

US-Iran Conflict Escalates: What Investors Should Watch Now

Military action against Iran has increased escalation risk and may now make Iranian retaliation, energy disruption, and conflict duration the key market variables to watch.

On February 28, the US and Israel launched direct military strikes on Iranian territory, marking a decisive escalation in a long-running confrontation that has now moved from coercive diplomacy and shadow conflict into overt interstate warfare. President Donald Trump has confirmed that US forces are conducting “major combat operations” alongside Israel, framing the campaign around degrading Iran’s missile capabilities, preventing nuclear reconstitution, and applying maximum pressure on the Iranian regime.

This shift matters for markets not because war itself is new in the Middle East, but because crossing these thresholds meaningfully raises escalation risk and expands the set of plausible economic outcomes over the coming days and weeks.

What Has Happened

Joint US-Israeli strikes have hit multiple Iranian cities, including Tehran and key military and industrial hubs, targeting missile infrastructure and regime-linked facilities. The Pentagon has named the operation “Operation Epic Fury,” underscoring that this is not a one-off signaling strike but an open-ended military campaign with the maximalist goal of regime change.

Iran has already retaliated, launching ballistic missiles toward Israel, US regional assets, and neighboring countries. Missile and air-defense activity have been reported across Israel and the Gulf, while several countries hosting US bases have closed airspace and diverted commercial flights.

Why This Is Different

From an investor perspective, the key distinction is that the US has now crossed from deterrence to direct warfare against Iran. Two implications follow:

- **First, Iran’s incentives have changed** — Public US rhetoric has moved beyond narrow military objectives toward maximum regime pressure, which reduces Tehran’s incentive for restraint and raises the probability of sustained retaliation rather than symbolic response.
- **Second, the conflict has widened geographically** — What began as strikes inside Iran has already extended to Israel and the Gulf, increasing the risk that third-party states and critical infrastructure are pulled into the escalation cycle, even unintentionally.

Three Key Variables to Watch

The market impact from here depends less on US intent—which is now clear—and more on Iranian choices.

- **Scope of retaliation** — Iran can calibrate its response along a wide spectrum, from limited missile fire toward Israel to sustained attacks on US bases or regional partners. The broader the target set, the higher the escalation risk.

Insight from sub-adviser Wellington Management



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Key Points

- Direct US-Israeli strikes on Iran mark a shift from deterrence to open warfare, materially raising geopolitical and market risk.
- With US intent explicit, the scale and targets of Iranian retaliation now determine escalation and downside risk.
- Even limited disruption to Gulf energy flows could drive volatility, while a prolonged campaign would deepen risk premia.¹

- **Energy infrastructure and shipping** — Full closure of the Strait of Hormuz remains a low-probability outcome, but partial disruption, harassment of shipping, or attacks on energy facilities would be enough to generate significant oil price volatility and risk premia.
- **Duration of operations** — Battle damage assessments will determine whether follow-on US strikes are required. If initial attacks fail to significantly degrade Iran's missile or nuclear-adjacent capabilities, the campaign could extend in time and scope.

Market and Macro Implications

In the near term, markets should expect a risk-off bias, driven primarily by energy and geopolitical uncertainty rather than immediate economic damage.

- **Energy** — Oil prices face asymmetric upside risk. Even without physical supply losses, higher insurance costs, shipping disruptions, and geopolitical risk premia can move prices meaningfully.
- **Inflation and policy** — An energy shock at this stage would complicate the global disinflation narrative and reinforce central bank caution, even if growth softens elsewhere.
- **Risk assets** — Equity and credit volatility are likely to remain elevated until there is clarity on whether Iran is signaling a ceiling or preparing for wider escalation.

Structurally, the episode reinforces my longer-term investment themes around energy security, defense, dual-use technologies (e.g., artificial intelligence), cyber capabilities, and geopolitical fragmentation.

Bottom line

The US decision to strike Iran directly has shifted markets into a regime in which tail risks temporarily matter more than base cases. A full regional war remains unlikely, in my view, but the distribution of outcomes has widened materially. Investors should focus less on headlines and more on escalation signposts: Iranian targeting choices, energy infrastructure security, and signals of whether either side is seeking a ceiling or preparing for a prolonged confrontation.

As events remain fluid, clarity will come not from rhetoric, but from actions over the next several days. We will continue to monitor geopolitical developments and the risks and opportunities they create for investors.



In the near term, markets should expect a risk-off bias, driven primarily by energy and geopolitical uncertainty.

If you're concerned about the impact of geopolitical events on your portfolio, please reach out to your financial professional.

¹Risk premia is the investment return an asset is expected to yield in excess of the risk-free rate of return.

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