

How will geopolitical risk between Israel and Iran affect markets?

The situation is still developing and can change quickly, but here are some key points:

- Israel's attack and Iran's retaliation come after unsuccessful discussions between the U.S. and Iran over reducing Iran's nuclear capabilities. Perhaps the biggest concern among investors is whether this conflict will escalate further. This is occurring even as the Israel-Gaza war rages on.
- It's important to keep these conflicts in perspective. While serious from a geopolitical perspective, they are generally not a reason to react with our portfolios. This has been true over the past several years and across history. While markets may demonstrate a "flight-to-safety pattern" over days or weeks, markets have also been resilient over longer time frames.
- Oil markets were immediately impacted with the price of Brent crude surging over 7% following the attack. While regional conflicts do not necessarily affect the broader market, oil prices can act as a transmission mechanism. Higher oil prices affect consumers and businesses all around the world, so disruptions to supply and demand can affect the global economy. That said, the jump in oil only brings prices back to where they were as recently as April.
- Some "safe haven" assets strengthened, with gold prices, the Japanese yen, the Swiss franc, and the U.S. dollar all gaining as investors sought refuge from geopolitical uncertainty. This is consistent with historical patterns during periods of heightened Middle East tensions. The exception is Treasury yields which have increased, suggesting investors are not flocking to these bonds.

The included chart on geopolitics illustrates how markets have navigated various global tensions over time, showing that while short-term volatility is common during uncertain periods, markets have historically maintained their long-term upward trajectory despite major disruptions including wars, financial crises, and energy shocks.

Stocks and Geopolitical Events

Select events and S&P 500 total returns 3, 6 and 12 months after

Sources: Clearnomics,
Standard & Poor's
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