



## Understanding the Iran Conflict Through a Macroeconomic Lens March 3, 2026

The recent escalation involving Iran has unsettled global markets, and understandably so. Geopolitical conflicts influence markets not just because of the headlines, but because of how they affect the broader macroeconomy — particularly energy prices, inflation expectations, interest rates, and global growth.

The Middle East plays a central role in global energy supply. When military tensions rise in the region, investors immediately assess the risk of oil supply disruptions. Even the possibility of interruptions to key shipping routes can push oil prices higher. Higher energy prices flow through the economy quickly: transportation, manufacturing, and consumer goods costs all rise. This can temporarily increase inflation.

At a time when inflation has already been a concern over the past few years, rising oil prices complicate the outlook for central banks. If energy-driven inflation remains elevated, the Federal Reserve may be slower to cut interest rates. Higher rates can pressure stock valuations and borrowing costs, which contributes to market volatility.

In addition, geopolitical conflict increases uncertainty. Businesses may delay investment, consumers may become more cautious, and global trade can slow. Markets respond quickly to this uncertainty — often more quickly than the underlying economic data itself.

However, it is important to separate short-term market reactions from long-term economic fundamentals. Historically, while geopolitical shocks can create temporary volatility, diversified portfolios have generally recovered as economies adjust and markets reprice risk.

### **1. Expense Bucket (Short-Term Needs)**

This bucket holds cash and highly liquid investments designed to cover 12–24 months of spending needs. In periods of heightened volatility, this allocation provides stability. It ensures that essential expenses can be met without selling long-term investments during market pullbacks.

### **2. Project Bucket (1–3 Years)**

The project bucket supports planned goals over the next one to three years. It is typically invested in high-quality bonds and conservative income-oriented strategies. In today's environment, this portion of the portfolio benefits from relatively attractive bond yields while maintaining lower volatility than equities. This bucket acts as a buffer between short-term cash and long-term growth assets.



### 3. Endowment Bucket (Long-Term Growth)

The endowment bucket is designed for long-term appreciation. It includes diversified exposure to U.S. and international equities and other growth-oriented assets appropriate for your risk profile. While geopolitical conflicts can temporarily impact stock markets, long-term returns are driven by corporate earnings, innovation, productivity, and economic growth over time. Investors who maintain discipline during volatile periods have historically been rewarded.

#### Asset Allocation in the Current Environment

In light of current macroeconomic conditions, we recommend:

- Maintaining sufficient liquidity in the expense bucket.
- Emphasizing quality and income stability in the project bucket.
- Remaining diversified and patient within the endowment bucket.

Markets often react sharply to geopolitical events, but they also adapt. By aligning investments with time horizons rather than headlines, investors can navigate uncertainty with greater confidence.

As always, we are monitoring developments closely and are available to review your portfolio and answer any questions.

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