

Allview: Iran Conflict Equity Implications

A potential conflict with Iran has consistently appeared in our monthly Market Risk Monitor for over two years. Now that risk has materialized. Our equity portfolio managers assess the implications for global markets.

Authors	Date	Topic
Allspring Equity Teams Investment Analytics Team	6/24/2025	Market Events

Key takeaways

- Energy markets—particularly oil—have been the most volatile following the military action. However, the broader global impact is expected to remain low.
- Our equity teams see limited immediate market reaction to U.S. actions in Iran, with volatility in equities expected to be short-lived.

Investment Analytics

In Allspring's monthly publication, "Allview: Market Risk Monitor," we first noted our concern about a potential Iran conflict in February 2023. This past weekend, that risk became reality. Based on the market's initial reaction, energy markets, especially oil, have experienced the most volatility. We believe the overall global impact will remain low as Iran has strong incentives to avoid full-scale war and keep oil flowing out of the Persian Gulf.

The market's immediate reaction provides insights into how events might play out. De-escalation in the Middle East would likely result in lower energy prices (both oil and liquified natural gas). Lower energy prices should help keep inflation subdued, potentially putting rate cuts by the U.S. Federal Reserve (Fed) back on the table for this summer. European central banks could continue their rate-cutting cycles with stable or lower energy prices on the horizon. Lower short-term interest rates would likely help global equity markets remain at or near all-time highs and could ignite a new bond market rally.

If the conflict with Iran escalates, however, we'd likely see a more challenging market environment: a spike higher in energy prices; a higher probability of sticky inflation levels globally; a Fed decision to hold U.S. short-term rates higher for longer; and softness in both equity and fixed income markets. In the event of escalation, energy and defense stocks may provide a hedge against other segments of the equity market that might be more challenged.

Special Global Equity Team

U.S. equity markets have remained resilient as investors digest the evolving headlines. We've seen increased volatility in oil prices and the fear of escalation has provided a tailwind for defense stocks, but we don't believe the markets have priced in a prolonged conflict. Rising commodity prices can affect the expenses for many industries, causing short-term margin reductions that investors have been very sensitive to in past conflicts.

Rather than trying to predict the future, our focus is on finding companies that can control their destiny via their financial flexibility. We believe companies that can use their balance sheet strength to continue investing through the cycle should be able to navigate periods of

uncertainty—and that their success is not dependent upon any particular outcome. As active managers, we'll continue looking to be opportunistic around any further volatility.

Growth Equity Team

Looking back at the seven trading days since Israel's surprise attacks on Iran and culminating with the completion of Operation Midnight Hammer on June 22, U.S. growth stocks have been stable and surprisingly calm.

Recent events—including the conflicts in Iran and Ukraine and the U.S. defense budget's surpassing \$1 trillion for the first time—reinforce our team's fundamental view that: 1) defense spending is a growing budget priority in the U.S. and globally and 2) military superiority is being rapidly redefined by technology.

Our portfolios maintain exposure to companies we believe are positioned on the right side of these changes, specifically in areas such as missile defense, drones and counter-drone defense, electronic warfare, and modern surveillance.

Systematic Core Equity Team

Tensions in the Middle East have flared, with the recent escalation between Israel and Iran sending ripples through global markets. While headlines continue to move fast, the market's reaction has been relatively subdued.

We're actively monitoring the situation and assessing its potential impact on our portfolios. Our investment process remains grounded in data and supported by thematic risk baskets that help us track and respond to systemic and emergent risks like these.

Market response to the conflict has been notably measured, with global equity markets so far showing resilience. While initial concerns suggested a potential spike in oil prices, the actual outcome has been the opposite. Following a limited and largely symbolic response from Iran to U.S. military actions, oil prices declined dramatically. Developments are fluid and ongoing. As we continue to monitor the situation closely, our focus remains on careful risk management and adherence to our investment process.

Total Emerging Markets Equity Team

The recent U.S. military strike on Iranian nuclear facilities has introduced heightened geopolitical risk, contributing to ongoing uncertainty across global and emerging markets. We continue to monitor the possibility of a full blockade of the Strait of Hormuz—through which roughly 20% of global oil and gas exports transit—though we believe such an outcome remains unlikely. In the event of a blockade, oil prices could surge beyond \$100 per barrel, posing significant challenges for oil-importing emerging markets.

We are also closely watching whether the tentative ceasefire between Israel and Iran is upheld and whether it can lead to more permanent stability. In the short term, geopolitical risks appear to have diminished due to Iran's measured response thus far and the potential temporary ceasefire. However, over the long term, issues surrounding Iranian nuclear armament could resurface in different forms. We remain vigilant as we monitor further developments.

Intrinsic Emerging Markets Equity Team

Emerging markets have remained notably calm following the bombing, largely due to muted moves in oil and the U.S. dollar—two key drivers of emerging market equity performance. A swift resolution would likely lift Middle Eastern equities. We're also watching China, which has so far maintained a measured tone. A shift to a more confrontational stance could further strain U.S.-China relations. Longer term, we're focused on China's posture toward Taiwan. While we believe the strike may deter near-term action, a prolonged conflict could shift that calculus and encourage China to move while the U.S. is occupied in the Middle East. For now, we remain

cautiously optimistic that the drivers that have propelled emerging markets higher in 2025 remain in place.

Resilient Global Equity Team

While actions taken by the U.S. against Iranian nuclear facilities on June 21 were historic, immediate market reaction has been muted. The potential for large- or small-scale retaliatory actions toward the U.S. homeland or personnel/assets remains an open question. In our experience, volatility in the equity markets has typically been short-lived when caused by geopolitical turmoil, and we're alert to the opportunity to possibly add to positions on a pullback.

The potential impact to defense spending in the U.S. and globally is an area of focus for the team. Would this lead to a deepening conflict with Iran (or other Middle East actors), which historically would be a positive for U.S. defense budgets (and therefore defense stocks), or does a quick and effective attack, without much retaliation by Iran, effectively remove a significant historical adversary in the region (thereby reducing the need for some spending)? If in fact the recent actions have neutralized Iran as a threat, could they lead to lower defense spending by neighboring countries in future years? We noted limited response/commentary thus far from other players in the Middle East. Reduced influence of Iran's regime could lead to improving relationships between the U.S. and other Middle Eastern countries. Ultimately, geopolitical risk may now decrease in the Middle East, which would be a positive and welcome surprise in a volatile year.

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