

Chris Burrell's Market View Blog

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2026 U.S./Israel/Iran War

I'm finding it difficult to set aside my negative childhood memories from the 1970s during the two oil shocks. I remember my father, Thomas Ross Burrell OBE, being quite despondent during that period. Having averaged only five hours' sleep a night over the past week, one can have some sympathy.

Over the 694 days between 11 January 1973 and 6 December 1974 during the first oil shock, the NYSE Dow Jones index suffered the seventh-worst bear market in its history, losing over 45% of its value. In contrast, there was little market reaction during the second oil shock.

One of our team members has prepared a short summary of the economic and market reactions to both oil shocks, and we will include a link to that paper [here](#).

Recap of Prior Scenarios

In the first supplementary blog (10 March), under the heading *Possible Outcomes of the Iran Conflict*, we outlined three scenarios:

1. No change in the Iranian regime
2. A "Venezuelan solution"
3. Regime collapse and civil war

We remain no closer to understanding which outcome is most likely as a result of the events of the past fortnight.

Current Military Dynamics

The U.S. President continues to indicate that this will be a short engagement from the U.S. and that many of the targets have already been struck. A report this morning from President Trump states that if the Strait of Hormuz is not opened within 48 hours, he will commence attacks on Iranian power stations.

This is consistent with his predicted behaviour, which is to up the ante at every stage, until his desired result is achieved.

In response, Iran has threatened reprisals against the infrastructure of the Gulf States

The desired result is that Iran opens the Strait of Hormuz, which will allow the U.S. to cease bombing. While this is a simple deal, it remains the most probable likelihood.

Black Swan Risk

The longer the conflict continues, the greater the risk of a severe Black-Swan event. Already, there appears to have been material damage to oil and natural gas refineries in other Gulf states. There will, of necessity, be a recovery period even if a deal is struck swiftly.

Sentiment and Market Behaviour

To date, markets have lost some of their gains since their highs at the end of February. However, given the strong performance in January and February, a material number of stocks have not fallen more than 10% from their 31 December values.

This means that for those wishing to increase portfolio cash weightings to, say, 10-20%, it is possible to reduce holdings in, say, the overpriced Australian banks and some of the overpriced international stocks and ETFs. Given the stellar performance of portfolios over the last 5-10 years, the main game is simply to have a buffer for what might occur going forward.

Scenario Probabilities

1. Short-term engagement: 70% probability

Under this base case, the U.S. completes its objective and withdraws, maintaining only the forces required to protect oil flows through the Strait of Hormuz.

Probability has been reduced from 80% a fortnight ago to 70%, given recent events.

2. Prolonged conflict with severe disruption: 30% probability

In this scenario, the IRGC's sole aim becomes survival. They work to prolong the conflict and obstruct shipments through the Strait of Hormuz. This could replicate the 1970s oil shocks, which triggered severe inflation, aggressive central bank rate hikes and recessions lasting around 15 months in each of the two oil shocks.

Iran's recent attacks on Gulf-state oil infrastructure have increased the probability of both prolonged conflict and severe disruption. The assassination of a material part of the IRGC command structure may make it harder for them to back down or negotiate a settlement.

Recent Iranian ballistic missile launches may lead the US and Israel to conclude the regime is not sufficiently degraded, again prolonging the conflict.

Implications for Portfolio Management

During the corrections over the past decade, investors have typically taken one of three approaches:

1. Do nothing

This is based on the premise that the market always recovers and that if one simply bunkers down, prices will return to their previous levels on average.

2. Sell down the entire portfolio upfront

This scenario is still available, given the comments above that markets have not fallen in material amounts to date. That is not necessarily the position with all stocks or businesses, but it is a comment on average. In particular, the U.S. has been largely immune to material correction, given the strength of that economy and the AI investment dynamic.

3. Selective selling and selective buying during the drawdown

Portfolios that have outperformed have engaged in some measure of selling, particularly in realising gains from previous years where the businesses are viewed as being fully or overpriced.

On the other side of the ledger, we are already seeing some attractive businesses to add to portfolios.

The key question is whether it's too early to be undertaking material buying.

Final Thoughts

The situation remains highly fluid, with daily developments influencing sentiment and market behaviour. The scenarios outlined above offer a framework for navigating the uncertainty and forming a disciplined decision matrix in the weeks ahead.

Happy investing,
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