portfolios by trimming commodities exposure back to strategic target allocations and rotating into equities, especially U.S. Large- and Mid-Cap Equities, which we favor overweighting relative to strategic target allocations. Emerging and Developed ex-U.S. markets have fallen more sharply for their greater energy dependence on the Middle East, and we see in these declines a possible opportunity to restore positions to strategic levels. Within commodities, oil and energy have outperformed our favored sectors (precious and base metals) and we see a potential opportunity to rebalance by reallocating from the commodity energy sector into the two metals sectors.

### Risk Considerations

Diversification cannot eliminate the risk of fluctuating prices and uncertain returns and does not guarantee profit or protect against loss in declining markets.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Sector investing** can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation, and other risks. Prices tend to be inversely affected by changes in interest rates. Although **Treasuries** are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate. The **commodities markets** are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. Investing in **gold or other precious metals** involves special risk considerations such as severe price fluctuations and adverse economic and regulatory developments affecting the sector or industry.

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