

Bombs over Tehran.



The U.S. and Israel bombing of Iran marks a significant escalation in an already tense regional dynamic. This action is likely to continue reverberating across diplomatic, security, and economic spheres and raises questions about near-term stability in the Middle East. Capital markets were roiled—as expected after an event like this—with equities opening lower along with a notable uptick in volatility, while oil markets ripped higher and traditional safe-haven assets such as gold and U.S. Treasuries were well bid.

The situation

Markets never like uncertainty. In 2025, a bombing campaign focused on destroying Iran’s nuclear capabilities lasted 12 days. This 2026 version may be a longer mission with the objective expanded from preventing acquisition of nuclear weapons to effecting regime change. The deaths of Iranian leader Ayatollah Ali Khamenei and other high-ranking individuals are obvious moves in that direction and have been reinforced by public comments from President Trump. However, it’s still quite unclear what a new Iranian government might look like. An election for the next supreme leader has been announced but not scheduled, Iran has some important rival internal factions, and there has, of course, been significant civil unrest in the country for several months.

There has been some collateral damage as Iran has lashed out with strikes not only of U.S. bases but on oil infrastructure and residential areas in the region. The Strait of Hormuz has been effectively closed (at this point more out of fears among commercial interests in response to the still-low number of attacks that have actually occurred), shutting in a significant amount of global oil capacity.

Our view

The situation is obviously very fluid, and we are closely monitoring it along with clients’ portfolios. The conflict is already snarling important supply chains for energy goods, most notably crude oil, which has the potential to spark headline inflation higher in the months ahead, although OPEC+, many of whose Arab-country members have long viewed Iran with suspicion if not outright hostility, has voted to increase crude output in response which could provide some marginal relief to higher prices. While there has been a still-limited number of attacks on shipping, seeking to block the Strait of Hormuz would certainly run afoul not only of Mideast rivals, but also China. China may well be Iran’s most important strategic relationship following the fall of the Syrian regime and the materially weaker positions of allied non-state actors Hezbollah and the Houthis. Of course, if the Iranian regime sees its survival at stake, its calculus might become more reckless, and soft targets outside the region could also be targeted. Despite those risks, echoing what we observed in 2025, the continued profound changes in Middle East political dynamics should play to the advantage of the U.S. and other Middle East powers once the latest tensions settle.

SEI consistently advocates for diverse portfolios that include inflation exposure (often times via commodities) and less volatile fixed-income allocations to provide a portfolio ballast in uncertain times. As always, we believe investors are well served by sticking to their long-term strategic allocations rather than chasing market noise or making panicked decisions. Disciplined portfolio rebalancing and active management (where appropriate given an investor’s circumstances) can benefit when uncertainty and volatility create excessive market dislocations.

Glossary and index definitions

For financial term and index definitions, please see: <https://www.seic.com/ent/imu-communications-financial-glossary>

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