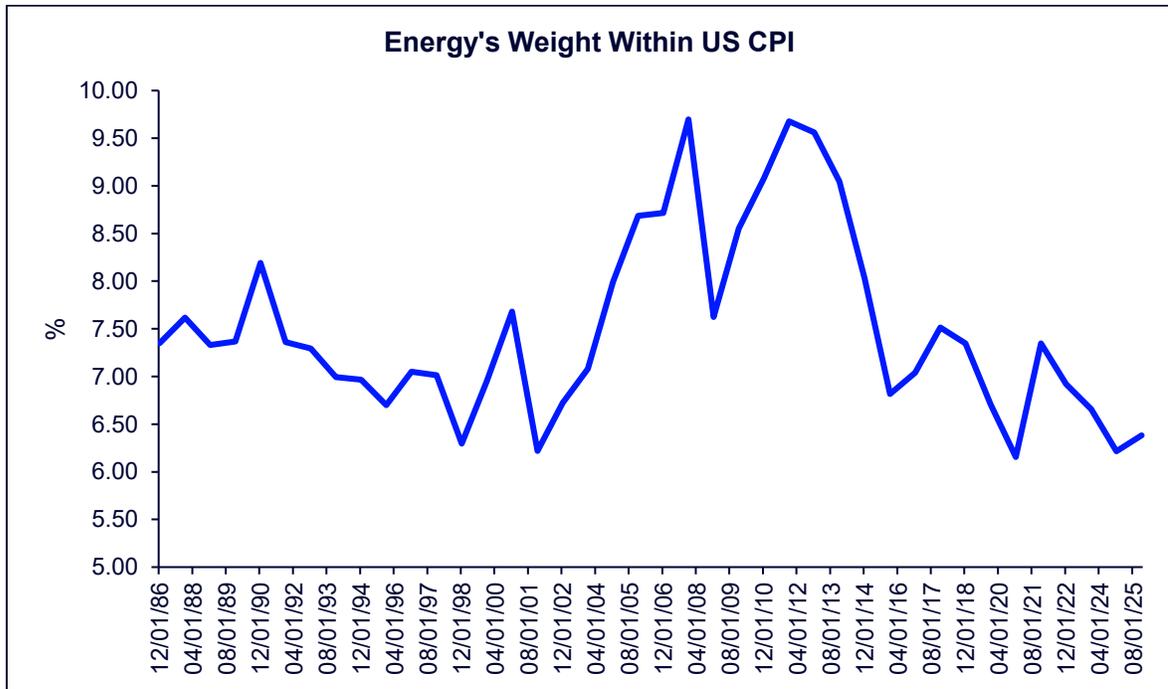


COMMENTARY

March 12, 2026

Mind on the Market

Chart of the Week



Source: US Department of Labor, Factset. As of 12/31/2025.

One direct implication of the Iran conflict is through the energy complex and its potential impact on inflation. The February CPI release, published on March 11, showed headline inflation at 2.4% YoY, unchanged from the prior month, but it does not reflect subsequent geopolitical developments, requiring alternative measures to assess their potential impact. While energy's weight in the CPI basket remains near 40-year lows, the duration of the conflict could still create broader inflationary spillovers, despite greater US energy production and control.

Contact

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Weekly Highlights

US CPI (Feb YoY)

2.4%

Source: FactSet. Data as of 2/27/2026.

Eurozone CPI (Feb YoY)

1.9%

Source: FactSet. Data as of 2/27/2026.

Japan CPI (Jan YoY)

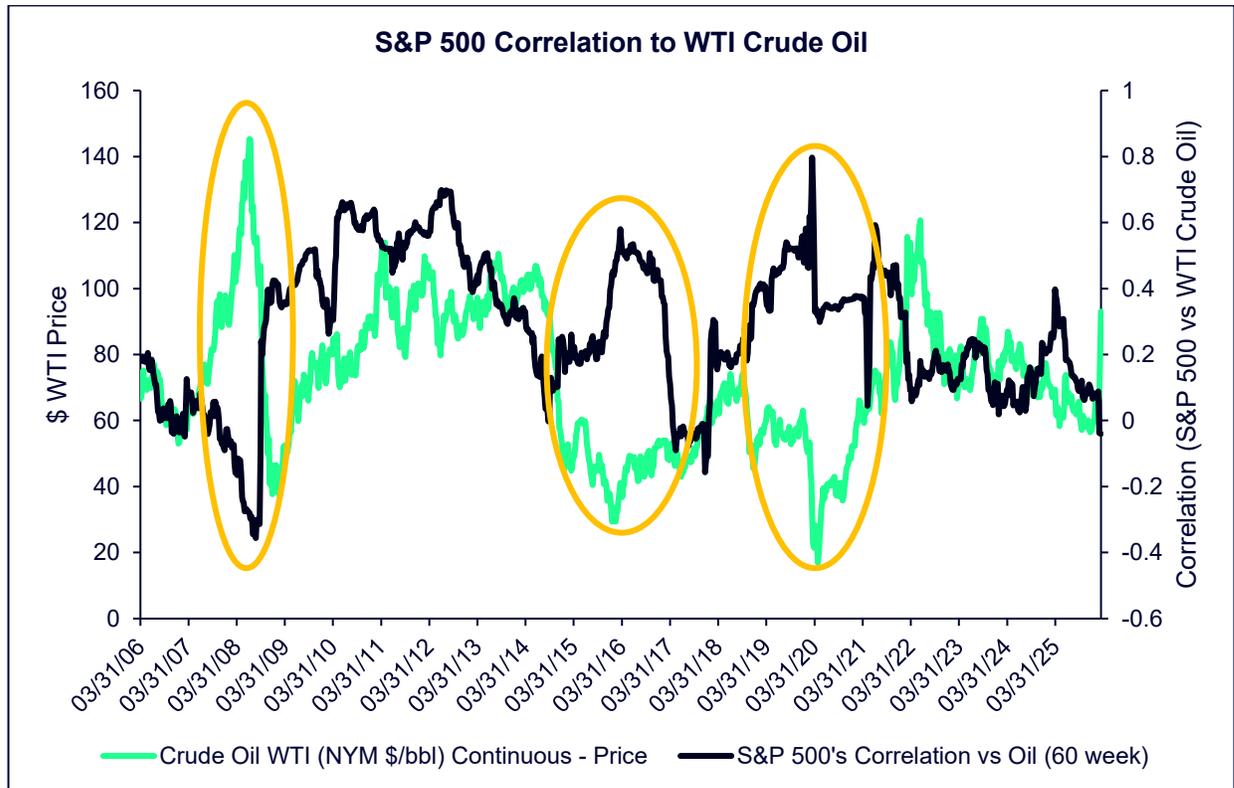
1.5%

Source: FactSet. Data as of 2/27/2026.

Iran–US Tensions: Market Transmission, So Far Contained

With the recent escalation in tensions between Iran and the US, the most immediate and visible market impacts have appeared, as expected, in energy prices and currencies. These are often the first asset classes to reflect geopolitical risk, given their sensitivity to supply disruptions, trade flows, and risk sentiment. Beyond oil and FX, however, the more consequential question for investors is not whether volatility emerges, but *when* and *how* spillover effects begin to influence the broader economy—and ultimately equity and bond markets.

Thus far, markets appear to be treating the conflict as a near-term risk event rather than a structural macro shock. Understanding where that assessment could change requires examining the primary transmission channels.



Source: FactSet, S&P. Weekly price changes in USD. Crude Oil represented as West Texas Intermediate (NYM \$/bbl) continuous Futures price. As of 3/12/2026.

Oil as a Transmission Channel

Historically, crude oil has served as one of the most important conduits through which geopolitical events impact financial markets. The chart shown here illustrates how the correlation between equities and oil prices has evolved across different oil price regimes. What stands out is not simply the level of crude prices but the pace and magnitude of price moves and their effects on correlations. Sudden, sizable, and lingering oil shocks have historically altered equity market behavior.

These correlation shifts have worked in both directions. Sharp declines in oil prices have tended to be supportive for equities. Conversely, abrupt spikes in crude prices, particularly those driven by geopolitical supply risks rather than stronger demand, have historically been a headwind for equity markets. In these episodes, higher input costs and rising inflation expectations typically weigh on risk assets.

As of the time of this writing, recent price action reflects a noticeable uptick in crude due to the conflict, but one that so far remains modest in a historical context. Prices have moved higher, yet they have not

approached levels associated with prior geopolitical oil shocks extremes. What has been more prominent is volatility around headlines, with large swings suggesting markets are still searching for clarity and resolution before settling on a durable fundamental narrative.

Near-Term Disruption vs. Long-Term Expectations

The futures curve provides additional insight into how investors are interpreting the current environment. Market pricing suggests higher crude prices in the near term, while longer-dated expectations remain relatively well-anchored. As of March 11, 2026, the WTI futures curve implies prices potentially reaching the upper \$60s per barrel by year-end. This structure indicates that markets are viewing the conflict as a short-term disruption rather than a lasting shift in global energy supply dynamics. In other words, while geopolitical risk has introduced a near-term risk premium, longer-term fundamentals—such as global production capacity and demand growth—are still expected to reassert themselves.

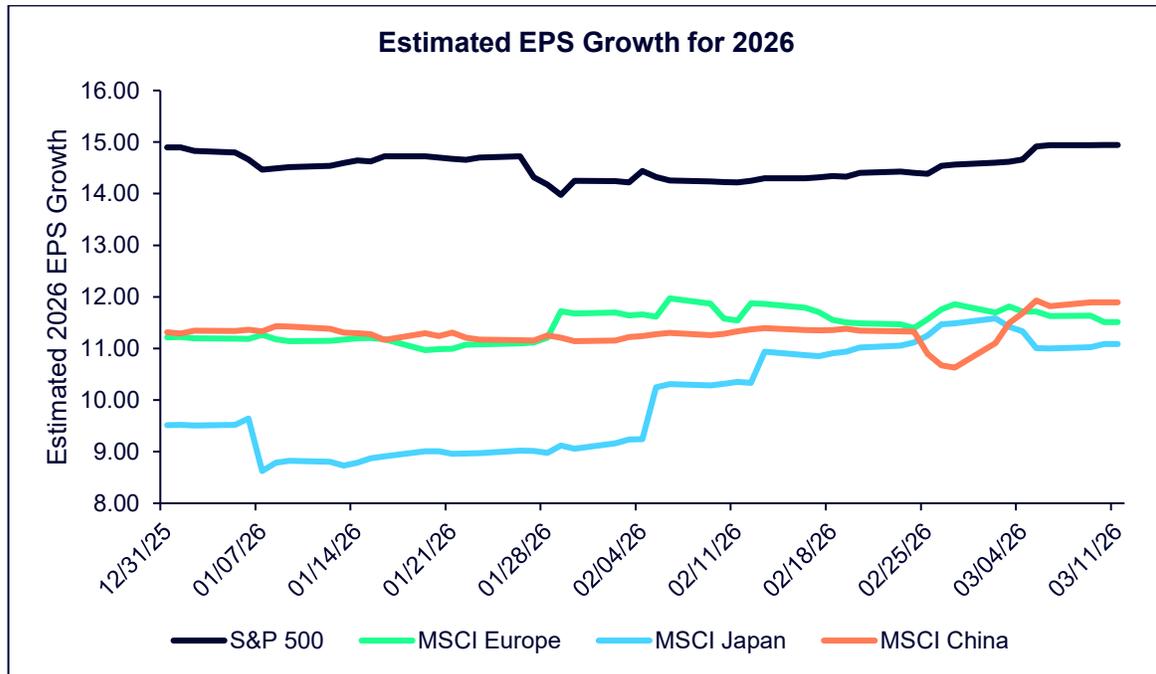
Inflation Expectations and Monetary Policy Implications

Higher energy prices naturally feed into inflation expectations, creating another potential pathway for spillover into broader markets. Here again, the market response has been relatively restrained. Inflation breakevens have edged higher alongside crude prices, but the increase has been modest. Five-year breakeven inflation is only slightly above last month's highs, levels that were already in place prior to the escalation in tensions.

This suggests that investors currently view the inflationary impulse as passing rather than structural. However, even modest changes in inflation expectations can influence monetary policy pricing at the margin. Prior to the conflict, markets were pricing in roughly two Federal Reserve rate cuts in 2026. Since then, expectations have shifted closer to one cut. The implication is not that the conflict has fundamentally altered the Fed's longer-term outlook, but rather that it may delay the timing of policy easing by reinforcing near-term inflation risks. This dynamic highlights how geopolitical events can influence financial conditions indirectly, even without triggering a broader macroeconomic downturn.

Markets Await Duration and Resolution

The duration of the conflict remains the central variable shaping market outcomes. A short-lived episode would likely keep the effects contained within energy markets, currencies, and near-term rate expectations. A more prolonged or escalating conflict, however, would increase the probability of broader spillovers through sustained inflation pressure, tighter financial conditions, and slower growth.



Source: S&P, MSCI, FactSet. As of 3/11/2026.

Thus far, spillover into equities has been limited. Equity markets have acknowledged the geopolitical risk but have shown a willingness to look through it. Analyst earnings expectations, in particular, have yet to move in a meaningful way. While there can be lags before analysts revise forecasts—especially when visibility is limited—we have yet to see any material markdown.

Bond markets tell a similar story. While yields and rate expectations have adjusted modestly, there has been no sign of disorderly repricing. The clearest beneficiaries to date have been traditional geopolitical hedges. The US dollar has found support, while commodities—particularly energy—have reflected heightened risk premiums. These moves are consistent with past episodes in which uncertainty rises but systemic risk remains contained.

Conclusion

In conclusion, both equity and bond markets have been put on notice but have thus far shown a willingness to look through the conflict. Investors appear to be treating the situation as a near-term geopolitical risk rather than a structural macro event, while remaining highly sensitive to its duration and potential escalation. Until greater clarity emerges, markets are likely to continue searching for near-term certainty, with energy prices and currencies serving as the primary outlets for volatility. For additional

perspective, readers may refer to our Chief Macro Policy Strategist Elliot Hentov's recent thoughts on the Iran conflict [here](#).

Source: State Street Investment Management, MSCI, S&P, FactSet.

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* This figure is presented as of December 31, 2025 and includes ETF AUM of \$1,950.80 billion USD of which approximately \$173.02 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.