



Home > Insights > Market views

Market View

Will Middle East tensions spark a 1970s-style inflation wave?

from [Sanjay Rijhsinghani](#) Partner, Chief Investment Officer | Management Board

Date 6 March 2026

Reading time 9 minutes



At a glance

Rising tensions in the Middle East have prompted comparisons to 1970s oil shocks.

Energy markets are experiencing volatility, but global economy is less reliant on oil.

Strait of Hormuz disruption will be key, although structural differences suggest prolonged inflation remains unlikely.

A quote attributed to Mark Twain suggests that while history does not repeat itself, it often rhymes. Few historical echoes resonate more strongly in financial markets than the oil shocks of the 1970s, when geopolitical conflict in the Middle East sent energy prices soaring and led to inflation across developed markets.

With tensions in the region once again in focus, investors are asking whether today's environment risks triggering 1970s-style inflation, or whether the parallels are more superficial than structural.

Two oil shocks, two inflation waves

The inflationary era of the 1970s was shaped by two major energy disruptions.

The first followed the Arab oil embargo of 1973, imposed by Arab members of OPEC in response to Western support for Israel during the Yom Kippur War. Several oil-producing states cut production and halted exports to the US and other industrialised nations, sharply reducing global supply. Oil prices quadrupled within months, rising from roughly \$3 to nearly \$12 per barrel by early 1974 and triggering a global energy crisis that pushed inflation higher across advanced economies.¹

A second shock arrived in 1979 following the Iranian Revolution. Political upheaval and strikes sharply curtailed Iranian oil production, removing significant global supply. Crude prices more than doubled over the following year.² The Iran-Iraq War afterwards compounded the disruption.

These events fed directly into inflation. US consumer price inflation peaked at roughly 11% in 1974 before falling back, then surged again to around 13% in 1979. Inflation only retreated in the 1980s following aggressive monetary tightening.³

Parallels today

Recent geopolitical developments have revived memories of these energy-driven inflationary

episodes.

Russia's invasion of Ukraine in February 2022 triggered a major energy shock, particularly in Europe. As sanctions and supply disruptions reshaped global energy flows, prices surged. Russia curtailed pipeline gas deliveries to Europe, forcing governments and companies to scramble for alternative supplies.⁴

The resulting energy cost surge led to the global inflation spike seen between 2021-2023. Higher fuel and utility costs fed directly into consumer prices and production expenses, while tight labour markets amplified inflationary pressures. Major central banks launched one of the most aggressive rate-hiking cycles in decades.

Europe moved to rapidly reduce reliance on Russian energy. The European Union, which at times sourced around 40% of its gas from Russian pipelines before 2022, has diversified supplies through liquefied natural gas (LNG) imports and new energy partnerships while accelerating efficiency measures.⁵

Recent geopolitical tensions in the Middle East have again sharpened focus on energy risks. The attacks in Israel on 7 October 2023 and the subsequent widening of regional tensions – including exchanges involving Iranian-aligned groups and direct US and Israeli strikes in early 2026 – have heightened market sensitivity to potential supply disruptions.

However, the structure of today's global economy and energy markets differs markedly from the 1970s.

Why this time may be different

One of the most important differences is how much oil the global economy actually needs to generate growth.

In the 1970s, advanced economies were heavily industrial- and manufacturing-driven. Oil was central to transportation, electricity generation, heating, petrochemicals and heavy industry. Supply disruptions therefore led to higher production costs and consumer prices.

Economies are far more energy efficient today. Technological improvements, stricter fuel standards and shifts toward less energy-intensive industries mean that far less oil is required to produce each unit of economic output. Oil consumption per unit of GDP in advanced economies has fallen dramatically since the 1970s.

Developed economies have also become increasingly service oriented. Finance, healthcare, education, technology and professional services now account for most of the output. These industries are less energy-intensive than heavy manufacturing, meaning oil price shocks have a more muted impact on overall economic activity.

Supply dynamics have also evolved. The global oil market is now more diversified geographically and technologically. The rise of US shale production, alongside increased output from countries

outside the Middle East, has reduced concentration risk. Strategic petroleum reserves and liquid futures markets also provide buffers that absorb short-term supply disruptions.

Oil prices still matter. Higher crude prices can raise transportation costs, airline fares and freight rates while affecting consumer sentiment. A sustained spike would almost certainly push headline inflation higher.

However, the transmission into the broader economy is weaker than it was half a century ago. The same percentage increase in oil prices today is likely to produce a smaller and less persistent inflationary impulse than in the 1970s.

OPEC's incentives have changed

Another important difference lies in major oil producers' incentives.

In 1973, the oil embargo was explicitly deployed as a geopolitical tool. Arab producers restricted exports to exert political pressure on Western governments supporting Israel. At the time, many oil-exporting countries were less integrated into global capital markets and less economically diversified.

Today, countries such as Saudi Arabia and the United Arab Emirates are pursuing ambitious economic transformation programmes designed to reduce long-term dependence on hydrocarbons. Saudi Arabia's Vision 2030 reforms – including projects such as The Line, a 170-kilometre, car-free city – aim to expand sectors such as tourism, logistics, technology and financial services.⁶

These plans require sustained investment and stable revenue streams. While temporarily higher oil prices can boost government income, prolonged supply disruption risks undermining global growth, accelerating the energy transition and discouraging international investment. Major producers therefore have stronger incentives to support market stability rather than sustained disruption.

Strait of Hormuz

The most important factor for global energy markets is the Strait of Hormuz – the narrow waterway linking the Persian Gulf to the Arabian Sea. Roughly a fifth of global oil consumption passes through this corridor each day, alongside significant volumes of LNG.⁷

A sustained closure would have immediate consequences for energy markets. Even a temporary disruption could drive a sharp spike in oil prices, increase shipping and insurance costs and feed quickly into inflation through higher fuel and freight expenses.

However, several factors reduce the likelihood of a prolonged shutdown.

Keeping the Strait open is a shared strategic priority. Gulf producers rely on it to export oil, while the US and its allies maintain a significant naval presence in the region to safeguard shipping routes.

Infrastructure developments also provide limited alternatives. The United Arab Emirates operates a pipeline that allows some crude exports to bypass the Strait entirely by transporting oil to the port of Fujairah on the Gulf of Oman.⁸ Saudi Arabia maintains an east-west pipeline across the kingdom that connects oil fields to the Red Sea.⁹

While these routes cannot fully replace the volumes passing through Hormuz, they reduce the all-or-nothing nature of the risk.

Disruptions could still occur, and geopolitical tensions may raise shipping insurance costs or trigger temporary price volatility. But a prolonged and complete shutdown appears unlikely.

Market implications

Markets will likely remain sensitive to geopolitical headlines near term. Oil prices may experience volatility as traders assess risks to supply and shipping routes. Insurance premia for vessels operating in higher-risk areas could rise, airlines may reroute flights and freight companies could face longer transit times and higher operating costs.

These developments could lift headline inflation temporarily through higher energy and transportation costs while weighing on business and consumer confidence. However, a true 1970s-style inflation spiral would require far more persistent and systemic forces, including:

- Sustained and severe destruction of energy supply rather than temporary disruptions
- A highly oil-dependent global economy in which energy costs feed broadly into production
- Unanchored inflation expectations among households and businesses
- Policy hesitation from central banks that allows inflation to become entrenched

None of these conditions appear firmly in place today. Long-term inflation expectations remain relatively contained compared with the 1970s, while labour markets in advanced economies are more flexible and less heavily unionised, reducing the risk of wage-price spirals.

Central banks have also demonstrated a willingness to tighten policy aggressively when inflation rises above target, as seen in 2022–2023. If energy prices rise again, policymakers may become cautious, potentially delaying rate cuts until there is clarity on whether higher inflation proves temporary or persistent.

The more likely outcome is not a repeat of 1970s inflation, but a period of elevated uncertainty. Volatility, shifting rate cut expectations and softening growth are possible. Yet the structural ingredients that produced the inflation crises of the 1970s appear far less evident today.

The bottom line

Events in the Middle East are deeply concerning from both humanitarian and geopolitical perspectives, and markets are right to assess the risks carefully. But the global economy is more diversified, energy intensity is lower, producer incentives have evolved and the strategic dynamics surrounding oil supply have changed. While energy-driven inflation risks cannot be ruled out, the conditions that produced the twin inflation peaks of the 1970s are not firmly in place today. Maintaining a long-term perspective remains essential.

- [1] [Arab oil embargo | History, Cause, Impact, & Definition | Britannica](#)
- [2] [What Iran's 1979 revolution meant for US and global oil markets | Brookings](#)
- [3] [U.S. Inflation Rate by Year | Finance Reference](#)
- [4] [Russia's War on Ukraine – Topics - IEA](#)
- [5] [Roadmap to fully end EU dependency on Russian energy - European Commission](#)
- [6] [THE LINE: A revolution in urban living](#)
- [7] [Amid regional conflict, the Strait of Hormuz remains critical oil chokepoint - U.S. Energy Information Administration \(EIA\)](#)
- [8] [What is the Strait of Hormuz and why does it matter? - BBC News](#)
- [9] [Aramco evaluates Red Sea route for crude export flows](#)

This communication is provided for information purposes only. The information presented herein provides a general update on market conditions and is not intended and should not be construed as an offer, invitation, solicitation or recommendation to buy or sell any specific investment or participate in any investment (or other) strategy. The subject of the communication is not a regulated investment. Past performance is not an indication of future performance and the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invest. Although this document has been prepared on the basis of information we believe to be reliable, LGT Wealth Management UK LLP gives no representation or warranty in relation to the accuracy or completeness of the information presented herein. The information presented herein does not provide sufficient information on which to make an informed investment decision. No liability is accepted whatsoever by LGT Wealth Management UK LLP, employees and associated companies for any direct or consequential loss arising from this document.

LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct

About the author



Sanjay Rijhsinghani

Partner, Chief Investment Officer | Management Board

Sanjay is a founding Partner of LGT and is Chief Investment Officer. With over 30 years' of investment experience, he is responsible for the implementation of the firm's investment process through oversight of the investment research and asset allocation positioning decisions. Sanjay chairs the Investment Committee and is a leading spokesperson for LGT Wealth Management.

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct Authority (FCA). Registered in England and Wales: OC329392. Registered office: Fourteen Cornhill, London, EC3V 3NR.