MORNINGSTAR Wealth

Investment Insight

How Does the Ceasefire Impact Investors?

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A two-week ceasefire has been agreed upon between the US, Israel, and Iran.

Key points to be honored during the ceasefire include:

- All parties agreed to a preliminary 14-day pause in hostile actions to allow for more sweeping, and hopefully permanent, peace talks to take place. Talks are scheduled to begin in earnest in Pakistan shortly.
- Reopening of the Strait of Hormuz—Iran agreed to safely allow commercial shipping to resume through the critical waterway. Iran is attempting to charge a transit fee of up to $2 million per ship with the funds aiding in their post-war rebuilding efforts however, this charge remains a major point of contention in the ongoing negotiations.
- The US committed to pausing it's punishing, and ongoing aerial bombing campaign against Iranian targets.
- The US may maintain a naval presence in and around the Strait to help ensure safe passage of international vessels.

While significant progress has been made, important unresolved factors do remain:

- The US has shared a 15-point plan which covers more topics and suggests greater agreement than the 10-point plan Iran shared, with one key point of differentiation around Iranian Uranium. The US plan claims they will work with Iran to retrieve and remove enriched uranium supplies that have been buried underground while the Iranian plan claims an ongoing right to possess enriched uranium.
- Israel claims their current military operations in Lebanon will continue, however, Iran claims the truce covers all fronts, which would include Lebanon.
- Despite the truce announcement last night, multiple strikes were still reported across the Gulf after the agreement was meant to take effect.

The progress and willingness of all parties to come together and avoid worst cases scenarios for the time being is certainly a major step forward to peaceful resolution, but to be clear, this is nowhere near a final or permanent resolution. Hopefully all parties will "cool down" tensions during the ceasefire period and end the nearly constant threats, attacks, and destruction.

From an economic perspective the sooner oil and other transports can regain passage through the Strait of Hormuz the better, but it's unclear what percent of normal traffic will resume. It's likely countries and private companies will be somewhat cautious with resuming their ship traffic through the Strait as the situation is still quite fragile. Any reduction in energy prices is positive from an economic standpoint as the recent spike has had an immediate and significant impact on economic activity.

The same is true of interest rates. Global interest rates have spiked as higher energy prices have fueled inflation concerns which added another additional layer of costs on to economic activity. Businesses that are borrowers of capital are currently being punished by these higher rates while also seeing their customers being squeezed by higher input costs from energy. It's also clear that any drawdown in energy prices may be very temporary as recent history has reminded us how quickly they can rise if more uncertainty is once again introduced.

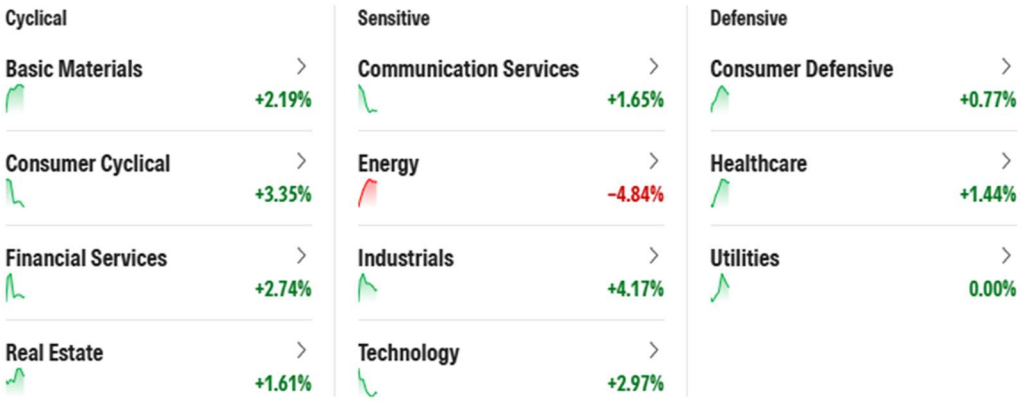
Market Reactions

Global markets are expectedly reacting quite strongly to the news of the ceasefire. Equity markets around the world are experiencing substantial rallies and global interest rates are dropping. Perhaps most notably the price of WTI Oil is down over $20 to $92.50 per barrel as of 9:15 AM CDT.

The US Equity Market is having its best day of the year with all segments rallying substantially as you can see per the Morningstar Style Box as of 9:15 AM CDT.



The rally is widespread from a sector perspective as well, with only the Energy sector understandably lower on the day as the price of oil is cratering.



Looking Ahead

As has been the case since the beginning of the conflict, we always remind long-term investors to stay the course. While it can be difficult for investors to stay invested amid periods of market declines, the same can be true during large rallies. Investors may be tempted to "take gains" and sell when they see sudden prices spikes. An emotional reaction in either case can be detrimental to long-term returns. Today is a good reminder that volatility occurs in both directions and remaining disciplined on the way up can be just as important as on the way down. Long run market rallies start with a single up day.

Neither the ceasefire nor today's bounce back rally do anything to change our long run fundamental and valuation-driven investment views. The economy is still likely to be resilient, corporate earnings are still forecasted to rise, and asset prices are still below where they began the year in most cases. In other words, while the first 3+ months of 2026 have felt like an untethered roller coaster ride, high level fundamentals have not shifted enough to cause meaningful changes in portfolio allocations or long-run return forecasts. However, investors have been reminded of the benefits of diversification - both geographically and sectorial - a phenomenon that should persist throughout the remainder of the year as the impact of the war has not been even, and neither will a resolution.

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