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Possible Impact of the Ongoing US–Israel–Iran Conflict on Indian Equities

Sensex: 80,239

Nifty: 24,866

Escalating US–Israel strikes on Iran have revived fears of oil disruption and global risk aversion. Historical evidence does not indicate a high probability of deep or sustained correction in Indian equities purely on geopolitical grounds. Corrections during past conflicts were typically shallow, sentiment-led and temporary.

Indian equities are driven more by sustained energy shocks and global liquidity than by war headlines. Short-term 5–7% corrections, temporary FPI outflows and volatility spikes remain plausible under heightened uncertainty. Structural market damage would require a prolonged crude oil shock materially widening the current account deficit and reigniting inflation pressures. Absent such a scenario, the pattern has been consistent: early shock, rapid repricing, subsequent stabilisation.

- **Oil Is the Decisive Transmission Channel.** For India, geopolitics matters mainly through crude oil, the current account and inflation expectations. Without sustained supply disruption, spillovers tend to fade.
- **Equity Corrections Have Been Contained.** Across conflicts since 2000, median drawdowns during intense phases were modest and reversals relatively swift.
- **Liquidity Cycles Dominate Foreign Flows.** FPI behaviour has aligned more with US monetary tightening and global risk appetite than with conflict intensity.
- **Volatility Spikes, Then Mean-Reverts.** Realised volatility typically rises during escalation but stabilises once uncertainty is priced in.
- **Rupee Weakness Has Been Limited.** Currency depreciation during conflicts has generally tracked oil and dollar strength rather than reflect structural external stress.
- **Gold Is the More Reliable Hedge.** Gold has consistently benefited from safe-haven flows; oil spikes have been sharper but often temporary.
- **Domestic Macro Context Matters More Than War Itself.** The 2011 correction reflected domestic and global macro fragility rather than geopolitical conflict alone.
- **Duration Determines Risk Severity.** Short conflicts have limited macro impact; prolonged energy disruption changes the equation.
- **Early Shock, Later Stabilisation.** Market stress, when it occurs, is typically front-loaded.

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I. Headline Escalation Versus Structural Risk

The conflict intensified on 28 February 2026 with coordinated US–Israel strikes on Iran, followed by retaliatory missile and drone attacks. Unlike the brief 12-day episode in June 2025, the current confrontation carries a higher probability of prolongation.

For India, exposure is concentrated in energy imports. Approximately 85% of crude requirements are imported, and nearly one-fifth of global oil flows transit through the Strait of Hormuz. A sustained disruption would widen the current account deficit, complicate inflation management and tighten financial conditions.

However, at present, the shock remains largely financial rather than physical. Markets are repricing risk premium rather than reacting to confirmed supply disruption. India also enters this episode with stronger buffers than in earlier decades—higher forex reserves, improved banking system capitalisation, deeper domestic capital markets and ongoing fiscal consolidation—reducing systemic vulnerability. Also, with considerable underperformance of Indian equities versus the other top ten peers since October 2024 despite superior macro fundamentals and strong domestic money flows towards equity market, Indian equities appear less vulnerable.

II. Transmission Channels to Indian Markets

The mechanisms linking West Asian escalation to Indian financial assets are limited and identifiable:

- **Risk-Off Sentiment:** Broad correction and tactical defensive positioning.
- **Foreign Portfolio Flows:** Temporary outflows amid dollar strength.
- **Currency Adjustment:** Higher oil import expectations pressuring INR.
- **Commodity Repricing:** Oil risk premium and gold safe-haven allocation.

Historically, the first three channels have proven temporary unless reinforced by global liquidity tightening or domestic macro stress. Oil remains the pivotal amplifier.

III. What History Reveals: Evidence Since 2000

Since 2000, twelve major conflicts have had direct or indirect relevance for India through oil shocks, regional spillovers or direct military engagement. Conflicts without material Indian linkage have been excluded.

Contrary to intuitive expectations, Indian equities delivered positive returns during most of these conflict periods. The Nifty 50 gained over the full duration of the majority of wars, with only 2011 and the brief 2025 India–Pakistan episode registering negative performance.

The 2011 correction is instructive. Although coinciding with Libya and Syria conflicts, the decline reflected domestic inflation pressures, fiscal imbalance, policy paralysis and global growth slowdown rather than war itself. Geopolitics acted as a coincident factor, not the primary driver.

During intense phases:

- Corrections were generally contained within single digits.
- Defensive rotation was inconsistent.
- Volatility spiked but did not persist.
- Oil price behaviour lacked consistent sustained escalation.
- Gold strengthened more reliably.
- Rupee depreciation remained modest and mean-reverting.

Markets appear to discount macro consequences rather than conflict headlines.

Table 1: Major Conflicts Relevant for India – 2000–26

Conflict	War		Intense Phase		Why Relevant for India
	Start	End	Start	End	
1 Gulf War	02-Aug-90	28-Feb-91	17-Jan-91	28-Feb-91	Oil shock, remittances, evacuation
2 Kargil Conflict	03-May-99	26-Jul-99	15-Jun-99	14-Jul-99	Direct military conflict
3 Afghanistan War	07-Oct-01	30-Aug-21	07-Oct-01	17-Dec-01	Regional security spillover
4 Iraq War	20-Mar-03	15-Dec-11	20-Mar-03	01-May-03	Oil prices, Gulf exposure
5 Israel–Hezbollah War	12-Jul-06	14-Aug-06	12-Jul-06	14-Aug-06	West Asia stability, oil sensitivity
6 Libya Civil War	15-Feb-11	23-Oct-11	19-Mar-11	23-Aug-11	Oil supply risk, evacuation
7 Syria Civil War	15-Mar-11	Ongoing	10-Jun-14	17-Oct-17	Regional instability
8 Yemen Civil War	21-Sep-14	Ongoing	26-Mar-15	21-Apr-15	Red Sea shipping risk
9 Russia–Ukraine (Full-scale)	24-Feb-22	Ongoing	24-Feb-22	02-Apr-22	Oil, fertilizer, inflation
10 Israel–Hamas War	07-Oct-23	Ongoing	07-Oct-23	24-Nov-23	Oil risk premium
11 India–Pakistan Conflict	07-May-25	10-May-25	07-May-25	10-May-25	Direct military confrontation
12 US–Israel vs Iran (2025 episode)	13-Jun-25	24-Jun-25	13-Jun-25	24-Jun-25	Strait of Hormuz risk

Source: Press coverage.

IV. Equity Market Behaviour: Resilience Under Stress

Across conflicts analysed:

- Median Nifty return during full war periods remained positive.
- Median drawdown during intense phases was approximately –4%.
- FPIs recorded net inflows in most episodes, with notable exceptions during global tightening cycles (e.g., 2022).
- One-month realised volatility rose temporarily but reverted quickly.

This suggests Indian equities are more sensitive to global monetary conditions and domestic macro fundamentals than to geopolitical developments per se.

Table 2: Impact of Major Conflicts on Indian Equities – 2000-26

Conflict	Nifty 50, % change		FPI flows, Rs. '000 crore		Realised volatility, 1-M		
	War	Intense war	War	Intense war	Before war	During war	During intense war
Gulf War							
Kargil Conflict	35.6	17.3	3.5	1.3			
Afghanistan War	15.6	18.9	0.0	0.9			
Iraq War	19.1	-7.0	0.0	0.8			
Israel–Hezbollah War	6.3	5.1	2.0	2.0			
Libya Civil War	-7.4	-8.8	6.0	9.4			
Syria Civil War	10.5	8.9		111.8	4.3	19.1	16.6
Yemen Civil War	10.2	-1.0		1.4	6.1	13.6	12.1
Russia–Ukraine	10.0	3.6		-55.1	12.6	13.2	11.2
Israel–Hamas War	10.7	0.8		-16.2	15.3	11.7	23.6
India–Pakistan Conflict	-1.5	-1.5	9.4	9.4	9.7	11.1	8.2
US–Israel vs Iran	0.6	0.3	5.6	5.6	13.7	5.6	5.6
Median	10.2	0.8	5.6	1.4	11.1	12.4	11.6

Source: CEIC. Note: Blank means appropriate data not available. For the ongoing conflicts, FPI numbers have been given only for the intense phase.

V. Commodities and Currency: Oil as the Pivot Variable

Oil remains the primary macro transmission variable. The median peak rise during intense phases was approximately 11%, typically sharp and front-loaded, followed by retracement once supply fears stabilised.

Gold acted as a consistent hedge, with median peak gains in mid-single digits. Gains were less volatile than oil but occasionally more persistent.

The rupee's median depreciation during intense phases was limited—roughly 1–1.5%—and generally reversed as oil stabilised. Currency movement tracked global dollar strength and risk sentiment more than structural external financing stress.

India's improved macro buffers relative to earlier decades mitigate amplification risk.

Table 3: Impact on Commodity Prices and Rupee – 2000–26

Start year	Conflict	Oil, Price change, %		Gold, Price change, %		INR-USD	
		War	Intense war	War	Intense war	War	Intense war
1990	Gulf War	-2.2	-38.4	-2.2	-10.8		
1999	Kargil Conflict	19.9	21.4	-11.3	-1.9		
2001	Afghanistan War	6.2	-13.6	9.4	-5.7	2.1	-0.3
2003	Iraq War	15.8	-16.9	19.0	-0.9	1.5	-0.7
2006	Israel–Hezbollah War	0.9	2.8	-0.1	2.1	0.8	0.7
2011	Libya Civil War	8.2	-4.6	19.6	32.7	10.0	1.9
2011	Syria Civil War	-3.0	-17.5	8.9	1.2	4.7	2.7
2014	Yemen Civil War	-2.6	13.0	13.2	0.9	3.5	0.4
2022	Russia–Ukraine	-7.7	6.9	28.0	2.0	5.0	1.6
2023	Israel–Hamas War	-8.0	-8.0	53.6	9.4	3.7	0.1
2025	India–Pakistan Conflict	3.0	3.0	-1.6	-1.6	1.3	1.3
2025	US–Israel vs Iran	-2.4	4.9	-1.2	0.1	0.7	1.5
	Median	-0.6	-0.9	9.1	0.5	2.8	1.0

Source: CEIC. Note: Blank means appropriate data not available.

VI. Worst-Case Metrics: Stress Without Dislocation

Worst-case analysis across conflicts reinforces the broader pattern:

- Median Nifty drawdown during intense phases: ~-4%.
- Reversals generally rapid.
- Oil spikes occasionally sharp but rarely sustained.
- Gold consistent but controlled upside.
- Rupee weakness limited and mean-reverting.

Only when domestic macro fragility coincided with external shock did market stress deepen meaningfully.

Table 4: Worst Case Scenarios During Conflicts

	Nifty 50		INR/USD		Oil		Gold	
	Max drawdown (%)	Reversal (month)	Max drawdown (%)	Reversal (month)	Peak (%)	Reversal (month)	Peak (%)	Reversal (month)
Gulf War					-26.8		-5.00	
Kargil Conflict	-0.57	0.03	0.60	94.03	21.4	252.2	1.43	0.03
Afghanistan War	-1.38	0.03	0.38	0.03	-0.4		0.43	0.03
Iraq War	-7.93	0.97	0.25	0.03	-1.2		-0.88	
Israel–Hezbollah War	-5.89	0.07	1.60	0.80	7.0	0.1	6.87	0.03
Libya Civil War	-9.83	5.67	1.90		11.0	0.0	33.27	20.07
Syria Civil War	-8.94	0.03	16.45		4.2	0.0	9.16	1.73
Yemen Civil War	-2.22	2.87	0.93		13.2	3.2	1.56	0.07
Russia–Ukraine	-7.03	0.07	3.08		34.1	0.3	6.41	0.87
Israel–Hamas War	-4.05	0.13	0.15	0.70	7.4	0.1	9.77	
India–Pakistan Conflict	-1.52	0.07	1.30	0.00	3.0	5.3	-0.05	
US–Israel vs Iran	-0.68	0.03	1.49	0.30	13.5	0.0	1.78	0.03
Median	-4.1	0.1	1.3	0.3	11.0	0.1	6.4	0.1

Source: CEIC. Note: Max drawdown/peak means the lowest/highest points during the intense phase of the war. Reversal means the price/index/currency levels reverting the pre-intense phase level. reversal period is the time taken to reach these level post the intense phase. For Nifty and INR it means recovery to earlier level and for gold and oil correction to the pre-intense phase level. Blanks in reversal columns imply levels did not revert.

VII. Assessment

Historical evidence does not indicate a high probability of deep or sustained correction in Indian equities purely on geopolitical grounds. Short-term 5–7% corrections, temporary FPI outflows and volatility spikes remain plausible under heightened uncertainty. Structural market damage would require a prolonged crude oil shock materially widening the current account deficit and reigniting inflation pressures. Absent such a scenario, the pattern has been consistent: early shock, rapid repricing, subsequent stabilisation.

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