

## Wars and their market impact: What the historical record says

Devina Mehra | 13 March 2026



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### SUMMARY

Every major conflict sparks fears and market turmoil. Yet, the past half century (or more), from the two earlier Gulf wars to the US bombing of Libya, shows that conflicts have no lasting impact on stock markets. While they get shaken, they recover soon enough.

These are sombre times for the world. The big conflict in West Asia is giving everyone the jitters. For readers of a business paper, the main questions would be related to its impact on markets. Before coming to that, here's a bit of a background with the caveat that I am not a geopolitics expert. Nevertheless, what I have done is look at history, facts and data.

As I had pointed out in January in an interview, Iran is not a small country. It is more than half the area of India. And if you strike Iran, there will be adverse

consequences. It is not a country you can overpower very easily. It has an arsenal. It has military forces. And probably more of a stomach to take casualties than the US alliance does. Moreover, Iran's geography—with mountains and salt deserts—is such that ground warfare is nearly impossible.

I, for one, never understood what the end game of the US-Israeli strikes was. This is not the place to go into the details of why regime change is almost impossible with current tactics.

On the other hand, Iran has been strategic in its chess game by striking economically. The cost of neutralizing an inexpensive drone is orders of magnitude higher. But it has also been working to increase the risk perception of the region and make the economic cost of the war prohibitive. It did not need to close the Strait of Hormuz, just make ship passage uninsurable.

Plus, Iran has managed to shake the 'safe haven' image of US allies in the region. Possibly, its game is to get the Gulf countries to pressure the US to stop the conflict. Those appear to be Tehran's objectives, and to an extent, I would say that they have succeeded.

Coming to financial markets, we did this study just before the Russia-Ukraine war started in 2022. We went back over 50 years and looked at every single major geopolitical event: the two Gulf Wars, Afghanistan, 9/11, the US bombing Libya, etc. And what we found was that in every case, there was turmoil in stock markets just before and after the incident, but in six months to one year, markets had forgotten about the disruption.

We did not have enough data points for a statistical study, but the exercise did not need to be statistical because the same thing happened each time. I could not find an exception to the rule. At times, there was some residual impact on commodities, but not on stock markets. The only markets impacted a year later were those hit directly by the conflict.

On the other hand, conflicts themselves don't get resolved that easily. Even when the adversaries were completely mis-matched, as with the US versus Vietnam or versus Afghanistan, the bigger guy could not win even after seven years and 20 years respectively.

If you focus narrowly on markets, wars have historically not impacted them beyond a little at the start. That's also what we saw with Russia-Ukraine, even though the war continues four years later. Six months after the start of that war, I remember headlines in Indian newspapers that the market had forgotten about it.

While we had done the exercise going back a little over five decades, a recent piece in *Financial Times* entitled, ‘On ignoring geopolitics, buying bubbles and hoarding gold’ went back over a century and included the two World Wars which killed tens of millions of people, only to come to the same conclusion: that it is not worthwhile selling out due to geopolitical upheavals.

The big dislocations in markets have not been due to geopolitics. Extreme crashes were due to other reasons, from the 1929 Great Depression to the 2000 tech crash to the 2008 financial crisis.

As far as oil is concerned, let me tell you what we did on oil a few weeks ago. It was not a call that this conflict would break out. However, looking at the trajectory of oil prices at the time, it appeared to us that the risk-reward equation was in our favour in terms of oil going up. Around the beginning of February, we further underweighted US equities and increased the commodity exposure of our Global multi-asset fund.

Nevertheless, we know that every time there is a conflict in the Gulf, oil prices go up. But remember that no one wants the flow of oil to stop. Whether it’s an old ruler, a new ruler or an invader, everyone wants the crude oil trade to continue. That is the region’s cash cow. Whether it is Saddam Hussein or the ISIS, nobody disrupts oil flows beyond a point. We can all guess that the US would not be too interested in Iran (or Venezuela) if the latter was not a major oil producer. In other words, everyone is there for the oil.

This time, there has been a little more of a supply squeeze on oil, although the US has reportedly shown displeasure over Israel’s targeting of Iran’s oil facilities, which suggests that America does not want such damage inflicted.

Leaving aside the humanitarian questions that every war raises, as far as the stock markets are concerned, going by history, I do not expect any significant lasting impact of the latest flare-up.

Crude was anyway expected to rise a bit and you might see some news-driven gyrations there, but eventually it will settle down to a more normal—albeit perhaps an upward—trajectory. Also remember, we did live with \$100-plus oil around 15 years ago, that too in the middle of a global recession. So even that is not the end of the world.

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*The author is chairperson, managing director and founder of First Global and author of ‘Money, Myths and Mantras: The Ultimate Investment Guide’. Her X handle is @devinamehra*