

Asian markets take major hit from war against Iran

Nick Beams
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So far the reaction on the European and US stock markets to war on Iran has been described as “benign.” But yesterday saw a very different situation in the Asian markets most dependent on supplies of oil from the Middle East and heavily impacted by the price spike resulting from the closure of the Strait of Hormuz, through which passes one-fifth of global supply.

South Korea was at the centre of the storm. South Korean stocks fell by 12 percent yesterday in the largest one-day drop recorded, eclipsing falls in the 2008 crisis. Since last Friday, the fall in the Kospi index has been 20 percent, after it had risen by 50 percent since the start of the year on the back of the belief that South Korea, and its chip-making firms, would benefit from the development of artificial intelligence (AI).

The spike in oil prices had a major effect because South Korea is the world’s eighth-largest importer of crude. The downturn was led by market heavyweights Samsung Electronics and SK Hynix, two of the world’s biggest chipmakers, which account for nearly 40 percent of the Kospi index. Another factor appears to be forced selling as a result of the unravelling of leveraged bets—stock purchases financed by debt—which had been made to try to ride the previous market surge.

Bloomberg reported there had been a lot of buying on credit in heavyweight stocks, with investors only putting down 30–40 percent on the margin and financing the rest through credit.

The selloff was not confined to South Korea. Thailand’s market dropped 8 percent for the day. The fall was so sharp that at one point trading was suspended for 30 minutes. Thailand is sensitive to higher energy costs as many of its manufacturing firms, facing stiff competition from rivals, operate on low

profit margins. The Thai tourist industry, a key component of the economy, is also threatened by the disruption to airline travel.

The market selloff went across Asia. The Japanese market was down 3.7 percent, Taiwan by 4.4 percent and Hong Kong’s Hang Seng index fell by nearly 3 percent.

Major economies of the region—such as Japan, South Korea and Taiwan—are highly vulnerable to any disruption to the flow of oil and natural gas from the Middle East, now under threat of being severely restricted because of the closure of the Strait of Hormuz.

Some 90 percent of oil exports to Japan come through the strait. South Korea depends on the Middle East for 70 percent of its crude oil imports, and some 60 percent of Taiwan’s oil and a third of its gas comes through the strait.

These figures and yesterday’s market reaction in Asia underscore one of the strategic objectives of the US war against Iran. The war is not just directed against Tehran. US imperialism aims to take control of Middle East oil supplies as part of its preparation for military conflict with China and to assert its global dominance.

Markets in Europe and the US have yet to react violently to the launching of war. There has been some turbulence, but so far less than that experienced last April, when US President Trump launched his sweeping so-called “reciprocal tariffs.”

Speaking at a business conference in Sydney organised by the *Australian Financial Review* earlier this week, Goldman Sachs chief executive David Solomon said he was surprised that global markets had not reacted more violently... at least, so far.

“I look at the market reaction, and I’m actually surprised,” he said. “I think the market reaction has

been more benign, given the magnitude of this than you might think.

“That will be the case until it isn’t, and there’s a cumulative effect of everything that’s happening and you get a much harsher reaction.”

Included in the list of “everything that’s happening”—the spike in oil prices, the threat of a global inflation surge, the prospect that central banks will cease cuts to interest rates and may start to raise them, and the ongoing job cuts as a result of the development of AI—is the increasing concern about the stability of the private equity and private credit system.

The main focus of Wall Street is on Blue Owl Capital, which last month permanently restricted cash withdrawals from one of its funds. Since then, in the words of a recent article in the *New York Times*, it has “been trying to convince investors that its \$300 billion portfolio of investments and loans is actually worth what Blue Owl says.”

Not with a great deal of success, it appears. Its share price has fallen below the initial issue price of \$10 when the asset manager went public in 2021, bringing the loss to 50 percent over the past 12 months.

The share prices of other asset management firms, including Blackstone, Apollo, KKR and Ares, are also down, with the Apollo chief Marc Rowan warning of a “shake-out” in the private markets.

The *Times* noted that despite conference calls, media interviews and news releases, Blue Owl did not appear to have resolved its problems and “its efforts to do so may have contributed to worries that Wall Street is on the precipice of a broad, new credit crisis.”

There are two underlying problems. The first is that the money which flowed into private equity funds from major financial institutions, including insurance firms, has been drying up in the recent period and they have had to rely more on so-called retail investors.

Unlike institutional investors, who tend to lend long in line with the investments of the private equity firms, these investors want quick and easy access to their money, setting up the classic scenario for financial problems where money is supplied short-term but used for long-term investments which cannot be easily liquidated.

The second problem is even more significant. Much of the investment by the private equity funds has been in the software sector, financing deals, mergers and

takeovers. It has been estimated that such deals have accounted for almost a third of all private loans over the past decade.

But software firms and their backers in private equity are under threat from the development of AI. Some of them may collapse.

Last month, analysts at UBS warned that private credit could see default rates rise to as high as 15 percent, if AI triggered an “aggressive” disruption for corporate borrowers.

Reporting on this analysis, Bloomberg said warnings about the \$1.8 trillion market had “been building, with some comparing to the 2008 financial crisis.”

Others have dismissed the analysis as overdone. The head of the Ares group, Mike Arougheti, said the UBS warning on the possibility of a 15 percent default rate was “absolutely wrong,” but did acknowledge that some firms may not survive.

“If you’re talking about 15 percent default rates, which again I think is not possible, but if you’re there, everything else in your portfolio, I assure you, is going to be completely torched,” he said.

No one has a crystal ball of prediction, but the UBS analysis points to inherent instability of the financial system, and yesterday’s dramatic plunge in the Korean stock market, which had been the world’s highest performer so far this year, indicates how fast things can change.



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