Market Commentary – Israel/Iran Conflict

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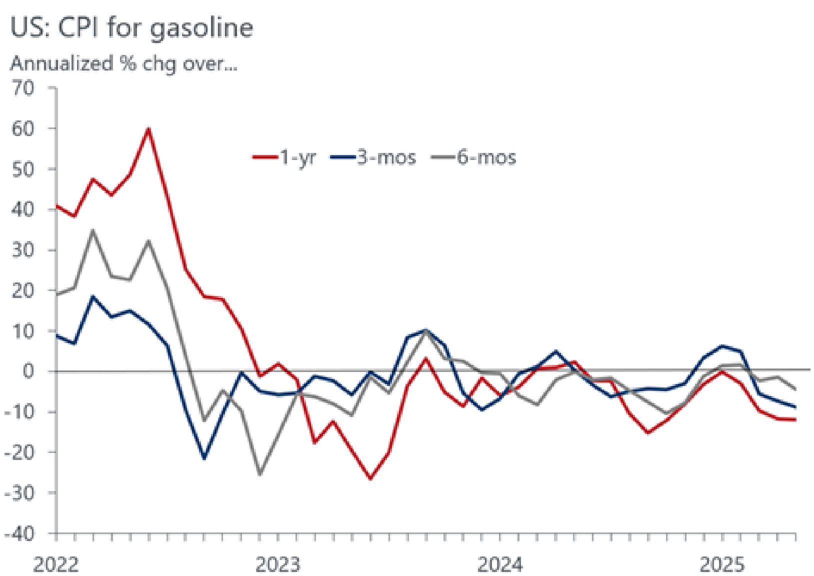
Thoughts and Prayers to those Impacted by this Conflict

We continue to watch the developments in the Middle East after Israel launched attacks on Iran's nuclear program and military leadership. This attack has been anticipated for some time.

While the human toll is by far the most important concern on our minds, it is also our job to determine the potential effects to the markets.

Market Reaction

Equities were slightly down on the first day of trading after the attack and global oil prices jumped higher. Energy prices over the past several months had been dropping, which helped bring inflation closer to the Fed's target of 2%. The Consumer Price Index ("CPI") for gasoline fell 2.6% between April and May, the fourth consecutive monthly decline. The recent declines left the CPI for gasoline down 12% on a year-over-year basis. The conflict between Iran and Israel will most likely reverse this trend.



Source: Oxford Economics/Haver Analytics

There are concerns that hostilities could disrupt oil shipments through the Strait of Hormuz, where around 25% of seaborne global oil supplies and 20% of global liquefied natural gas transit. Iran, a major oil producer and member of the Organization of the Petroleum Exporting Countries, holds a strategic position on the northern side of the strait. Any disruptions to Iranian oil supply could prompt OPEC to ramp up production more quickly. However, its ability to cushion the market would likely be limited if tensions escalate further.

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At this time, we do not expect any major impacts to the US markets. Historically speaking, the markets typically recover quickly from geopolitical events. However, if this conflict further escalates and/or other countries are drawn in, volatility will most likely increase, and we potentially could see investors flock to safe haven investments such as gold US Treasuries and other government bonds.

What does this mean for investors?

We must always be mindful of all risks in the markets including geopolitical ones. Obviously, there are already many risks in the markets that we are navigating including trade wars, tariffs, and heightened federal budget deficits. US corporate profits remain very healthy, and while US consumer spending and the labor markets are moderating, both have proven to be very resilient over the past several years. Investors should avoid making emotional decisions during these highly stressful times. The best plan is to stay diversified and disciplined to your investment plan.