Client Update
March 3, 2026

War in Iran

On Saturday (February 28), the United States and Israel launched a major, coordinated military operation against Iran, which U.S. officials have referred to as “Operation Epic Fury.” The campaign targeted a range of military and security-related sites, including in and around Tehran. Iranian state media and multiple independent reports indicate that Iran’s Supreme Leader, Ayatollah Ali Khamenei, was killed in the strikes. President Donald Trump has estimated the campaign could last four to five weeks, while also signaling it could extend longer. Reporting has described this as the most significant U.S. military campaign in the region since the 2003 Iraq invasion.

In our view, there are reasons the conflict could prove more contained than the worst-case scenarios suggest. Iran’s network of regional partners has been under sustained pressure in recent years. Hezbollah faced significant setbacks and leadership losses in its 2024 conflict with Israel; Hamas’s command structure and operational capabilities were diminished following sustained fighting; and Iran’s other affiliated militias, including the Houthis in Yemen and Iraqi groups, have operated amid intensified military and diplomatic pressure across multiple fronts. Meanwhile, Iran experienced its most serious domestic unrest since the 1979 revolution in late 2025 and early 2026, reflecting meaningful internal strain. That said, Iran retains significant military and asymmetric capabilities, and the risk of escalation remains significant. The situation remains highly volatile and uncertain.

Global financial markets sold off sharply at the open on Monday before recovering later in the day. The S&P 500 Index fell more than 1% at its lows before turning positive by late morning. The Dow dropped sharply at the open before paring most of those losses. This pattern — an initial decline followed by stabilization as investors assess developments more carefully — is consistent with how markets have often responded to the outbreak of military conflicts.

Oil prices jumped sharply as markets reopened on Sunday, with Brent crude trading around the low-$80s per barrel amid concerns about potential supply disruption and broader regional spillovers. Higher energy prices would place upward pressure on inflation and complicate the Federal Reserve’s path toward potential interest rate cuts. If the conflict proves short-lived, the inflation impact may be modest. If it persists, policymakers will face the challenge of balancing supply-driven price cost pressures with a potential demand shock tied to the conflict. The U.S. dollar strengthened as investors sought traditional safe-haven assets, which could partially offset inflationary pressure.

In our letter to clients at the start of the war in Ukraine in February 2022, we referenced Philip Fisher's well-known advice not to be afraid to buy during a "war scare." That principle proved well-founded then, and we believe the broader lesson remains relevant. History has often shown that financial markets react sharply at the onset of military conflicts and then recover as uncertainty begins to clear. The Gulf War, the Iraq War, and the initial invasion of Ukraine all followed a broadly similar pattern. Of course, every conflict is different, and this situation carries significant risks around energy supply and the possibility of regional expansion. But for long-term investors, periods of fear-driven selling have frequently created opportunities.

We are not making portfolio changes at this time. The key variables we are watching are the duration of the conflict and whether it expands into a broader regional war. Any direct involvement by additional major powers (such as Russia or China) would significantly increase the risk profile. We will communicate promptly if our assessment changes or if we see actionable opportunities for your portfolio.

Please feel free to call Roger or me if you would like to discuss this commentary or any market-related topic. Thank you, as always, for your continued trust in Western Pacific.

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