

# Geopolitical Shockwaves: Markets Reprice Energy and Escalation Risk After U.S.–Israel Strikes on Iran

March 3, 2026

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The U.S. and European stock markets diverged Monday as investors absorbed the impact of coordinated U.S. and Israeli military strikes on Iranian targets and Tehran's retaliatory actions across the Middle East. European equities closed firmly lower, while U.S. markets staged a late-session recovery, finishing near unchanged levels after early volatility.

Beyond market dynamics, the conflict represents a profound human tragedy with uncertain duration and unpredictable geopolitical consequences.

From an investment standpoint, the immediate transmission channels are clear: energy supply risk, inflation expectations, and the probability of broader regional escalation. Oil price stability — particularly around the Strait of Hormuz — remains the critical variable shaping near-term asset performance.

## U.S. Markets

**U.S. equities staged a disciplined recovery Monday, finishing near unchanged levels** after opening sharply lower in response to the weekend's coordinated U.S.–Israeli strikes on Iran and Tehran's subsequent retaliation. What began as a broad risk-off session evolved into a measured “buy-the-dip” rotation, underscoring the market's underlying resilience.

**The S&P 500 closed marginally higher by 0.04%**, rebounding from an intraday decline of roughly 1.2%. **The Nasdaq Composite gained 0.36%** after falling as much as 1.6% earlier in the session, **while the Dow Jones Industrial Average slipped 73 points**, having been down nearly 600 points at its worst levels. Despite heightened rhetoric and early-session volatility, price action suggests that investors currently view the conflict as a contained geopolitical shock rather than a catalyst for recession or systemic financial instability. Equity markets remain within an established bull trend, with leadership concentrated in high-quality growth franchises and capital returning opportunistically on weakness. The decisive factor ahead will be whether crude stabilizes below the \$90 threshold or accelerates toward triple-digit territory. For now, markets are recalibrating risk — not capitulating.

## What Drove the Intraday Reversal

### Three forces stabilized sentiment:

**1. Oil retraced from peak levels.:** U.S. crude initially surged by more than 12% amid fears that an escalation of conflict could materially disrupt flows through the Strait of Hormuz. As prices pulled back from session highs — though still elevated by more than 8% — recession and inflation fears moderated, reducing pressure on cyclical equities.

**2. Leadership from mega-cap technology.:** Investors rotated aggressively into cash-rich, structurally advantaged technology leaders. Shares of Nvidia advanced roughly 3%, while Microsoft rose more than 1%. The bid reflects the market's preference for balance-sheet strength and durable earnings streams during geopolitical stress.

**3. Historical precedent:** Markets have repeatedly demonstrated their ability to absorb geopolitical shocks without causing structural economic damage. Investors appeared willing to lean into that pattern, particularly as broad financial conditions remain supportive and earnings momentum intact.

Bank stocks and industrial names such as Caterpillar recovered substantially from intraday lows, signaling that systemic risk fears were not escalating into a liquidity event.

### Geopolitical Backdrop

**The strikes reportedly resulted in the death of Iran's Supreme Leader, marking one of the most consequential geopolitical moments in the region in decades.** President Trump characterized the operation as a decisive move to neutralize strategic threats and indicated the conflict could extend for several weeks, potentially longer. Iranian officials have vowed retaliation, and reports of regional blasts heightened concerns of escalation.

From a market transmission standpoint, energy remains the critical variable. Iran is OPEC's fourth-largest producer, and any sustained disruption — particularly involving the Strait of Hormuz — would carry significant implications for global crude supply and inflation expectations.

### European Markets

European equities closed sharply lower as investors reacted to the weekend's large-scale U.S. and Israeli strikes on Iran and Tehran's retaliatory attacks across the Middle East. Risk sentiment deteriorated broadly, with major continental benchmarks firmly in negative territory as markets repriced geopolitical escalation risk, energy disruption concerns, and the prospect of prolonged regional instability.

**Energy producers outperformed decisively** as Brent crude surged to a new 52-week high, last trading near \$79.15, up approximately 8.6% on fears of supply disruption through the Strait of Hormuz. Norwegian oil and gas exporters led gains, with **Vår Energi** rising 7% and **Equinor** advancing 11%, reflecting direct leverage to higher realized crude prices.

**Defense stocks also rallied** amid expectations of sustained military engagement and increased European security spending. Gains were recorded in **Avio** (+~1%), **BAE Systems** (+~5%), **Saab** (+~4%), **Leonardo** (+3.4%), and **Renk** (+2.5%). The sector rotation reflects a classic wartime allocation shift toward energy security and defense infrastructure.

Conversely, the travel and tourism complex sold off aggressively amid disruptions to Middle East airspace and rising fuel costs. **Carnival PLC** fell nearly 9%, **International Consolidated Airlines Group** declined closely to 6%, **TUI AG** dropped 9.7%, and **Lufthansa** lost 2.3%. Airline equities were particularly vulnerable to operational disruptions and forward booking uncertainty.

From a macro perspective, the primary transmission channel for Europe remains energy. The region's structural reliance on imported crude makes it more sensitive to sustained price increases. A prolonged move in Brent toward the \$85–\$90 range would complicate inflation trajectories and potentially influence ECB policy expectations.

At present, markets are repricing geopolitical risk rather than discounting systemic financial stress. The energy spike's durability will determine whether this remains a volatility event or evolves into a broader growth concern.

### Energy & Commodities: The Strategic Core

Iran is the **fourth-largest producer in OPEC**, accounting for roughly 4% of global supply, and approximately 80% of its oil exports go to China. More critically, Iran controls access to the **Strait of Hormuz**, the maritime chokepoint through which nearly 20% of global oil flows.

Crude oil dynamics:

- **WTI crude** had already risen approximately 15% year-to-date before the conflict.
- **Prices advanced an additional 8%+** following the weekend escalation.
- **At approximately \$72 per barrel, WTI remains below its 5-year average** of \$76.

From a structural standpoint, the global energy landscape is markedly different from that of prior decades:

- The United States has been a net petroleum exporter for several years.
- Energy expenditures as a share of U.S. GDP have declined due to efficiency gains and the shift toward a service-driven economy.
- According to the U.S. Energy Information Administration, global oil supply is currently oversupplied, with that condition projected to persist through 2026.

A sustained move above \$100 per barrel would represent a materially different macroeconomic scenario, particularly for inflation and consumer sentiment. At present levels, markets appear to be pricing a contained disruption rather than a structural energy shock.

### Historical Context & Market Behavior

Over the past 15 years, geopolitical flare-ups — even those involving major oil-producing regions — have generally produced:

1. Short-term spikes in oil prices
2. Brief equity drawdowns
3. Limited long-term structural damage to diversified portfolios

Markets tend to price geopolitical shocks rapidly, then refocus on fundamentals such as earnings growth, monetary policy, and economic momentum.

### Periods of geopolitical stress typically reward discipline over reaction.

We continue to see relative opportunities in:

- **Cyclical and value sectors**, which often benefit from firmer commodity pricing.
- **U.S. mid-cap equities** with greater domestic revenue exposure and less vulnerability to global trade disruptions.
- Select **emerging markets and international technology-linked exposures**, where structural AI and digital infrastructure themes remain intact.

Attempting to reposition portfolios solely on the basis of geopolitical headlines has historically led to suboptimal outcomes. Tactical volatility does not negate long-term asset allocation principles.

### The Final Word

This is a dynamic geopolitical event with real humanitarian consequences and uncertain duration. Markets are responding rationally — repricing energy risk, adjusting inflation expectations, and modestly rotating toward defensive positioning.

However, structural fundamentals — diversified energy supply, U.S. export capacity, and a global economy less energy-intensive than in past decades — provide meaningful buffers against sustained systemic disruption.

Volatility may persist in the near term. Staying diversified, remaining strategically allocated, and avoiding emotionally driven portfolio decisions remains the most prudent course of action.

As always, disciplined planning and structured asset allocation — not political reaction — drive long-term investment success.

## Economic Data:

- **US ISM Manufacturing PMI:** fell to 52.40, down from 52.60 last month.
- **Germany Real Retail Sales YoY:** rose to 3.90%, compared to -1.60% last month.
- **Japan Unemployment Rate:** is unchanged at 2.60%, compared to 2.60% last month.

## Eurozone Summary:

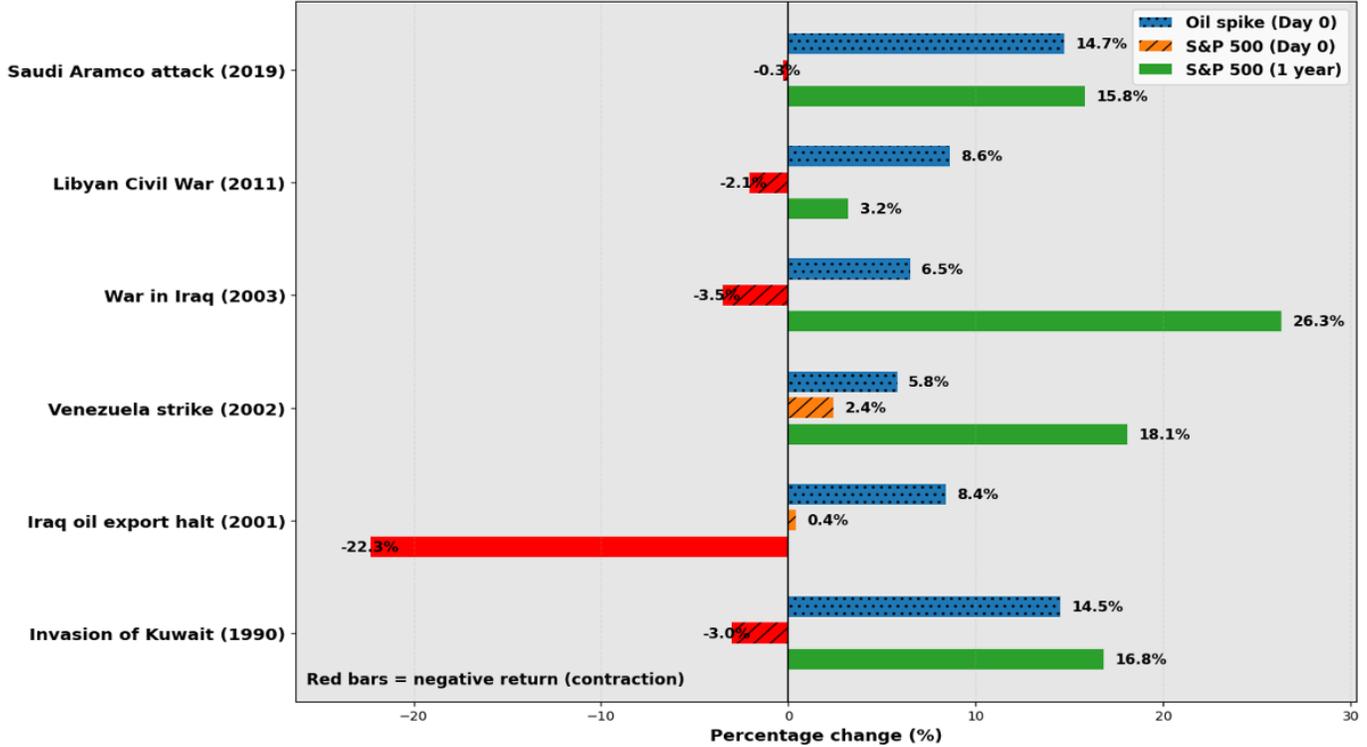
- **Stoxx 600:** closed at 623.36, down 10.49 points or 1.65%.
- **FTSE 100:** closed at 10,780.11, down 130.44 points or 1.20%.
- **DAX Index:** closed at 24,672.40, down 611.86 points or 2.42%.

## Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 48,904.78, down 73.18 points or 0.15%.
- **S&P 500:** closed at 6,881.62, up 2.74 points or 0.04%.
- **Nasdaq Composite:** closed at 22,748.85, up 80.64 points or 0.36%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,031.36, down 64.33 Points or 1.57%
- **Birling Capital U.S. Bank Index:** closed at 8,533.64, down 465.11 Points or 5.17%.
- **U.S. Treasury 10-year note:** closed at 4.05%.
- **U.S. Treasury 2-year note:** closed at 3.47%.

# The Impact of Oil Shocks on Equity and Commodities in Markets is Often Short-Lived

Oil Shocks vs. Equity Outcomes by Event



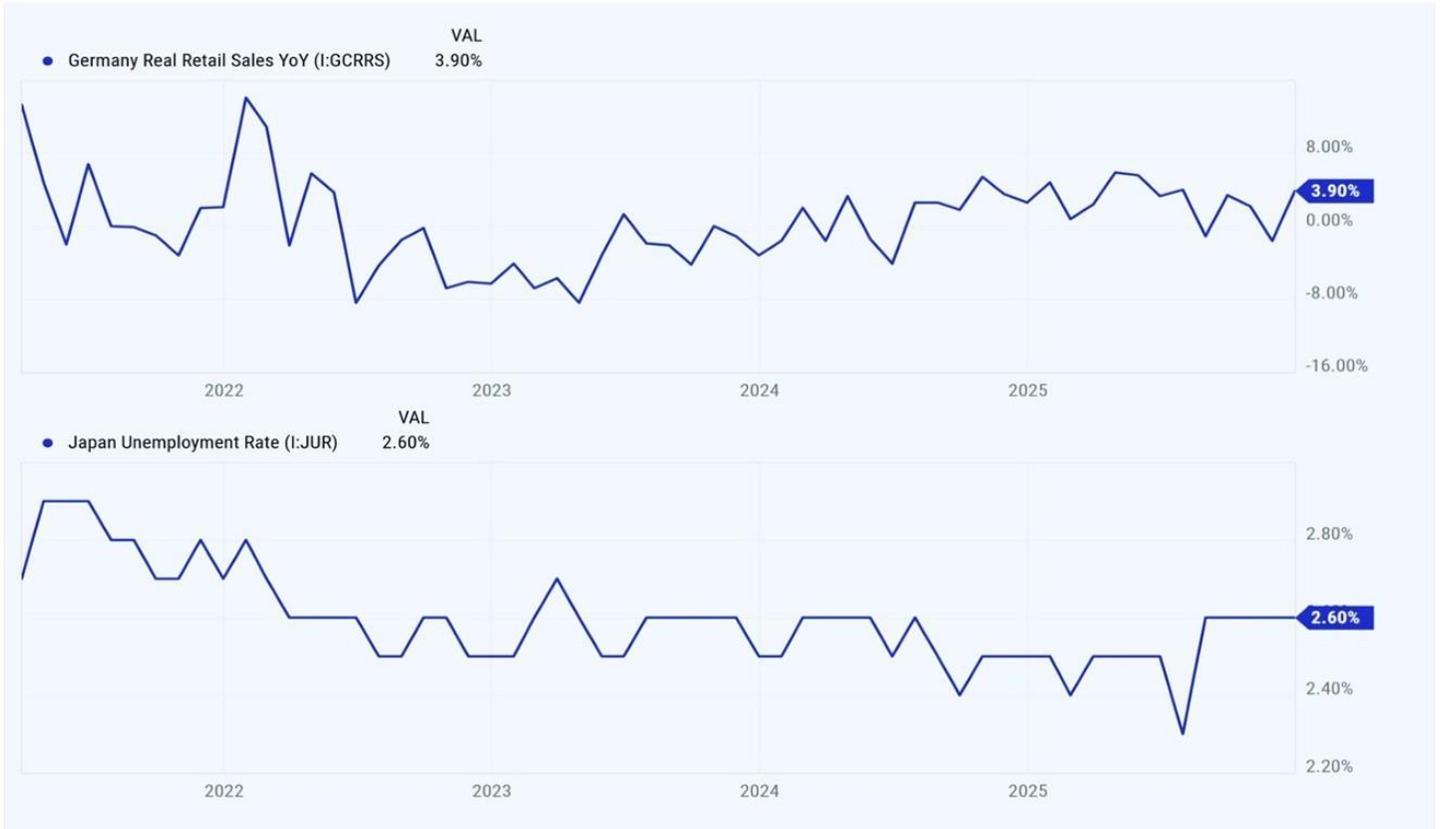
# US ISM Manufacturing PMI; US ISM Manufacturing New Orders Index; US ISM Manufacturing Employment Index & US ISM Manufacturing Prices Paid Index



	VAL
● US ISM Manufacturing PMI	52.40
● US ISM Manufacturing New Orders Index	57.10
● US ISM Manufacturing Employment Index	48.10
● US ISM Manufacturing Prices Paid Index	59.00



# Germany Retail Sales & Japan Unemployment Rate

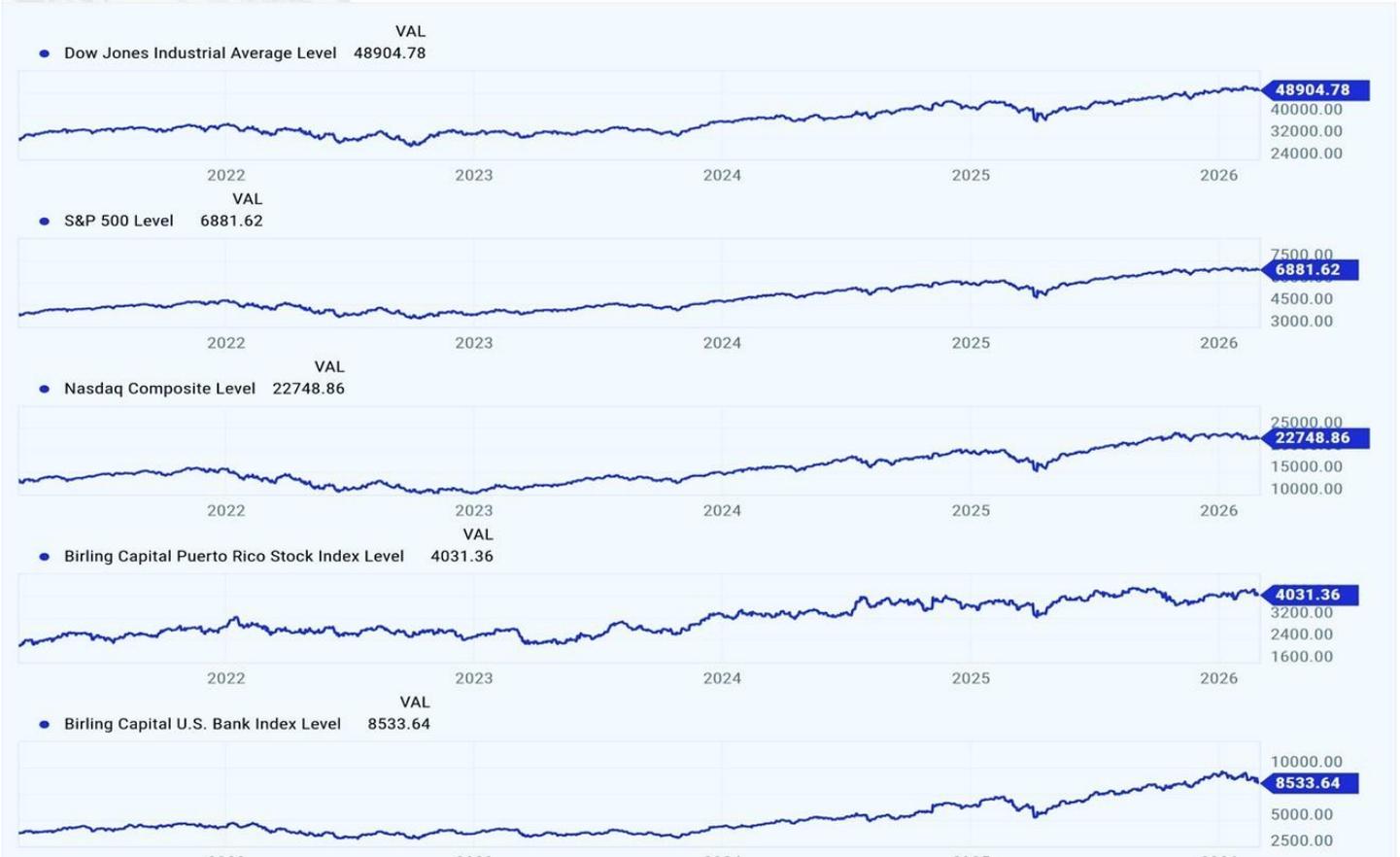




# Wall Street Recap

## March 2, 2026

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