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Does war in Iran change the 2026 outlook?

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Financial markets follow a typical pattern in the wake of geopolitical events. The initial headline triggers volatility, as investors grapple with uncertainty and worst-case scenarios. Risk assets wobble, oil spikes and safe havens are buoyed higher. Yet more often than not, those moves fade as U.S. investors remember that most geopolitical issues are geographically contained and only indirectly impact domestic growth and earnings.

The most notable exception to this pattern, however, is when geopolitics disrupt energy markets. Energy shocks are challenging because they can be both recessionary and inflationary. Higher energy costs can drag on households, crowding out discretionary spending. They also filter through into inflation both directly - through the energy bucket in CPI - and indirectly - as transportation and manufacturing costs rise in response. Slowing growth and warming inflation push central bankers into a difficult position.

Conflict in Iran has the potential, therefore, to be disruptive. While Iran's direct role in global energy markets has faded in recent years thanks to western sanctions, it still produces roughly 5% of global oil. More critically, it also has the ability to disrupt the infrastructure behind global energy flows, particularly through its control of the Strait of Hormuz.

The strait is a passageway for roughly one fifth of the world's oil supply, and while a formal closure may be difficult, a perceived increase in risk has already led insurers to withdraw "war-risk" coverage. This has effectively closed the route to shipping. Moreover, attacks on refining capacity and oil wells in neighboring states pose a meaningful risk to regional energy production.

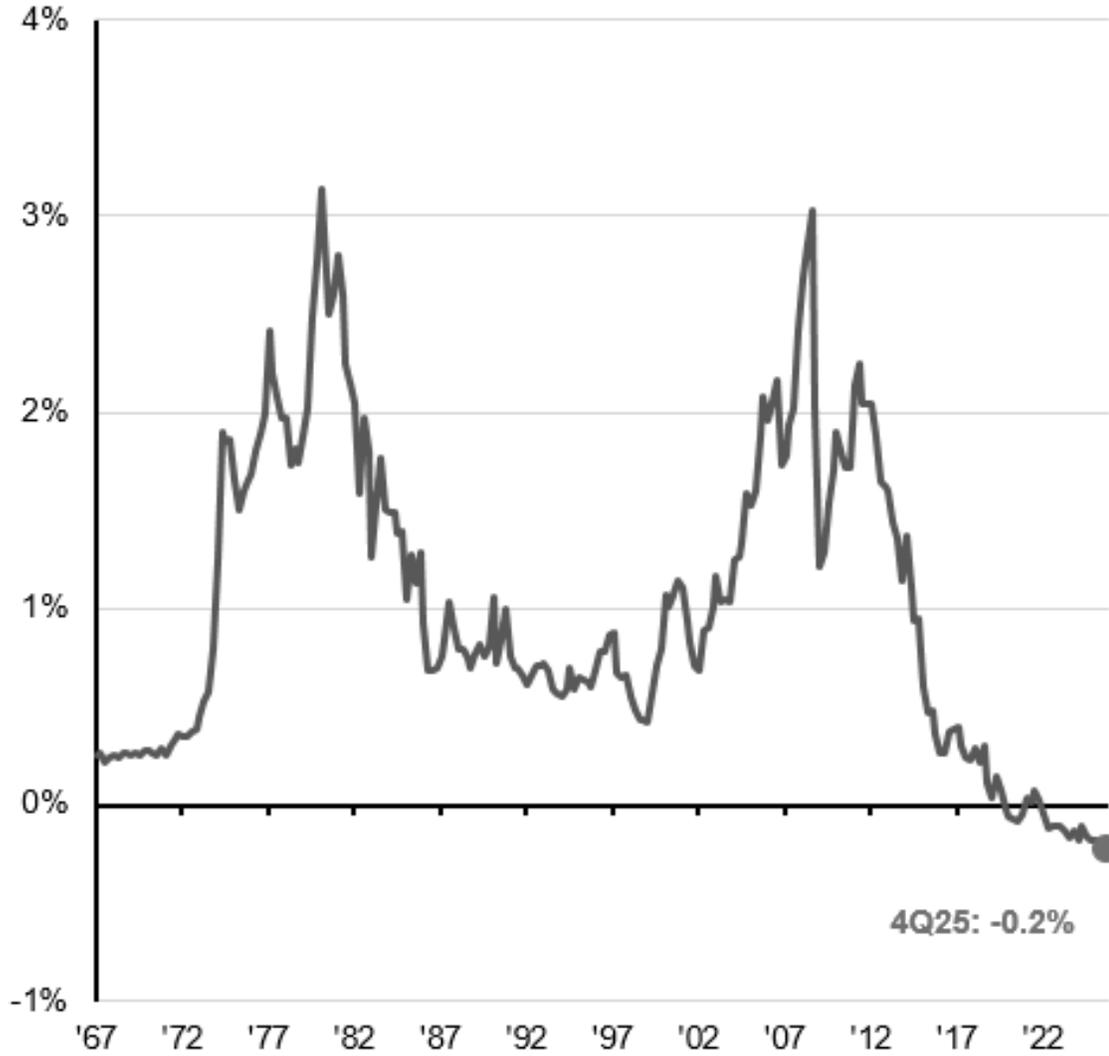
That said, there are ameliorating factors. The U.S. administration has signaled a willingness to backstop shipping insurance and provide naval escorts for tankers. More importantly, global energy markets in 2026 are in a position of relative strength. OPEC+ has spare capacity, U.S. shale production remains near record highs and while global inventories are lower than optimal, warming months ahead should dampen demand for heating fuel.

Moreover, the U.S. economy is far less oil-intensive than in prior decades, with energy consumption per unit of GDP down significantly since the 1970s. In addition, as a net energy exporter the U.S. is not overly sensitive to energy market flare-ups. None of this renders the U.S. economy immune to price spikes, but it does reduce the magnitude of the impact relative to past cycles. It also suggests that inflation, not recession, is the most likely outcome of sustained conflict.

For investors, the relatively subdued reactions from asset prices and the dollar should serve as a reminder that geopolitical risk premia can enter markets as quickly as they fade. Staying diversified across asset classes and regions while resisting the urge to time markets remains the most

U.S. net oil imports

% of nominal GDP, quarterly



Source: BEA, J.P. Morgan Asset Management.

Data are as of March 2, 2026.

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