

US-ISRAEL-IRAN CONFLICT

Geopolitical Developments and Market Implications

The geopolitical situation in West Asia has intensified following escalating tensions between the **United States, Israel, and Iran**. The conflict has created uncertainty across global financial markets, disrupted trade routes, and raised concerns about energy supply security.

The Middle East plays a crucial role in global energy markets and international trade. Any disruption in this region has the potential to affect oil prices, shipping routes, and global economic stability. As a result, investors worldwide are closely monitoring developments in the region.

While tensions remain elevated, some transportation operations in the region have begun to normalize. Airports in Dubai and Abu Dhabi partially resumed operations from Monday evening, indicating a gradual restoration of connectivity. However, geopolitical risks remain high and uncertainty can continue in the coming weeks.

Escalation of the Conflict

- The recent escalation in the conflict began after three American troops were killed and five others injured, prompting the United States to vow retaliation against Iran.
- During the subsequent escalation, reports also indicated that **Iran's Supreme Leader, Ali Khamenei, was killed in targeted strikes**, which intensified tensions in the region and raised fears of a broader geopolitical confrontation.
- Following this incident, hostilities spread rapidly across the region. Iran-linked groups expanded their involvement, with Hezbollah joining the conflict in Lebanon. Attacks were reported in Cyprus and a U.S. military base in Kuwait.
- In another significant development, Saudi Aramco halted operations at the Ras Tanura refinery after a drone strike, highlighting the vulnerability of critical energy infrastructure in the region.

Disruption to Global Trade

- Shipping companies imposed emergency conflict surcharges on cargo moving through the Strait of Hormuz due to escalating security risks. Shipping costs have reportedly increased by around 30%.
- The Strait of Hormuz is one of the most critical energy transit routes in the world, carrying nearly 20% of global oil consumption and around 20–25% of global natural gas trade. About 19 million barrels of oil pass through this route daily.
- Alternative pipelines exist but can offset only a limited portion of this flow, leaving global energy markets highly exposed to potential disruptions in this region.

Energy Market Impact

- Energy markets reacted sharply to the conflict. Military strikes and retaliatory actions across the region have affected energy infrastructure and shipping routes, pushing oil and natural gas prices higher.
- Market estimates suggest that a one month disruption in the Strait of Hormuz could increase oil prices by roughly \$10–\$15 per barrel depending on the severity of the disruption. Even partial disruptions could lead to noticeable increases in energy prices.

Impact on India

- India maintains deep economic and strategic ties with the Gulf. The GCC is India's largest trading partner bloc with bilateral trade of about \$178.56 billion.
- India imports crude oil, LNG, petrochemicals, and gold from the region, while exporting engineering goods, rice, textiles, machinery, and gems and jewellery.
- Nearly 9.7 million Indians live and work in West Asia, contributing significantly to remittances flowing back to India. Rising tensions have also disrupted some Asia–Europe air routes and trade logistics.

Market Impact

- Financial markets across the globe reacted with volatility following the escalation of tensions. Exchanges of Abu Dhabi (ADX) and the Dubai (DFM), remained closed on March 2nd and 3rd to prevent excessive volatility. In India, on Monday, market declines wiped out approximately 6.35 lakh crore in investor wealth in the initial reaction.
- Higher oil prices remain a major concern as they can increase India's import bill and widen the current account deficit. Higher oil prices add pressure to

inflation. Export-oriented sectors and oil dependent industries may face higher pressure during prolonged geopolitical uncertainty.

Investment Outlook

- Private investment firms in the Gulf region anticipate a temporary slowdown in investment activity if the conflict continues. However, analysts believe that unless energy supply routes are severely disrupted, the impact on global markets may remain largely short-term.
- Precious metals such as gold may benefit from the uncertainty as investors typically move toward safe-haven assets during such geopolitical tensions.

Guidance for Investors

- Investors should avoid knee-jerk reactions during periods of geopolitical volatility. Historically, markets tend to recover once tensions stabilize.
- Common mistakes to avoid include completely exiting equities, disproportionately investing in gold, or deploying all available cash during a single market correction.
- Instead, investors should remain disciplined and continue long term investment strategies. Gradual investments in quality stocks and mutual funds during market corrections may provide longterm opportunities.
- Many investors also tend to look at asset allocation only in such extraordinary situations and even rebalancing of excess allocation to any asset class can wait until the war settles and markets return to normalcy.
- Staggered buying in Quality stocks and funds at discounted prices through Systematic Transfer Plan(STP) during this phase of volatility can be considered.

Conclusion

- The US–Israel–Iran conflict has introduced uncertainty across global markets, particularly affecting energy supply chains and international trade routes.
- Expectations are that the war can go on for another 4 to 6 weeks. US president Trump’s view is that the war may last till the month end. Investors may have to navigate through this uncertainty for the next few weeks, keeping emotions under control and have a very pragmatic and prudent approach of not reacting and transacting based on emotions.
- While short term volatility may continue in financial markets, historical patterns suggest that markets typically recover once geopolitical tensions begin to ease. Investors should therefore maintain a disciplined and long-term approach rather than reacting to short term market movements.