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Breaking Views: Briefings with the Institute

Market Implications of "Operation Epic Fury"

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Stephen Dover, Head of Franklin Templeton Institute, led a panel of investment leaders to discuss the global and market investment implications of the US “Operation Epic Fury” and the widening conflict in the Middle East. View the webinar replay.

Key takeaways for investors

- **Initial market impact was relatively muted.** For now, markets seem to be pricing in a short-lived crisis, but not a catastrophe—with limited impact on the United States and Europe. Markets are not pricing in the risks of prolonged conflict and thus could turn more volatile if it continues for weeks or months.
- **Political costs could be high.** On one hand, European governments might by and large welcome a weaker Iran. But on the other, the Russia-Ukraine war is still ongoing, so the timing of “Epic Fury” is not ideal. The US midterm elections take place in November, so a prolonged conflict could weigh on voter sentiment there.
- **Three scenarios, with three probabilities.** For our panelists, looking at market reactions across equity, fixed income and commodities, it looks like the odds of a short-term event are about 50%, a prolonged conflict about 30% and a longer-term, severe crisis about 20%.
- **Shipping bottlenecks could trigger a surge in inflation.** Oil prices rose only modestly following the weekend strikes. Currently, the oil market is not particularly tight, with more supply than demand forecast through 2030 (according to the International Energy Agency). However, prolonged closure of the Strait of Hormuz, a key shipping channel, would impact energy supplies longer-term and likely cause a jump in overall global inflation.
- **Natural gas also bears watching.** The global supply/demand dynamic for gas is tighter than for oil, and the Gulf represents some 18%-19% of global production. With winter nearing an end, Europe is in relatively good shape—for now. But again, blockage of the Straight could factor into the longer-term outlook.
- **Iran’s staying power unknown.** How long Iran can outlast the US-Israel bombing campaigns is uncertain. Can they wear down supplies? Are there enough interceptors to knock missiles out of the sky? We don’t know how many missiles Iran has, and Russia is not likely in a position to help Iran right now.
- **Beyond Iran, other Persian Gulf countries should be able to weather a short-term conflict.** The Gulf countries are generally in a position of strength, with good financial reserves. They can absorb some infrastructure rebuilding or an airport closing, but how long they can sustain bombs over an extended time is a risk that bears watching. Some have been unwittingly drawn into conflict.
- **For investors, our theme of broadening exposure remains intact.** We favor diversifying exposure internationally, within fixed income and equities, and across the capital market stack.
- **Our emerging market outlook remains constructive.** Emerging markets overall outperformed developed markets in 2025, and we still see a strong case for investing in them. According to our research, emerging markets remain undervalued, underappreciated, and under-owned by many investors. Higher-for-longer oil prices will cause some countries to struggle, but others would benefit. We believe themes that have been driving bullish performance, including technology and artificial intelligence, remain intact.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Equity securities are subject to price fluctuation and possible loss of principal. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. Investments in companies in a **specific country or region** may experience greater volatility than those that are more broadly diversified geographically. The government's participation in the economy is still high and, therefore, **investments in China** will be subject to larger regulatory risk levels compared to many other countries.

Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **Commodity-related investments** are subject to additional risks such as commodity index volatility, investor speculation, interest rates, weather, tax and regulatory developments.

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