



LANDMARK

WEALTH MANAGEMENT

Middle East Conflict and Global Economic Issues

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As the horrific events in the Middle East continue to develop and command the world's attention, economic issues may seem relatively unimportant. However, the Israel-Hamas conflict creates geopolitical risks with potential global economic consequences, and it may be helpful to consider early projections and analysis of how these consequences might unfold.

Oil and Natural Gas

The economic impact of the conflict will depend on how long it lasts and whether it spreads beyond Israel and Gaza. In any scenario, the main global economic concern would be the oil supply, due to potential responses to Iran's role in sponsoring terrorism. The United States took control of the \$6 billion in funds that had been released to Iran for humanitarian purposes (in return for releasing U.S. prisoners), but it is not clear whether there will be further sanctions that could affect Iran's position as a global oil supplier or disruptions to oil transport through the Strait of Hormuz.¹

Israel produces a small amount of oil, but it is a more significant producer of natural gas — providing enough for domestic needs and exporting gas to Jordan and Egypt. One offshore natural gas field has been closed due to the conflict, but a larger one remains open. A natural gas pipeline to Egypt has been closed and the gas flow rerouted. Natural gas prices have risen significantly since the conflict began. However, they remain lower than this time last year, and other factors exert pressure on the global supply, so it is difficult to say how much of the price increase is the direct result of the Israel-Hamas conflict.³⁻⁵

Potential Outcomes

An analysis by Bloomberg Economics estimated that a limited ground war in Gaza might increase oil prices by \$4 per barrel (about 5%), shave 0.1% off global gross domestic product (GDP), and increase global inflation by 0.1%.⁶ Over the eight trading days after the attack, the spot price of Brent crude, the global benchmark, rose by \$4.13 per barrel, in line with the Bloomberg projection.⁷ The International

Monetary Fund (IMF) dropped its 2024 global GDP growth projection from 3.0% to 2.9% shortly after the attack. However, the IMF emphasized that it is still too early to judge the impact and the small adjustment reflected various factors.⁸

The effects could be stronger if the conflict spreads to surrounding areas like Lebanon and Syria. In that case, Bloomberg estimates oil might increase by \$8 per barrel, global GDP could drop by 0.3% and global inflation could rise by 0.2%. A direct war between Israel and Iran might seriously damage the global economy, but analysts consider that unlikely.⁹

Global and U.S. Economies

Any impact comes at a time when the global economy remains fragile, already strained by the ongoing Ukraine-Russia war, and facing challenges such as weak growth, economic fragmentation, high interest rates, and stubborn inflation.

On the other hand, the U.S. economy remains strong by many measures, and the United States is the world's largest oil producer and thus relatively insulated from small shifts in the global supply. While U.S. military support of Israel will add to expenditures that have already been increased by the Ukraine war, U.S. Treasury Secretary Janet Yellen has indicated that the United States can support both allies.¹⁰ Many U.S. technology companies have production or research and development facilities in Israel, but work in those facilities is expected to continue except for employees called up for reserve duty.¹¹ Thus far, U.S. stock market reaction has been muted. The S&P 500 Index was essentially flat (up 0.14%) over the eight trading days following the attack, with small ups and downs driven primarily by domestic news.¹²

Closing Thoughts

Clearly, it is still early, and we will share further communications if the economic situation changes. For now, while the Israel-Hamas conflict is a tragic humanitarian crisis, it should not change your personal financial strategy. Please feel free to reach out to us with any questions or concerns.

¹ ABC News, October 12, 2023

²⁻³ CBS News, October 10, 2023

⁴ CNN, October 10, 2023

⁵ Reuters, October 10, 2023

^{6,9} Bloomberg, October 12, 2023

⁷ U.S. Energy Information Administration, October 19, 2023

⁸ PBS News Hour, October 10, 2023

¹⁰ The Hill, October 16, 2023

¹¹ CNBC, October 12, 2023

¹² S&P Dow Jones Indices, S&P 500 Index for the period 10/6/23 to 10/18/23, retrieved from FRED, Federal Reserve Bank of St. Louis

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