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# Tensions in the Middle East: Operation Epic Fury and Global Asset Implications

## Summary

Over the weekend, US and Israeli forces launched Operation Epic Fury, a coordinated strike against Iranian leadership and military infrastructure, resulting in the confirmed death of Iran's Supreme Leader. While markets have reacted with an initial "risk-off" posture, spiking oil and gold prices, our view remains grounded in historical precedent: military-related pricing moves, especially when the US military has superiority, typically reverse once the conflict's scope is defined, resulting in sharp but short-lived market disruptions.

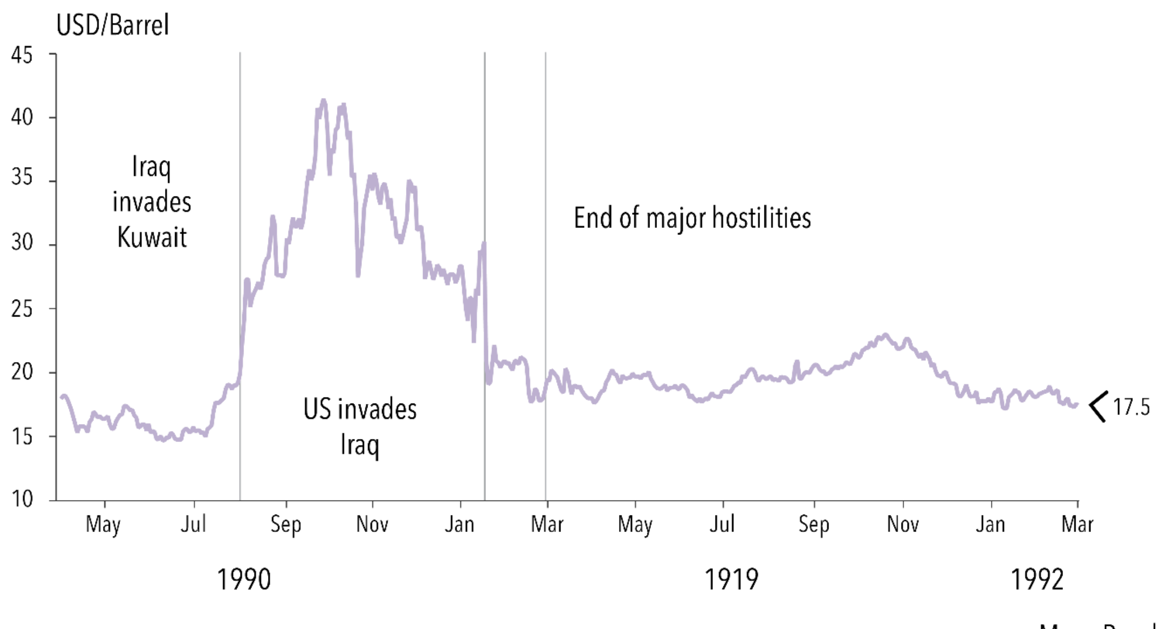
The primary risk to the "short-lived" thesis remains a potential prolonged closure of the Strait of Hormuz, a critical chokepoint for global oil flows. Given this uncertainty, we believe the current volatility warrants a period of disciplined observation rather than reactionary shifts.

## Historical precedents

To evaluate the likely market trajectory, we look to the 1990–1991 Gulf War as a precedent. History suggests that while initial shocks are jarring, market impacts often prove short-lived when US military superiority is dominant.

- Oil and inflation: In 1990, oil prices spiked significantly and bond yields rose on inflationary fears.

**Chart 1: Brent oil price – Gulf War operations Desert Shield and Desert Storm**




Source: Quilla Consulting, Macrobond

- Economic fundamentals: At the time of the Gulf War, both the US and Australia were entering recessions. Whilst unrelated to the conflict itself, this exacerbated the economic pain. The Federal Reserve and RBA ultimately focused on domestic fundamentals, continuing to ease interest rates as unemployment rose.

**Chart 2: US 10-year government bond yield – Gulf War**


Source: Quilla Consulting, Macrobond

- Market reversal: An analysis of wider precedents for market reactions to global oil-related conflicts shows that once major hostilities began, markets quickly unwound "war premiums" and equities regained lost ground. This situation becomes more likely in instances where the superiority of US forces becomes clear. This is considered the most likely outcome of the current conflict in Iran, while noting a wide possible range of outcomes.

As Table 1 illustrates, the average and median returns for the S&P500 Index post the start of a conflict are reasonably strong.

**Table 1: S&P 500 performance during global oil-linked conflicts**

| **S&P500 performance from start of conflict** | | | | |
|---|---|---|---|---|
| **Conflict (start date)** | **Full Conflict** | **+1M** | **+6M** | **+12M** |
| **Suez Crisis (1956)** | 1.6% | -3.9% | 0.5% | -8.1% |
| **Iran-Iraq War (1980)** | 180.0% | 1.6% | 5.7% | -6.9% |
| **Iraq-Kuwait Invasion (1990)** | 6.8% | -7.8% | -0.6% | 14.1% |
| **Desert Storm (Gulf War) (1991)** | 12.5% | 13.0% | 19.1% | 31.9% |
| **Iraq Invasion (2003)** | 65.4% | 2.2% | 19.4% | 29.0% |
| **Israel-Hezbollah War (2006)** | 0.9% | 0.8% | 14.2% | 25.7% |
| **NATO-Libya Conflict (2011)** | -0.8% | 2.2% | -4.0% | 12.6% |
| **Crimea Annexation (2014)** | 0.9% | 1.6% | 9.2% | 17.1% |
| **Russia-Ukraine War (2022)** | Ongoing | 6.1% | -4.6% | -5.9% |
| **Israel-Hamas War (2023)** | Ongoing | 1.4% | 21.7% | 34.1% |
| **% Positive** | 90.0% | 63.6% | 60.0% | 70.0% |
| **Median** | | 1.6% | 7.5% | 15.6% |
| **Average** | | 1.72% | 8.06% | 14.36% |

Source: Quilla Consulting, Fisher Investments

## Current market reaction

Initial reactions showed oil surging over 10%, gold up nearly 3% in a look to safe havens, and US equity futures pointed down approximately 0.75%. Middle Eastern markets, particularly in the Gulf, saw significant drops, with some exchanges like Boursa Kuwait suspending trading following retaliatory attacks. Initially, U.S. 10-year Treasury yields moved lower as investors sought the safety of government debt.

The Australian market opened less than 1% down on the first day of trading post the strikes, demonstrating resilience. However, we are seeing a sharp divergence: Energy and Materials sectors are outperforming as commodity prices rise, while Financials and Technology face downward pressure from broader "risk-off" sentiment. The Australian dollar saw an initial dip against the US dollar before stabilising as markets weighed the risks and potential market impacts of oil market disruptions.

To mitigate supply shocks, OPEC+ has signalled an intent to increase production by 206,000 barrels per day from April. While the US has indirectly taken control of Venezuelan oil, it is unlikely to take up any slack from supply disruptions, given the long lead time required to rebuild the Venezuelan oil infrastructure.

Iran produces roughly 4–5% of global oil, which is not in itself significant, but the critical risk remains the flow of oil through the Strait of Hormuz. Any prolonged closure of this chokepoint, through which 20% of global oil flows, would challenge a "short-lived" thesis. While a sustained disruption may not be the base case at this stage, disruption need not be binary. Shifts in shipping insurance availability and pricing can influence transit decisions and freight costs. This dynamic may not stop flows through the Strait of Hormuz outright, but it can create friction and extend the period of supply disruption, even after direct hostilities subside.

## Implications for investors

**Australian equities:** An initial slump is expected as investors de-risk. However, Australia's heavy weighting in Energy and Materials provides a natural hedge. While the broader index may fall, energy stocks and gold miners are expected to be supported until tensions moderate.

**Global equities:** Major indices face moderate downward pressure in the near term due to uncertainty regarding the duration and ultimate severity of the current conflict. While markets may maintain a cautious demeanour, a de-escalation in the conflict would likely lead to a sharp improvement in investor sentiment.

If the Strait of Hormuz remains open, stocks could work through the shock. If the closure is prolonged, a larger sell-off in global equities could materialise, which may also present investment opportunities as the global economy adapts to a changing status quo. Europe is seen as more vulnerable than the US due to its closer proximity to Middle Eastern energy flows following the shift away from Russian gas. The US remains energy independent as a net exporter who will benefit from rising energy prices.

**Bond markets:** US Treasuries and Australian government bonds have gained on safe-haven demand. Over the medium term, fixed income faces conflicting signals; while inflation from a global perspective is mostly contained, supporting lower yields, a sustained energy shock could keep inflationary expectations and long-term yields elevated.

**Central bank caution:** The Reserve Bank of Australia may now wait until at least the May Board meeting before considering further tightening, as they assess the tightening in financial conditions and geopolitical uncertainty.

**Commodities:** Brent crude has already jumped roughly 10%, reaching levels not seen since mid-2025. A prolonged closure of the Strait of Hormuz could drive prices materially higher. Gold and silver are likely to remain well bid as investors hedge against geopolitical instability. Agricultural input concerns are also a key issue in commodities as fertiliser supplies are at risk, which could lead to secondary price spikes in soft commodities.

**Australian consumer sentiment:** Sustained higher petrol prices will likely hit discretionary retail and travel stocks as price pressures increase and household budgets tighten.

**Portfolio positioning:** While volatility is high, historical data shows that military-related pricing moves often reverse once a conflict's scope is defined. While we are cautious, we see no need to panic in the near term. We recommend maintaining diversified exposure while letting the initial uncertainty clear before making any structural shifts.

## Market and portfolio outlook

- **Market outlook:** We expect military-related developments to dominate in the short term, with high volatility likely as the market monitors the impacts on oil markets and infrastructure. However, if military action remains targeted and successful, the negative impact is likely to be reduced and short-lived.
- **Portfolio positioning:** We see no need to panic in the near term. We recommend maintaining current allocations and letting the "fog of war" clear. Historical data show that military-related pricing moves often reverse relatively quickly. We therefore favour staying the course while monitoring economic fundamentals.