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Geopolitical shocks: What moves first and why it matters

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GEOLOGICAL shocks are often treated as unpredictable events that markets simply react to. In practice, their impact tends to follow a recognisable pattern, particularly when energy supply is involved.

The Middle East conflict offers a useful case study in how these shocks move through markets and what investors need to watch in real time.

This analysis covers the most intense phase of the conflict, from Feb 27 to Mar 20. Within days of the Feb 28 airstrikes on Iran, oil prices surged, equity markets turned volatile and risk was quickly reassessed.

The episode followed a familiar pattern. Energy prices adjusted first, equity markets followed unevenly and outcomes diverged based on underlying exposure.

For investors and analysts, the value lies less in the timeline of events and more in what this sequence reveals about where to look and how to position themselves as the shock unfolds.

Energy markets lead

Energy markets were the first and most forceful point of impact. Brent crude oil prices rose from US\$72 a barrel to US\$100 as supplies through the Strait of Hormuz were disrupted.

The disruption extended beyond crude when Qatar declared force majeure on a portion of its li-



In the Middle East conflict, energy markets were the first and most forceful point of impact. By the time equities sold off in a meaningful way, oil had already repriced the shock. PHOTO: REUTERS

quified natural gas (LNG) exports, pushing European natural gas prices sharply higher.

Energy markets moved first and carried the most information. By the time equities sold off in a meaningful way, oil had already repriced the shock.

This is a recurring pattern. In conflicts that threaten supply, energy markets adjust immediately. Equity markets follow, but with a lag and often with more noise.

Equities: a tale of two exposures

Equity markets did not move in unison. The S&P 500 declined modestly and recovered steadily from mid-March onwards, reflecting the

US economy's relative insulation from direct energy supply risk.

India's Nifty 50 told a different story. It fell about 11 per cent within a few trading sessions, reached its lowest point during the Strait of Hormuz's closure, and had yet to recover to pre-conflict levels by the end of the observation window.

This was not incidental. India's structural position as one of the world's largest oil importers means that an energy supply shock and higher prices directly impact its import bill, current account balance, and domestic inflation trajectory.

The US, by contrast, is less exposed to imported energy; that dif-

ference showed up in market performance.

In practice, emerging markets are frequently grouped in portfolios, yet their sensitivity to energy prices varies widely. This means that when evaluating emerging market exposure, energy import dependence is not a secondary consideration.

In episodes like this one, it becomes the primary determinant of drawdown severity and recovery speed.

A useful question to ask in this instance would be: Which markets are most exposed to higher energy costs, and how quickly does that feed through to growth and inflation? Positioning around that question tends to explain more of the outcome than broad "risk-on/risk-off" thinking.

Gold held its ground

Gold held consistently above pre-conflict levels through the most uncertain phase of the period, easing only as equities began stabilising in mid-March.

This suggests that while uncertainty was real and sustained, markets were not pricing in a full systemic breakdown. Gold served as a reliable barometer of underlying investor anxiety, which is precisely the role a well-constructed hedge is meant to play.

Three phases, one framework

The market response across the observation window unfolded in three phases:

- Cautious alertness in the immediate aftermath of the airstrikes;
- Peak fear through the first two weeks of March as supply disruptions materialised; and
- Gradual stabilisation as the conflict narrative settled and supply rerouting had begun.

Each phase mapped closely onto specific conflict developments, confirming that markets were responding to substantive, supply-relevant events rather than sentiment noise.

Investors who could distinguish between these phases in real time were better able to avoid impulse selling at peak stress and to re-enter as volatility compressed.

What this means

This conflict reinforces several principles:

- **Energy supply infrastructure is the critical variable.** When a geopolitical shock threatens a major choke point such as the Strait of Hormuz, its impact on broader markets is fast, broad and asymmetric. Portfolios with explicit exposure to supply-route risk need to account for this mechanism before a crisis, not during one.
- **Not all equity markets are equally vulnerable.** Investors holding significant emerging market allocations in countries with high energy import dependence should routinely stress-test those positions against oil price scenarios.
- **Safe-haven positioning is**

most effective when it is pre-emptive. Gold's steady performance during this period rewarded investors who held it as a strategic allocation, rather than those who sought it reactively once fear had already peaked.

■ **Geopolitical risk events tend to follow a mean-reverting pattern once the acute phase passes, but that reversion is uneven across assets.** Residual uncertainty lingers longest in the assets most structurally connected to the conflict's economic consequences. Position sizing and exit timing need to reflect this asymmetry.

Geopolitical shocks are hard to predict, but their market impact is often more consistent than it appears.

Energy prices tend to move first, equity markets follow unevenly, and the largest effects show up in economies that are most dependent on imported energy.

For investors, the edge is not in forecasting the event, but in recognising this sequence early and acting before the full repricing plays out.

That means watching supply disruptions closely, understanding where portfolios are most exposed, and avoiding the instinct to react after volatility has already peaked.

This content has been adapted from an article that first appeared on CFA Institute Entering Investor.

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