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# Market Update Special Report:
# 3 Things to Know Now about the Middle East Conflict

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Oil prices reached nearly $120 per barrel on Monday morning, March 9, as key Middle East oil exporters cut production due to the ongoing conflict in Iran. This is a significant increase in oil prices compared to the relatively narrow $55 to $75 range over the past year.

Market volatility followed with the S&P 500 dropping more than 1.5% intra-day, continuing weakness from last week (down 2% last week). Luckily, cooler heads prevailed due to indications that the war against Iran could soon be over, sending the market into positive territory to end the day (up almost 1%) with oil prices settling at around $90 per barrel.

While the headlines surrounding the Iran conflict may be sensational and constantly changing, leading to more market volatility, it's important to consider the key facts and the true impacts they may have on global economies and markets:

1. **Iran Oil Exports are Focused on China.** While Iran is the fifth largest producer of oil in the world, more than 90% of Iran's oil exports are to China. Thus, the rest of the world isn't heavily dependent on Iran's oil production. That said, neither is China, Iran oil only represents about 11% of China's oil imports. Any oil shortages from Iran can simply be sourced from other trade partners of China.
2. **The Strait of Hormuz is the Key Risk.** Around 25% of oil shipped by sea passes through the Strait of Hormuz, a narrow corridor south of Iran, connecting major oil producers in the Middle East to the rest of the world (primarily Asia region). Unlike the U.S. and other global producers, the Middle East oil producers are less reliant on oil pipelines for transport due to their geographic location. The current conflict is creating blockage for this passage, resulting in supply chain delays and thus, higher oil prices.
3. **G7 Has Strategic Petroleum Reserves to Stabilize Markets.** The Group of Seven (G7), the seven major industrialized nations around the globe, has contingencies in place for situations that include a war in the Middle East. There is an established Strategic Petroleum Reserve (SPR), an emergency stockpile of government-owned oil reserves, designed to mitigate disruptions in oil supply and maintain stability for oil prices and economic activity. The G7 is prepared to release these reserves if necessary to stabilize markets.

In summary, despite the short-term headline noise resulting in market and oil price volatility, it's important to take a step back and look at the big picture. Global reliance on Iran oil is low, and there are contingencies in place for any supply disruptions from the Middle East. Thus, it's also important to focus on fundamentals, which tend to drive the market over the long-term. With the economy and stock market on stable footing, staying invested and diversified are more important than ever.

*Stay diversified, my friends.*

As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their goals.

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