



CWM Updates – March 2026

Middle East Conflict and its Implications

The recent military action by the United States and Israel against Iran is not just another regional conflict—it is part of a much larger global strategy. While the immediate goal is to weaken Iran’s military capabilities and reduce its influence in the Middle East, the broader objective is to send a clear message to other major powers, particularly Russia and China. This is as much about global positioning and deterrence as it is about Iran itself. We have written many times before about the need to pay close attention to the world’s power rebalancing from the post World War II system, and this is another episode in a many-season series we will be experiencing.

Key Takeaways

- This conflict is about bigger global strategy, not just one country.
- The U.S. likely wants a short conflict, while Israel may be willing to go longer.
- Oil prices may rise in the short term, but a long-term energy crisis is unlikely.
- The U.S. economy is still relatively strong (people are working and spending), but investors are becoming more cautious.
- Technology growth needs infrastructure to support it
- Private credit worries are causing pressure on all financials for now
- Government is still important with shutdowns, midterms, interest rates, and foreign policy decisions looming large.
- Markets may struggle to keep rising unless there is positive news from the Middle East.
- Geopolitical events like this often cause short-term market volatility, but markets usually recover.

- Rather than trying to trade short-term news, the focus should stay on improving long-term positioning.

Tensions between the United States and Iran are not new. They date back to the Iranian Revolution, after which Iran became increasingly opposed to U.S. interests in the region. Dictatorships need enemies to keep the masses distracted from what is truly causing the pain, and the US and Israel made perfectly easy candidates for it to the Iranian radical leadership. Over the decades, Iran has built a large and capable military, developed missile and drone programs, supported and coordinated armed groups across the Middle East, and pursued nuclear capabilities. Over time, it has amassed control over multiple countries all the way to the Mediterranean. Given this history, some form of confrontation was always a possibility. What is more surprising to strategists and investors, however, is how quickly the current conflict has expanded, involving multiple countries and raising concerns about further escalation. Politically, the US Administration is taking a major risk going against its election promises and choosing Israel-advised action for a second time over economic and diplomatic pressure. History will tell if the path taken was the right one.

US minimums:

- End of Iranian nuclear program
- Ballistic program degraded
- End to funding of terrorist organizations and militias
- Opening and maritime guarantees for the Hormuz pass with partial US controls

Israel minimums:

- No nuclear capacity in Iran
- Destroyed launch capability and production capacity for drones and missiles
- Destruction of Hezbollah, Hamas, Houthi military, and Shia-linked militias in Iraq and Syria.
- Lebanon independent of Iran and under Israeli security control.

Beyond the regional dynamics, this conflict also carries significant global implications. Iran has maintained close ties with Russia, including supplying drones used in the war in Ukraine. By targeting Iran, the United States is also weakening one of Russia's strategic partners, potentially limiting its military resources. At the same time, this action serves as a signal to

China, demonstrating the United States' ability to project power globally and its willingness to act decisively in defense of its interests.

One of the most immediate concerns in any Middle Eastern conflict is energy supply, particularly oil. Prices often rise quickly in response to geopolitical tensions, and this situation has been no exception. However, history suggests that these price increases are often temporary unless there is a major and sustained disruption to supply. A key risk to face is related to the Strait of Hormuz, a critical route through which a large portion of the world's oil passes. If Iran were to succeed in blocking this passage and significantly damage oil production in neighboring countries, energy prices could remain elevated for a longer period. At present, however, such an outcome does not appear to be the most likely scenario.

In fact, oil markets tend to stabilize over time, as global supply and demand forces reassert themselves. While higher energy prices can temporarily increase inflation, they can also slow economic growth, which in turn reduces demand and helps bring prices back down. For this reason, the long-term impact on the U.S. economy and on central bank policy may be more limited than initial reactions suggest.

From an investment perspective, geopolitical events like this often create short-term volatility but rarely alter long-term economic trends. Markets may react sharply in the moment, but they have historically recovered and continued to grow in the weeks and months that follow. The more important question for investors is not how to respond to immediate headlines, but how these events reinforce broader, long-term themes.

Several areas stand out in this environment. Defense and military technology are likely to see increased demand, as countries replenish and upgrade their capabilities. Cybersecurity may also become more important, given the risk of digital attacks during periods of conflict. Energy, particularly U.S. production, could benefit if global supply is disrupted, potentially allowing American producers to gain market share. In addition, infrastructure, materials, and advanced technologies such as artificial intelligence remain key drivers of future growth.

In a sweeping new report, Morgan Stanley warns that a transformative leap in AI is imminent, driven by an unprecedented accumulation of computing power at America's top AI labs. The intelligence explosion comes with a

brutal infrastructure constraint. The labs are converting Bitcoin mining operations into new computing centers, firing up natural gas turbines, and deploying fuel cells to stay ahead. The AI race goes on despite politics and higher interest rates. Hyperscalers are accepting the change in their business model, becoming asset heavy to stay in the race (Meta is building a facility in Louisiana as big as the largest one that Boeing has, other firms are building out their own energy network including nuclear powerplants).

Private credit firms continue to pressure financials since February 18, when one of the little-known players halted the planned withdrawals from one of their funds. Issues with marking-to-market and liquidity may continue and bigger players may continue restricting withdrawals from their funds, falling back on the clauses in the contracts, pulling share values of some financial companies further down. Investors should use their market power to nudge the regulators. No fund promising annual returns in high single digits or more is a safe bet. It might hold loans that could fall through, property that could be left vacant, or firms that could fail. Offering liquidity while investing in illiquid assets could be a cause for failure too, if the financing is not available or becomes too expensive. This is the reason that we, despite some interest from our clients, continue to avoid recommending private credit exposure in our client portfolios.

Government decisions and policy changes continue to be a significant factor to economic situation and asset markets jitters. With shutdowns, foreign policy, interest rates decisions, and midterms coming up, they will continue to influence sentiment of all investors.

Despite the uncertainty, the underlying U.S. economy remains relatively stable. Consumers are still spending, employment levels are holding up, and while inflation has increased, it is not out of control. That said, investor sentiment has become more cautious, with both individual and institutional investors taking a more defensive stance. Without positive developments in the Middle East, financial markets may find it difficult to sustain their upward momentum in the near term. However, this conflict may eventually also lead to more stability and safety in the Middle East and to prosperity to all its people.

Ultimately, this moment reinforces an important principle: successful investing is not about reacting to every geopolitical event, but about maintaining a disciplined focus on long-term opportunities. Rather than

attempting to trade short-term market movements, investors are better served by using periods of uncertainty to strengthen their positioning in areas that offer both growth potential and income stability. This discipline served us well during the last year's tariff shocks, improving our overall performance without increasing our assigned risk targets.

In that sense, the current environment is not just a challenge, it is also an opportunity. By staying focused on enduring themes and avoiding short-term distractions, investors can navigate uncertainty while continuing to build resilient, forward-looking portfolios.

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