



# RBA Special Report - Quick Thoughts on War

**March 2<sup>nd</sup>, 2026**

RBA is not an event-driven firm, but war is an extremely serious event and a comment seems necessary. Accordingly, here are several quick thoughts on the recent events.

- 1.** It seems critically important for investors to think like investors and to ignore the political banter.
- 2.** War is rarely, if ever, disinflationary or deflationary because resources are typically diverted to the war effort and away from productive economic use. Of course, the duration of a war factors heavily into this point because a shorter war could result in only transitory inflation.
- 3.** The Vietnam War contributed to the inflationary spiral of the 1960s and 1970s. It was not the sole source of inflation, but the combination of increased defense spending and increased non-defense government spending was a definite contributor. Investors might see a similar combination again in 2026 because the recent fiscal stimulus bill will largely take effect this year.
- 4.** Given the US's massive trade deficit and contracting global trade, investors should consider whether there will be supply-chain disruptions beyond the obvious disruptions in oil and gas. Air and shipping routes have already been altered. Importantly, the US did not have a massive trade deficit during the 1960s and 1970s.
- 5.** It is unlikely that an Iran war will turn out to be as long or as large as was the Vietnam War, but the US does seem to be on a path of a series of smaller wars. Investors should consider whether the series of smaller wars could additively contribute to inflation.
- 6.** The earlier Middle East wars were not inflationary because they occurred during a period of expanding globalization and increased economic competition. The reverse is happening today.
- 7.** Commodity-related inflation related to the war might further handcuff the Fed's ability to cut interest rates. The nominal economy (i.e., real growth plus inflation) was already close to a 20-year high when excluding the immediate post-pandemic period, and many leading indicators of inflation have been warming.
- 8.** Our equity portfolios remain overweight dividends (i.e., shorter-duration equities) and non-US stocks, and we continue to avoid speculative areas of the market that are more dependent on liquidity and speculation.
- 9.** Our fixed-income portfolios remain focused on higher quality municipals, mortgages, and treasuries, but we maintain shorter-than-benchmark duration because of the inflation risks cited above.
- 10.** Gold continues to be our "spare tire" in the portfolio. Gold has historically had a meaningful correlation to uncertainty, and war increases uncertainty.



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