US-IRAN CONFLICT

WHEN FURY MEETS FRAGILITY

INSIGHT EDITION

March 2026

Markets have reacted sharply over the past fortnight, not because of surprise, but because of scale. The closure of the Strait of Hormuz has turned a geopolitical conflict into a global economic event, disrupting shipping routes, tightening energy markets and lifting inflation expectations almost overnight.

But as always, the question our clients ask is the same:
"What does this actually mean for me?"

This analysis breaks down the forces shaping this moment, the impact for Australia and investors and, what is not being talked about.

The forces shaping this moment

The World Has Become Fragile — and Perception Now Moves Markets

The closure of the Strait of Hormuz has shown that modern supply chains break just as easily from fear as from physical disruption. Tankers don't wait for a missile strike — insurers pull coverage, freight lines reroute, and global inflation expectations lift almost instantly.

In today's world, markets reprice perception long before the real economy feels the impact.

Central Banks Are Protecting Credibility Above All Else

The Reserve Bank of Australia is deeply focused on inflation expectations, not inflation itself.

Once expectations drift, restoring them becomes economically painful.

Translation:
Rates may stay higher for longer, even as growth softens.

This pressure lands on households first — fuel costs, transportation, groceries, mortgage payments — well before official data captures the strain.

Australia's Energy Transition Is Creating Hidden, Long Term Cost Pressures

(As discussed in previous editions of The View, this is the insight few are talking about).

Australia is currently running two energy systems:

1. A rapidly expanding renewable grid, and
2. Firm capacity (gas, coal, hydro) that must remain in place until reliability is guaranteed.

Duplication creates cost. That cost flows into logistics, manufacturing, agriculture, construction — and ultimately inflation.

It's a structural challenge monetary policy alone cannot fix.

The Conflict Didn't Create New Problems — It Accelerated Existing Ones

The Iran war is a force multiplier, not a new trend.

- Supply chains were already fragile.
- Energy systems already strained.
- Inflation already sticky.
- Geopolitics already reshaping manufacturing and trade.

We are witnessing the global economy continue its shift from efficiency to resilience — onshoring, redundancy building, nuclear reconsideration, and strategic stockpiling, a shift that started when the pandemic disrupted the move to globalisation.

These transitions raise costs short term, but create multi year investment opportunities in infrastructure, energy security and critical minerals.

How Investors Should Think About This Moment

This is not a crisis — it's a reset.

Many market strategists were already expecting a 10–15% pullback; the conflict simply brought it forward. Volatility creates opportunity, while diversification continues to do what it's meant to do — bonds, gold and the USD have again acted as shock absorbers.

In this environment:

- Quality matters more than ever
- Companies with resilient cash flows, pricing power, strong balance sheets and essential services tend to outperform when rates stay elevated.
- Long horizon themes are strengthening
- Infrastructure, energy, and critical minerals remain powerful decade long trends supported by policy, capital flows and security priorities.
- Timing geopolitics doesn't work
- Markets typically move before the physical disruption occurs. Staying disciplined is almost always superior to reacting.

What It Means for Australia — Simply Put

Australia is feeling the effects of the conflict more through cost pressures and confidence than through direct economic exposure.

We are a price taker in global energy markets, and disruptions in the Middle East flow through quickly to transport, logistics and household budgets.

Here's what matters most:

Higher transport and fuel costs — and not just at the bowser

When fuel prices rise, it affects far more than what we pay at the pump. Freight, aviation, agriculture, construction and supermarket supply chains all absorb higher input costs, and those pressures tend to show up in prices over the following months.

For rural communities travelling long distances for everyday essentials, the impact is even more acute.

Softer household confidence

Australians were already cautious, and fuel spikes tend to tighten behaviour further. We usually see households pull back on discretionary spending first, which has a flow on effect to small businesses and services.

Longer lasting inflation pressure

While Australia's inflation has been easing, energy related spikes have a habit of slowing the last mile. That's why the RBA is watching expectations so closely. Even if the price shock is temporary, it can influence wage negotiations, business pricing decisions and medium term forecast — and, unfortunately, can open the door to opportunistic price gouging.

Limited domestic fuel reserves

Australia still holds fewer days of operational fuel reserves than many OECD peers. While this doesn't pose an immediate risk, it does highlight our vulnerability during prolonged global disruptions. The topic has resurfaced in recent days — not because Australia has literally "run out of fuel", but because a mix of panic buying, rising prices and temporary policy interventions has drawn attention to the fragility of our fuel security.

A slower path to rate relief — but not a derailment

The RBA's priority remains credibility — not in a rhetorical sense, but in the very practical task of keeping inflation expectations anchored. This week's rate rise was a narrow 5–4 decision, but the Board judged that holding steady risked sending the wrong signal at a moment when short term inflation expectations had already begun to drift. While the US-Iran conflict has created a supply driven price shock, the RBA made it clear that allowing expectations to unanchor would be far more damaging, and far harder to correct, than a single rate move.

In short this means rate cuts may take longer to arrive than many hoped earlier in the year. But importantly, at this stage, it isn't a shift to tightening — just a delay in easing.

The positive side: resilience where it counts

Employment remains strong, migration is supporting demand, and corporate balance sheets are generally healthy. Australia is entering this period with more buffers than most.

What Isn't Being Talked About (But Should Be)

Beyond the headlines, arguably the real story is the structural shifts quietly shaping the next decade — changes that matter far more than the week to week news cycle.

Geopolitical stress is now a background condition

The most important geopolitical shift is not the Iran conflict itself — it's that geopolitical pressure has become permanent. Coordination between major economies is weaker, trust is lower, and supply chains now operate with less buffer and less cooperation.

The result: even small shocks trigger outsized global effects across trade, logistics and pricing, because the system is already stretched.

The rising cost of global insurance and reinsurance

Few realise that geopolitical risk has fed into soaring premiums for shipping, aviation and freight insurance.

These costs ripple through supply chains, adding pressure long before goods reach consumers.

It's a slow burn inflation driver that monetary policy can't fully offset.

The return of "just in case" inventory

After Covid, many companies shifted from just-in-time supply chains to holding more stock.

The Iran conflict reinforces that behaviour.

More inventory means more working capital tied up, lower productivity and higher operating costs — another story beneath the surface.

Capital is now flowing toward resilience, not efficiency

Investment decisions are being reshaped. Governments, industries and investors are redirecting capital toward energy security, diversified supply chains, onshoring, defence and critical minerals. This shift increases upfront costs, but it's creating multi year opportunities in infrastructure, logistics, storage, and renewables — the building blocks of more resilient systems.

The slowing of globalisation's deflationary benefits

For decades, globalisation has kept the cost of goods down. Now, as countries prioritise redundancy, security and domestic capability, those deflationary tailwinds are fading. The economic consequence is an environment where baseline costs are structurally higher and inflation is naturally stickier — even without geopolitical shocks.

A FinSec View

Australia is feeling the effects of the conflict more through cost pressures and confidence than through direct economic exposure.

History helps us separate signal from noise. And history is unequivocal: geopolitical shocks rarely derail long term market outcomes. In fact, across 31 major wars and military crises since 1939 — including World War II, the Gulf War, Vietnam, Korea, and Russia's invasion of Ukraine — markets have shown a remarkably consistent pattern: sharp initial drops, followed by fast recoveries and, in most cases, above average 12 month returns.

Around three quarters of these events saw markets higher one year later, and more than half delivered better than average performance from pre crisis levels — a counterintuitive but powerful reminder that sentiment-driven sell offs rarely last.

Why? Because while conflicts create fear, they also unleash surges in demand, production and government spending, which support company earnings despite short term inflation pressure. This is evident as far back as World War II and as recently as the Russia–Ukraine conflict, both of which saw fast market rebounds despite energy shocks.

What's equally striking is the speed of recovery. Across decades of data, most sell offs lasted only days or weeks, with roughly two thirds of markets recovering to pre crisis levels within three months. Duration of conflict, severity of headlines or geographic proximity had little correlation with equity outcomes. Even events that felt existential — Pearl Harbor, the Suez Crisis, the Cuban Missile Crisis — had relatively contained market impacts.

When markets did struggle for longer, it was rarely because of the war itself, but due to unrelated economic forces such as the tech wreck, the GFC or aggressive monetary tightening cycles.

So what does this moment require from investors? Perspective. Not prediction.

Geopolitics moves sentiment. Fundamentals move long term returns.

The Iran conflict is a shock — but not a structural break. Inflation expectations matter, but history is clear: shocks fade, cycles turn and quality assets recover. These periods, uncomfortable as they are, often set the stage for opportunity, not permanent damage.

As always, our guidance remains the same:

- Stay invested. Markets typically rebound faster than emotions do.
- Stay diversified. Defensive assets have again acted as shock absorbers.
- Stay long-term. The structural themes — energy security, infrastructure, critical minerals — are intact, not diminished.
- Stay focused on quality. Companies with pricing power and resilient earnings navigate uncertainty best.

Crises change headlines. They rarely change long term outcomes.