JUNE 23, 2025

U.S. / IRAN UPDATE: MARKETS FADING ESCALATION RISKS

Executive Summary

- The U.S. airstrikes on Iran over the weekend came in the wake of escalating tensions between Israel and Iran, which saw the two nations exchange long range ballistic missiles over the prior 7 days.
- Impacts to global energy trade flows and the price of oil remain the biggest wildcard for financial markets as the new week begins.
- The situation in the Middle East remains fluid and markets are waiting for a response by Iran. Historical precedent suggests that markets tend to fade geopolitical flareups, and that investors should resist the temptation to react to volatility induced by geopolitical developments.

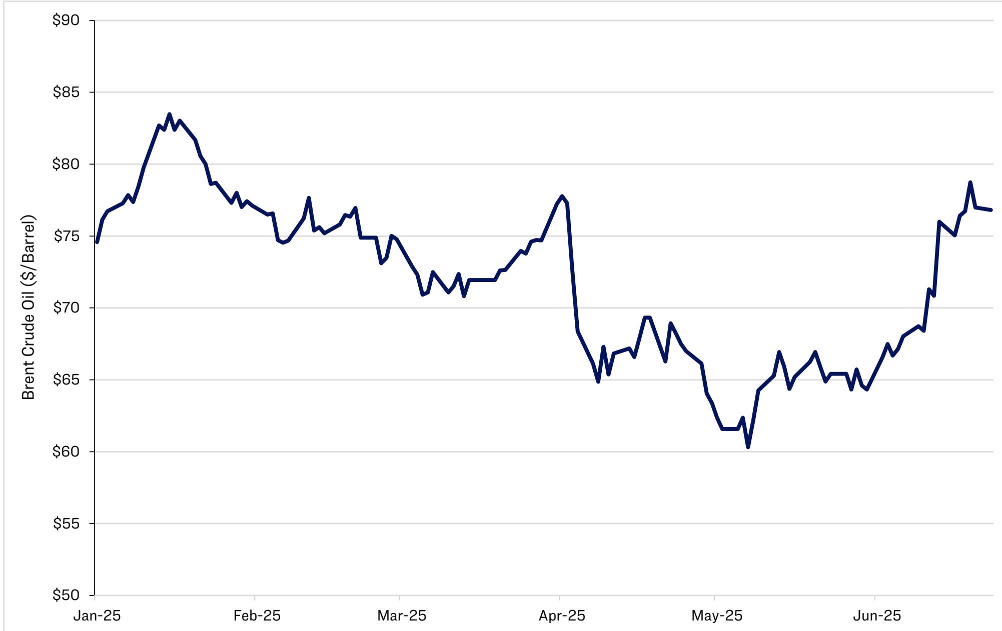
On Saturday, June 21, 2025, the U.S. military bombed several targets in Iran with the aim of disabling Iran's nuclear capabilities. The airstrikes came in the wake of escalating tensions between Israel and Iran, that saw the two nations exchange long range ballistic missiles over the prior 7 days. While it is too soon to tell if the U.S. attacks on Iran's underground nuclear facilities were completely successful, the aim of the U.S. government was to dismantle Iran's capability to produce a nuclear weapon.

As of Monday morning, June 23, the conflict has not broadened to target Iran's oil facilities, nor has Iran (or its proxies in the Middle East) responded with attacks on Western assets in the region or elsewhere that would signal an escalation. Absent that, impacts to global energy trade flows and the price of oil remain the biggest wildcard for financial markets as the new week begins.

Brent crude oil has risen 24% thus far in June, the largest monthly increase since November 2020 when the global economy was emerging from pandemic lockdowns (Figure 1). A persistent rise in oil and energy prices is another source of uncertainty for businesses and consumers (in addition to the tariff related uncertainty), and would be a headwind for the global economy, and in turn for equity prices around the globe. It is important to note that the U.S. is a net exporter of oil, and that the U.S. economy is far less sensitive to rising oil prices than it was in the 1970s and 1980s.

FIGURE 1

Brent crude oil prices have risen 22% so far in June.



Source: Bloomberg, TIAA Wealth Chief Investment Office.

20% of the world's crude oil passes through the Strait of Hormuz (the waterway that connects the Persian Gulf and the Arabian Sea). On Sunday, June 22, the Iranian Parliament called for the closure of the strait, but as of Monday morning (ET), June 23, Iran's Supreme Leader Ayatollah Khamenei has not approved the move. Traders suggest that if the strait was closed for even a short time, Brent crude (which closed near $80 barrel on Friday, June 20) could temporarily move as high as $120 per barrel or higher.

Most equity markets in the Persian Gulf states ended Sunday's session higher and Israel's stock market also rose by more than 1%, suggesting that traders in that region believe the bombing raid marked the peak in regional uncertainty. Note that so far in Q2 2025, Israel's major stock market is on track to post its best quarterly performance since 2003, despite the conflict in the region.

Trading on Monday morning saw modest (less than 1%) declines in European equites and a mixed performance for Asian equities. U.S. equities were set to open little changed from Friday's close after being down as much as 1% overnight Sunday into Monday. The U.S. dollar is 0.5% higher on Monday morning, but gold is down 0.3%, while oil prices are 0.5% lower versus Friday's close.

The situation in the Middle East remains fluid and markets are waiting for a response by Iran. Historical precedent suggests that markets tend to fade geopolitical flareups, and that investors should resist the temptation to react to volatility induced by geopolitical developments. That said, the next few weeks will determine the scale, ramifications and impact of this military operation by the U.S., and we will closely monitor these developments. A further escalation and a sharp rise in oil and gasoline prices could dent market sentiment and pose a fresh set of risks to the U.S. and global economies.

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