# Global markets brace for fallout as Middle East tensions rise By Matt Tracy and Saqib Iqbal Ahmed

**By Matt Tracy and Saqib Iqbal Ahmed**

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WASHINGTON, Oct 15 (Reuters) - The Israeli-Hamas war has sharpened focus on rising geopolitical risks for financial markets, as investors wait to see if the conflict draws in other countries with the potential to drive up oil prices further and deal a fresh blow to the world economy.

Israel's Prime Minister Benjamin Netanyahu vowed on Sunday to "demolish Hamas" as his military prepared ground operations in Gaza to root out the militant group, whose deadly rampage through Israeli border towns stunned the nation.

Oil prices leapt nearly 6% on Friday, as investors priced in the possibility of a wider Middle East conflict. The first indicator of reaction to weekend developments will likely come when oil starts trading in Asia later on Sunday.

"It looks like we're headed for a massive ground invasion of Gaza and a large-scale loss of life," said Ben Cahill, senior fellow in the Energy Security and Climate Change Program at the Center for Strategic and International Studies (CSIS). "Anytime you have a conflict of this scale, you will have a market reaction."

Market reaction in the past week has been relatively muted, though Israel's shekel currency took a big hit.

"I have no clue whether markets will remain relatively well behaved," said Erik Nielsen, group chief economics advisor at UniCredit. "It almost certainly depends on whether this latest conflict remains localized or whether it escalates into a broader Middle Eastern war."

The S&P 500 (.SPX) fell 0.5% on Friday. Safe-haven assets saw buying with gold up more than 3% on Friday and the U.S. dollar touching a one-week high.

An expanding conflict would also likely cause inflation and, as a byproduct, interest rates around the world to accelerate further, said **Bernard Baumohl, chief global economist at The Economic Outlook Group** in Princeton, New Jersey.

However, while inflation and rates in other countries will likely rise in this worst-case scenario, the United States could be the exception as foreign investors pour capital into what they deem a safe haven during global conflict, **Baumohl** noted.

"Interest rates could go down," he said. "Expect the dollar to strengthen."

In Europe, economists said the bar for another rate hike from the European Central Bank was high.

The war between the Islamist group Hamas and Israel poses one of the most significant geopolitical risks to oil markets since Russia's invasion of Ukraine last year.

"If the Ukraine war taught us anything, it's not to underestimate the effect of geopolitics," Nomura European economist George Moran said on the bank's week ahead podcast.

Other energy markets could be impacted, as seen in recent developments such as Chevron (CVX.N) halting natural gas exports through a major subsea pipeline between Israel and Egypt.

Rising oil prices are unlikely to have a significant impact on U.S. gas prices or consumer spending, analysts noted.

The situation, however, bears monitoring, Jack Ablin, chief investment officer at Cresset Capital, said.

"If all of a sudden either oil production is cut or oil transport is disrupted then that certainly creates problems not just for economies but for markets too," he said.

Oil, shares of oil companies and commodities in general and gold in particular could serve as effective hedges for investors, Ablin said.