The Iran Shock: Why Markets May Already Be Moving On

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Key Takeaways

- **The oil shock is spreading but not breaking the system.** Roughly 3 billion people are now feeling higher energy and food costs, yet the transmission is complex and not a simple recession or "risk off" trigger.

- **Investors are anchored to the wrong playbook.** This isn't the 1970s. Oil matters, but a more flexible, less energy-intensive world reduces its macro punch.

- **Market declines are creating opportunity.** With sentiment washed out and beginning to recover, investors have a second chance to lock onto this cycle's dominant themes —international equity leadership and select commodity exposures tied to the real economy.

Ask Forstrong: The war in Iran looks set to drag on. What should investors do now?

Markets have now had a month to digest the Iran shock. Missiles are still flying. Talks in Islamabad between Washington and Tehran have collapsed. And the chokehold on the Strait of Hormuz has gone from a theoretical black swan to a live pressure point in the global economy. Some historians are already calling this America's "Suez moment," a reference to the 1956 crisis that marked the peaking out of the British and French empires.

All of this is bleak stuff. But the key question remains: has anything fundamentally changed? As we argued in last month's "A Crash Course In Oil Shocks", investors need to separate what feels dramatic from what actually drives markets over time.

The past month has given us more information.

The task now is deciding what actually matters.

What's Actually Changed

Real Economic Impact

The oil shock is now moving from markets into the real economy. Iran's weaponization of the Strait has turned a regional conflict into a global cost shock.

Roughly 3 billion people in lower income nations — including India, Pakistan, and China (each with varying friendly ties to Iran) — are now feeling the effects of higher energy and food costs. These economies sit at the core of global manufacturing. If the shock persists, it won't stay local — it will flow straight through to global inflation and interest rates. This is the core risk that matters.

A Deeply Unpopular War

The war is deeply unpopular in America, with midterms approaching. Prolonged conflict, higher gasoline prices, and falling approval ratings are not a winning combination. That shifts the incentive structure. Markets are now trying to price not just escalation but the probability of policy-driven de-escalation. Political pressure to contain the situation is building.

Anchoring Bias

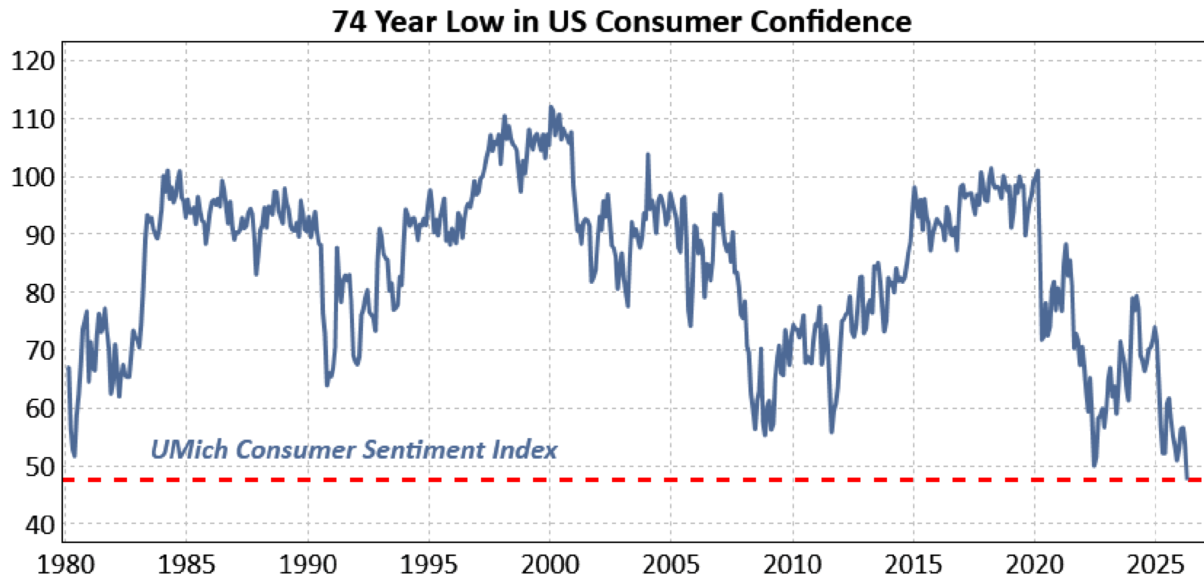
In times of stress, investors always scramble for a familiar anchor to the past. Last year, tariffs were going to send us back to the 1930s. This year, oil is supposedly taking us to the 1970s. Neither analogy fits. The world today is structurally different. The global economy is far less oil-intensive — crude usage peaked after the 1973 Arab embargo and has since fallen by roughly 60% per unit of real GDP. Supply is more diversified. Trade flows are more adaptable. Oil shocks still matter. But they are less inflationary and less economically destructive than they once were. Today, the bigger mistake isn't underestimating the shock. It's overestimating its ability to dominate the entire macro landscape. Markets love a simple story. Reality is rarely that cooperative.

Fog Of War

Markets never wait for clarity. They turn when visibility is at its worst. Looking back over the past century, stock markets have typically bottomed within the first 10% of a conflict's duration (hat tip to Tom Lee). Even during World War II, markets moved higher well before the outcome was clear — and long before American troops were fully deployed in Europe. All told, the S&P 500 rose by half during the second world war. Why? Because markets are forward-looking. They price the likely future and not the headlines. The Iran war may persist. History suggests it likely will. But conflicts have a way of fading into the background once the initial shock is absorbed. They simply stop mattering as much to markets. The Russia–Ukraine war is a recent example. The conflict continues to rage but no longer drives daily market direction. The takeaway is straightforward: war-gaming geopolitical scenarios is a losing exercise. Unless someone at the Pentagon is tipping you off (in which case, please don't call our office). Investors are far better served focusing on what markets are actually telling them.

Sentiment Has Collapsed

By some behavioural measures, the recent panic rivals the COVID washout. The University of Michigan consumer confidence survey — running for 74 years — has just recorded its lowest reading on record. Lower than the financial crisis. Lower than the pandemic. Unfortunately, markets never offer an "all clear" signal. But historically, when sentiment reaches extremes like this, the bar for positive surprises falls sharply.



What Still Matters?

The most important question is not how the war unfolds but whether it changes the underlying trends driving markets. So far, the answer appears to be no. If anything, it is accelerating them. As my market-savvy colleague David Kletz has noted, second and third-order effects matter most. Geopolitical shocks often become catalysts for energy security investment, defense spending and infrastructure buildouts.

We have seen a version of this movie before. Last year, tariffs were initially framed as a growth headwind. Instead, they accelerated reshoring, industrial policy, and fiscal expansion right across the world. The same dynamic is playing out again.

Looking ahead, three structural forces continue to anchor the cycle:

Deficits Are Here To Stay

The pandemic normalized large-scale fiscal intervention. Few politicians recite the numbers today but for those counting some $5 trillion of COVID relief funding in the US was more than 10 times gross disbursements from the financial crisis. What began as emergency stimulus has evolved into a structural feature of the system. Equally important is the institutionalization of the government rescue reflex. Whether in banking stress, energy crises or geopolitical shocks, policymakers increasingly turn to fiscal support rather than interest rate cuts. This has consequences. It removes deflationary tail risks and shortens the duration of downturns. It also skews the range of potential outcomes towards higher inflation and higher asset prices. There is also a simple linkage at work: massive fiscal deficits always translate into massive corporate

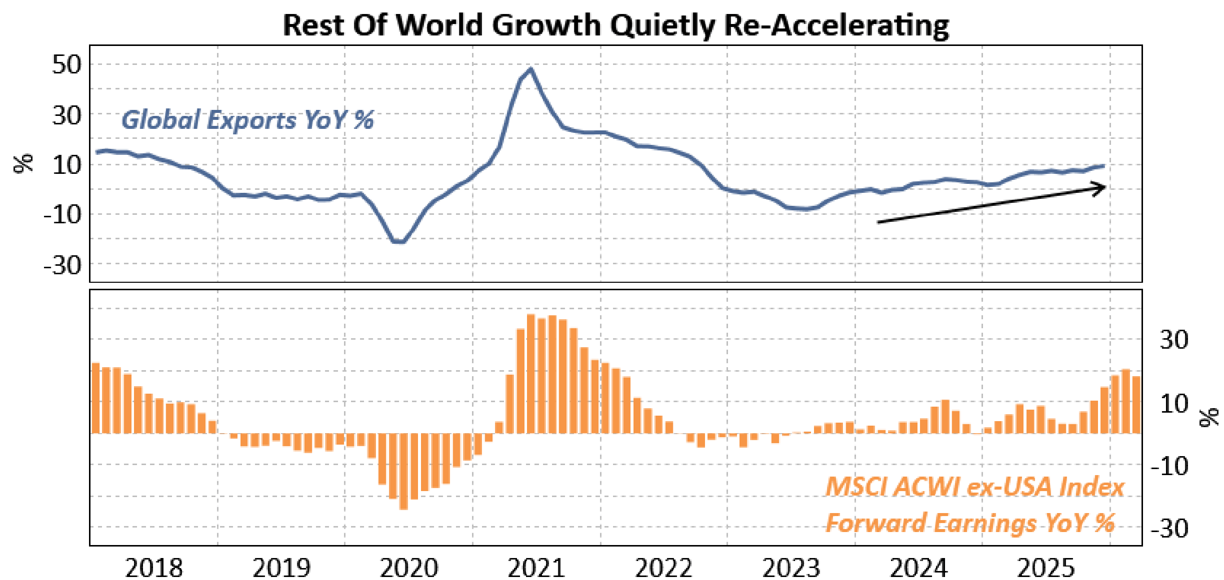
profits (sorry, we don't make the equations). Don't expect government deficits to get any less eye-watering.

Capex Cycle Is Alive

The world is in the midst of a global capex revolt — one that is often mischaracterized as a purely AI story. It isn't. Since 2020, the American economy has experienced one of the strongest capex upcycles in decades. Industrial metals have been rallying through it all, even as Chinese real estate has been under pressure. These are not moves driven by chips alone. They reflect something broader: rearmament, reindustrialization, and the rebuilding of supply chains for a tricky era of geopolitical uncertainty. War and capex tend to move in lockstep.

Global Growth Re-Acceleration

Global growth is reaccelerating. Yes, energy shocks and tighter financial conditions introduce risks. Confidence can wobble. Margins can get squeezed. But the broader signal from leading indicators still points toward improvement, not deterioration. For much of the past decade, earnings growth was synonymous with the United States. Crucially, that dynamic is now shifting. Earnings growth outside the US is turning decisively higher, with Europe, Japan, and parts of emerging markets showing clear signs of inflection. Hardly what one would expect heading into a downturn. The result is a more resilient global growth environment — one that may prove uneven, but far less fragile than the headlines suggest. If that's the macro picture, the market's insipient rally starts to make more sense.



Where To Position Portfolios?

What does this all mean for investors? **First, leadership continues to evolve.** Watching what leads out of crisis-driven selling often provides clues on what will lead in the next risk-on phase. Software and AI-related equities, last cycle's undisputed winners, have been under renewed pressure. An index of SaaS stocks is down nearly 40% in 2026 as investors reassess both valuations and second-order effects from AI itself. Big Tech's business model as an asset-light monopoly franchise is now also being challenged. The hyperscalers are increasingly capital-hungry, more competitive and less insulated. Markets assign very different multiples to that kind of business.

Second, safe havens are changing. The US dollar briefly rallied in the initial stages of the oil shock — then quickly faded. Treasuries have seen outflows. Capital is no longer reflexively flowing into traditional defensive assets. Instead, it is finding its way into less obvious places. China is a notable example. Despite being the world's largest oil importer, its markets have held up better, supported by large energy reserves, diversified supply chains and a more electrified economy. **In a world of supply shocks, resilience — not ideology — is becoming the defining characteristic of a safe haven.**

Third, international equities. The recent pullback has been driven by familiar forces, namely hot money retreating during periods of volatility. But structurally, the case for international exposure remains intact. Markets in Japan, Europe, and parts of emerging markets have sold off while earnings forecasts have, at long last, turned decisively higher.

Finally, commodities continue to stand out. We remain constructive on industrial metals —particularly copper — which act as "triple plays" on rearmament, reindustrialization, and AI-driven demand. Oil is more nuanced. In the short term, disruption supports prices and recent strikes have inflicted serious damage on energy infrastructure across the Middle East, complicating the supply outlook. But over the longer term, the setup is less constructive. A reopening of the Strait would trigger aggressive supply responses from Gulf producers, alongside incremental barrels from other nations. We are watching closely for a reversal in oil prices later this year — unlikely as that may seem today.

Crises always feel like turning points. Most of them aren't. The Iran shock is real. Yet at this stage, the broader macro framework remains intact. Markets are adjusting to a disruption not a new regime. But by the time the fog clears, markets will have already moved on.

Tyler Mordy, April 2026

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