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MARKET VIEWS

Economic and Financial Consequences of the Crisis in Iran

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Executive Summary

Energy Markets Rattle: Oil and Gas

- Oil markets reacted sharply to Middle East tensions, with Brent crude jumping nearly 10% to around $82 per barrel as fears of disruptions in the Strait of Hormuz, a chokepoint carrying over 20% of global oil supply, triggered volatility and temporary shipping suspensions.
- While prices could rise above $90–$100 if the conflict escalates or shipping is disrupted, the upside is partly limited by relatively comfortable global supply, including rising inventories, recovering Venezuelan production, and modest output increases from OPEC+.
- A prolonged conflict would have economic consequences: higher energy prices could fuel inflation and slow growth, with particularly strong impacts on energy-importing regions such as Europe and Asia, while the US would face mixed effects from stronger energy exports but higher domestic fuel costs.

Equity Market Volatility

- Equity markets turned volatile after the Iran escalation, with sharp selloffs in Asia, while US and European markets proved more resilient as oil prices stabilized.
- Energy stocks have benefited from higher oil prices, but sustained geopolitical tensions could still pressure equities by raising inflation risks, tightening monetary policy, and slowing global growth.

Bitcoin and Risk-Off Flows

- Bitcoin rebounded above $70,000 amid geopolitical volatility, reflecting both risk-off interest in alternative assets and its link to energy markets, as mining converts surplus electricity into digital value.

Gold and Silver Volatile

- Gold and silver initially surged on safe-haven demand after the Middle East escalation, but gains partly reversed as a stronger US dollar and reduced expectations for Fed rate cuts triggered profit-taking and liquidity-driven selling.
- Silver remained far more volatile due to thinner liquidity and speculative positioning, while gold held relatively stable; meanwhile, rising Middle East tensions also lifted aluminium prices amid concerns over Gulf supply and higher shipping costs.

Inflation Weakens Bonds' Safe-Haven Role

- Initial safe-haven demand briefly pushed US Treasury and German Bund yields lower, but rising oil prices and inflation concerns quickly reversed the move, weakening the traditional defensive role of government bonds.
- Investors now worry that higher energy costs could sustain inflation and limit central banks' ability to cut rates, pushing US Treasury yields back above 4% and lifting market-based inflation expectations.

Dollar Strengthens on Geopolitical Risk

- The US dollar strengthened after the Iran escalation as investors returned to traditional safe-haven assets, with most G10 currencies weakening against it while the Swiss franc and Japanese yen also showed resilience during heightened geopolitical stress.

Capital Flows and Petrodollar Risk

- A prolonged Iran conflict could trigger capital outflows from the Middle East into safe-haven assets like US Treasuries, but a disruption to Saudi oil exports would weaken petrodollar recycling and potentially reduce Gulf investment flows into US equities and technology sectors.

Introduction

Joint US and Israeli strikes on Iran have sharply escalated tensions in Middle East. The new war on Iran will likely bring a new oil price shock, disrupted logistics and generate a broader broader confidence shock. The global economy is already digesting the inflationary and growth consequences of the tariff shock. A new geopolitical conflict in a key energy-producing region would therefore represent a meaningful drag on global growth, while increasing inflation risks. Market reactions continue to shift. With events evolving rapidly, equity, fixed income, currency, and commodity markets are experiencing heightened volatility.

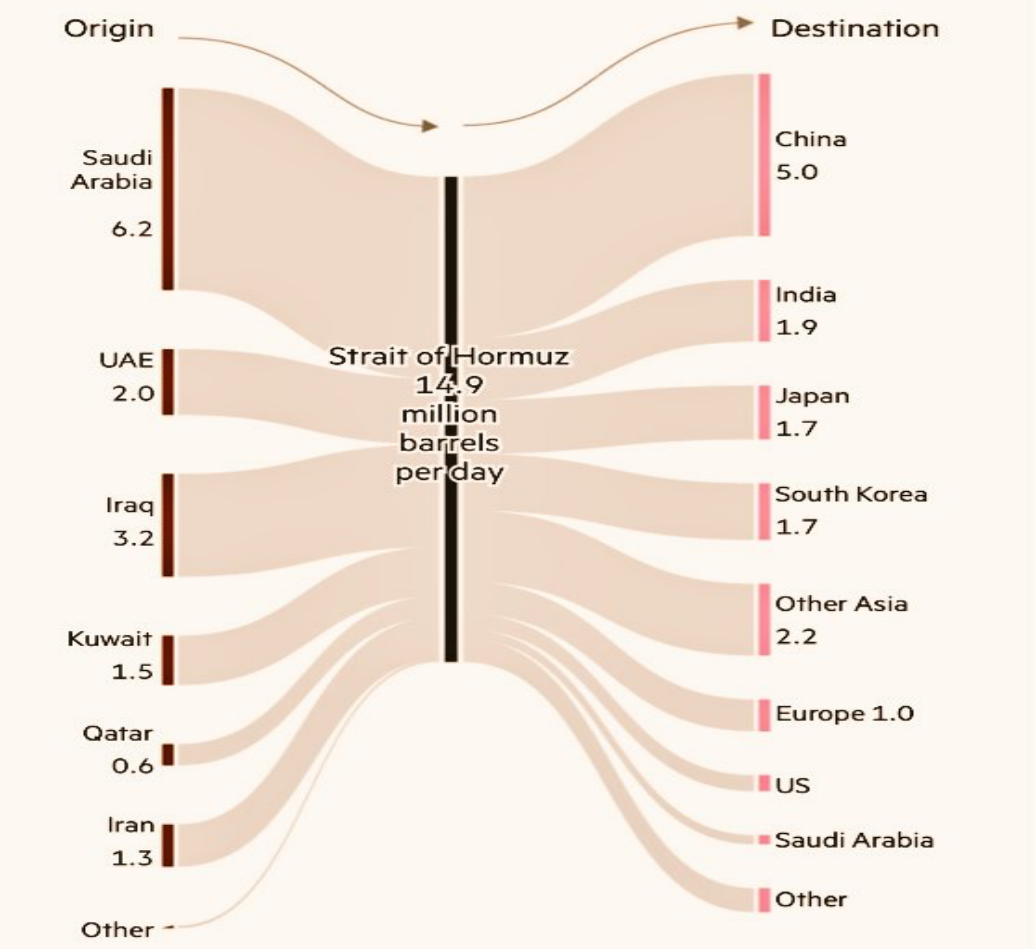
Energy Markets Rattle

Oil Surges on Hormuz Disruption Fears

In the immediate aftermath of the conflict, on Monday morning, Brent crude jumped by nearly 10% to $82 a barrel. The global oil benchmark had already rallied this year and reached $73 a barrel on Friday, its highest since July, as concern about a potential escalation in the region intensified. Now it trades around $90.

Shipping disruptions quickly emerged as the most immediate risk. Several tanker owners, oil majors and trading houses temporarily suspended shipments of crude oil, refined fuels and liquefied natural gas through the Strait of Hormuz after Tehran warned vessels against transiting the waterway. More than 20% of global oil supply passes through this narrow chokepoint. Iranian officials later stated that the strait remained open, but uncertainty continues to weigh on markets (**Figure 1**).

Figure 1: Crude Oil Transported through the Strait of Hormuz 2023 (mn barrels per day)



Source: Financial Times

Regional leaders have warned Washington that a prolonged war with Iran could push oil prices above $100 per barrel. Rabobank analysts have offered a more moderate assessment, suggesting prices could remain above $90 in the near term if tensions persist.

Meanwhile, OPEC+ announced that it would increase output by 206,000 barrels per day from April, ending a three-month pause in production adjustments. However, this increase is modest and represents less than 0.2% of global oil demand. It is therefore unlikely to offset any short-term supply disruptions linked to the conflict.

Even if alternative infrastructure is used to bypass the Strait of Hormuz, a complete closure could remove between 8 and 10 million barrels per day from global markets, even after diverting some flows through Saudi Arabia's East-West pipeline and Abu Dhabi's export pipeline.

For oil prices to rise sustainably above $100 per barrel, however, two conditions would likely need to be met. First, there would need to be a prolonged disruption to shipping through the Strait of Hormuz, which carries roughly one in every five barrels of oil traded globally. Second, missile or drone strikes would need to begin targeting oil production infrastructure in the region. So far, such conditions across the Middle East — including those in Iran — are not fully met yet.

Another important factor limiting the upside in oil prices is the relatively comfortable global supply situation. Slower global economic growth and the gradual expansion of renewable energy have softened demand growth. Global liquid fuels consumption increased by around 1.1 million barrels per day in 2025 and is expected to rise by approximately 1.2 million barrels per day this year. However, global oil production growth is projected to outpace consumption, leading to rising inventories, which are expected to increase by roughly 3.1 million barrels per day in 2026.

Additional supply factors could also help limit price spikes. Venezuelan oil production is gradually recovering following the easing of certain US sanctions and the granting of export licences to US trading companies. Some Venezuelan crude that previously went to China is now being redirected to Caribbean terminals and US Gulf Coast refineries. Output could eventually return to levels seen before US sanctions were tightened.

China is also relatively well positioned to absorb potential disruptions. The country sources oil primarily from Saudi Arabia and has been building strategic reserves in recent years, partly due to concerns over US sanctions. It can also increase imports from Russia and South America, where energy ties have expanded in recent years.

However, the situation may be much more difficult for many parts of the Global South and for East Asian economies such as Japan and South Korea, which remain heavily dependent on Middle Eastern energy supplies. Europe could also face tighter conditions given the collapse of Russian oil imports following the war in Ukraine.

If the conflict becomes prolonged, sustained high oil prices could eventually feed through to higher inflation in major economies. US consumer price inflation, which remains stubbornly above the Federal Reserve's 2% target, could rise toward 4% in such a scenario. Rising energy prices also act as a tax on consumption and investment, meaning that global economic growth could slow further over the coming year.

Qatar's LNG and Global Gas Vulnerability

The Middle East is a major gas-producing region, with Qatar the dominant exporter. Because pipeline infrastructure is limited, most gas is shipped as liquefied natural gas (LNG) on specialized tankers. Qatar alone accounts for about 20% of global LNG supply, making it one of the world's largest exporters. Although LNG represents only around 7-8% of global gas supply, it is a crucial marginal source that often sets prices in key markets such as Europe and Asia.

China and India are the largest importers of Qatari LNG, followed by Taiwan, Pakistan and South Korea. Some South Asian economies depend heavily on Gulf supplies, while Europe receives about 10% of its LNG from Qatar,

rising to roughly one-third for Italy. Even so, disruptions to Qatari exports would intensify global competition for LNG cargoes, as Asian buyers would likely compete for shipments that might otherwise go to Europe.

Replacing Qatari LNG in the short term would be difficult because most LNG facilities worldwide are already operating near full capacity. A prolonged disruption could remove roughly 15% of global LNG supply, tightening markets significantly. Higher prices would benefit other exporters, particularly the United States, the world's largest LNG supplier, along with producers such as Norway, Algeria and Azerbaijan.

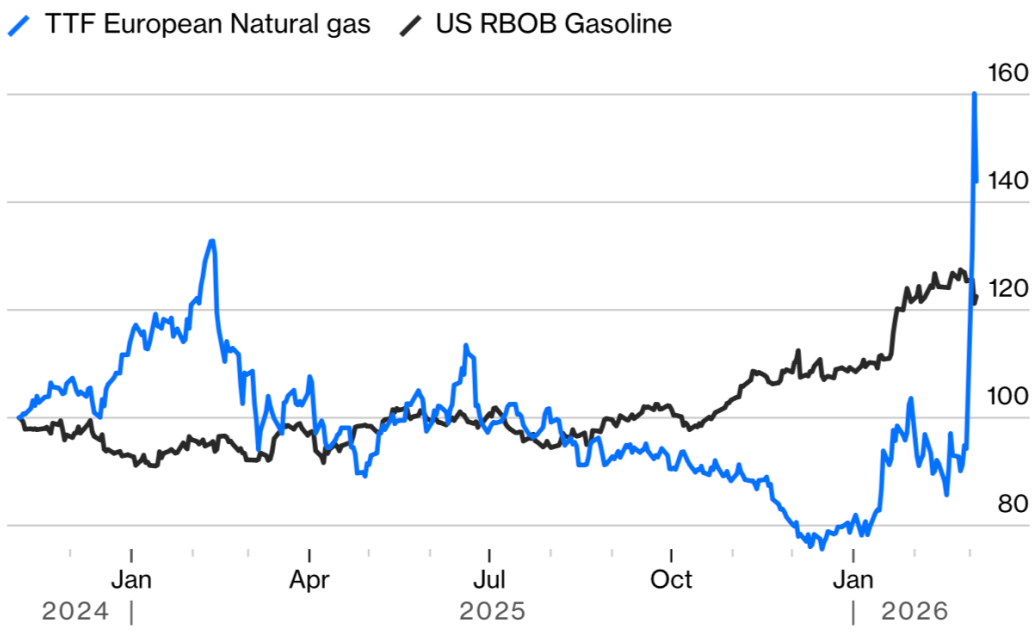
Impact on the US

The United States is now a major oil and LNG producer. Higher energy prices support the domestic shale sector and improve the terms of trade for US energy exports. However, these gains are unlikely to fully offset the broader economic drag from higher fuel costs. Gasoline prices are politically sensitive, particularly as the country approaches midterm elections. More importantly, an oil price surge would complicate the Federal Reserve's monetary policy outlook. A second supply-side inflation shock—while the inflationary effects of tariffs are still unfolding, could make further rate cuts difficult to justify in the near term. At the same time, if the conflict persists and uncertainty weighs on investment and consumer confidence, the growth outlook would also deteriorate.

Impact on the Eurozone

Europe imports nearly all of its oil and a significant share of its LNG, leaving it vulnerable to higher energy prices or supply disruptions. While the situation differs from the 2021–2023 energy crisis, Europe is less dependent on a single supplier and the shock is occurring at the end of winter, fiscal space to cushion households and firms is more limited than it was in 2022.

Figure 2: Natural Gas Prices



Source: Bloomberg

This creates a difficult dilemma for the European Central Bank. Services inflation remains sticky, and higher oil and gas prices would push headline inflation upward, while economic growth is already under pressure from tariffs and geopolitical uncertainty. ECB estimates suggest that a 14% rise in oil prices and a 20% increase in gas prices could raise inflation by about 0.5 percentage points and reduce GDP growth by around 0.1 percentage

points. With memories of the recent inflation surge still fresh, the ECB is unlikely to dismiss a new energy-driven inflation spike as temporary.

Impact on Asia

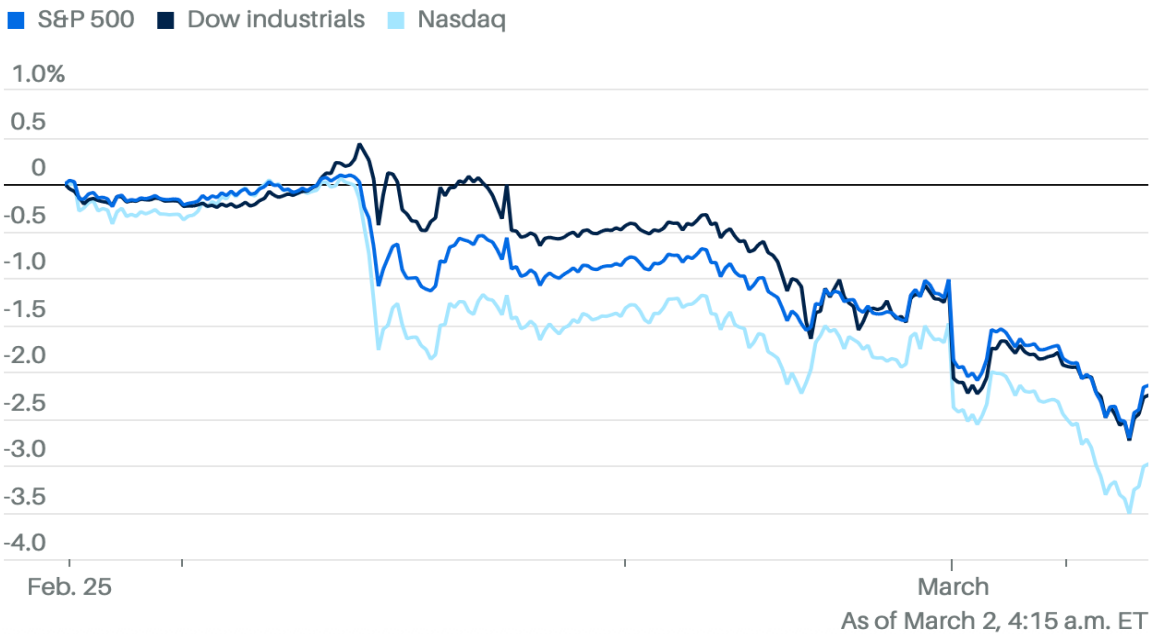
Asia relies heavily on Middle Eastern oil. Japan and the Philippines source nearly 90% of their oil from the region, while China and India import roughly 38% and 46%, respectively. Any disruption in the Strait of Hormuz could therefore constrain supply and weigh on industrial activity. Higher oil prices would weaken trade balances. Economies such as Thailand, Korea, Vietnam, Taiwan, and the Philippines are particularly exposed. Energy costs pass quickly into inflation. In many emerging Asian economies, energy carries a relatively high weight in consumer price baskets, meaning a 10% increase in oil prices typically raises inflation by around 0.2 percentage points.

Equity Market Volatility

Equity markets typically react negatively to sudden geopolitical shocks, particularly when the conflict involves a major energy-producing region. The escalation in Iran introduces three overlapping risks for investors: higher energy prices, weaker global growth, and increased financial market volatility.

Equity prices have therefore been highly volatile in recent days (**Figure 3**). Asian markets initially sold off sharply, while Europea and US markets showed more resilience as oil prices stabilized and economic data remained relatively stable. US equity markets rebounded after two days of turbulence, with the S&P 500 rising 0.8%, the Dow Jones Industrial Average gaining 238 points (0.5%) and the Nasdaq Composite advancing 1.3%.

Figure 3: Stock Futures Slump



Source: Barrons

The rebound followed a turbulent start to global trading. South Korea's Kospi Index briefly plunged 12.1%, it is steepest decline on record, reflecting investor concerns about escalating geopolitical risks. Financial markets have largely taken their direction from movements in oil prices. As trading moved from Asia to Europe and the United States, crude prices moderated somewhat, helping stabilize equity markets. Brent crude, after briefly surpassing $84 per barrel, settled near $81-83, while US benchmark crude edged slighty higher to around $74-75.

Asian markets later rebounded after several days of heavy losses. South Korea's Kospi recovered nearly 10%, Japan's Nikkei rose 1.9%, and MSCI's Asia-Pacific index ecluding Japan gained 2.7%. Howeveer, Middle Eastern markets remained under pressure, with Abu Dhabi falling 2.6% and Dubai declining 2.2%, prompting authorities to temporarily impose a 5% daily price limit on securities.

The sectoral impact across equtiies has been uneven. The energy sector remains the strongest performer in the S&P 500 this year, rising about 25% as firm oil prices and and attractive valuations support the sector. Despite the rally, it still trades at rougly a 42% discount to the broader sector. Shares of upstream producers, integrated oil companies and reiners could continue to benefit if crude prices move higher, although rising freight and logistics costs may offset some gains.

Beyond sectoral effects, a prolonged conflict could have broader macroeconomic implications for equity markets. Higher oil prices raise inflation risks and could force central banks to maintain tighter monetary policy for longer. Rising energy costs also act as a tax on consumption and investment, weighing on corporate margins and economic growth.

However, historical experience suggests that geopolitical shocks do not necessarily lead to prolonged equity market downturns. Data from Morgan Stanley and Bloomberg show that since the Korean War, the S&P 500 has posted average gains of about 2%, 6%, and 8% over one-, six-, and twelve-month periods following major geopolitical events. A bear-case scenario for equities would become significantly more likely only if oil prices surged dramatically—by roughly 75–100% year over year—particularly late in the economic cycle. In the current environment, where corporate earnings growth remains relatively strong, equity markets still retain an important buffer.

Unless oil prices rise sharply and remain elevated for an extended period, recent geopolitical tensions are therefore unlikely to materially alter the medium-term outlook for US equities. Nevertheless, in the event of a severe escalation, Europe may face a particularly strong impact due to its dependence on energy imports and its equity markets' exposure to global cyclical industries.

Bitcoin, Risk-Off Flows, and the Energy Connection

Bitcoin rose 7.7% to around $73,685 in the beginning of the conflict. The cryptocurrency had initially fallen toward $63,000 following the outbreak of conflict in the Middle East on Feb. 28 but has since rebounded by more than 11%. Although prices later slipped amid heightened volatility during the US-Iran confrontation, Bitcoin remained above the $70,000 level.

The move marks Bitcoin's first sustained rally in roughly a month, after prices fell to their lowest level since 2024 in early February. Other major cryptocurrencies also advanced, with Ethereum rising 8.3%, Solana gaining 7.4%, and BNB increasing 3.7%.

Part of the rebound reflects shifting investor behavior in risk-off environments. Geopolitical shocks often trigger flows into perceived safe-haven assets. While gold and US Treasuries have traditionally played this role, Bitcoin is increasingly entering the conversation as an alternative store of value during periods of financial and geopolitical uncertainty.

Yet the deeper link between Bitcoin and geopolitical crises may lie in energy itself. The current conflict highlights the strategic importance of energy chokepoints such as the Strait of Hormuz, through which roughly one-fifth of global oil supply flows. As disruptions push energy prices higher and expose vulnerabilities in global supply chains, energy itself becomes an increasingly strategic asset.

Bitcoin's proof-of-work system effectively converts electricity into digital scarcity. In practice, this means that countries with abundant or stranded energy resources can transform surplus electricity into Bitcoin through

mining. As global energy flows become more politicized, this mechanism creates a new channel through which energy power can be converted into financial influence.

In this sense, Bitcoin sits at the intersection of two dynamics: the search for alternative stores of value during geopolitical shocks and the growing strategic importance of energy in the digital economy.

Gold and Silver: Safe-Haven Demand Meets Liquidity Pressures

Gold and silver rallied sharply at the start of the week following the escalation of the Middle East conflict before reversing later in the day. Silver was particularly volatile, briefly surging close to $100 per ounce during Asian trading before retreating to around $86 per ounce, suggesting profit-taking after a strong recent rally. Gold also spiked above $5,400 per ounce early before easing around $5,200.

A stronger US dollar and reduced expectations for Federal Reserve rate cuts offset safe-haven demand linked to the geopolitical tensions. At the same time, simultaneous declines in equity and bond markets have created liquidity pressures for some investors, prompting the sale of profitable assets such as gold to raise cash.

Silver has continued to exhibit significantly higher volatility than gold, as thinner liquidity and more speculative positioning amplify intraday price swings. Gold, by contrast, has remained relatively more stable, reinforcing its role as the primary safe-haven asset during periods of geopolitical stress.

In base metals, rising Middle East tensions have revived concerns about aluminium supply. Roughly 8% of global production is located in the Gulf region and relies on shipping routes through the Strait of Hormuz. Aluminium prices on the London Metal Exchange rose by as much as 3.5% last week. While a major supply disruption remains a tail risk, the more immediate impact is likely to come through higher logistics, freight, and insurance costs, which could increase physical premiums rather than benchmark prices.

More broadly, higher energy costs and potential supply chain disruptions could add inflationary pressure across the metals complex, although the strengthening US dollar may limit the upside.

Inflation Concerns Limit the Safe-Haven Role of Bonds

The initial market reaction followed the typical safe-haven pattern. As investors priced in the risk of military escalation, demand for defensive assets increased, pushing US Treasury and German Bund yields lower while gold prices rose. However, this safe-haven dynamic tends to weaken when higher oil prices raise inflation risks.

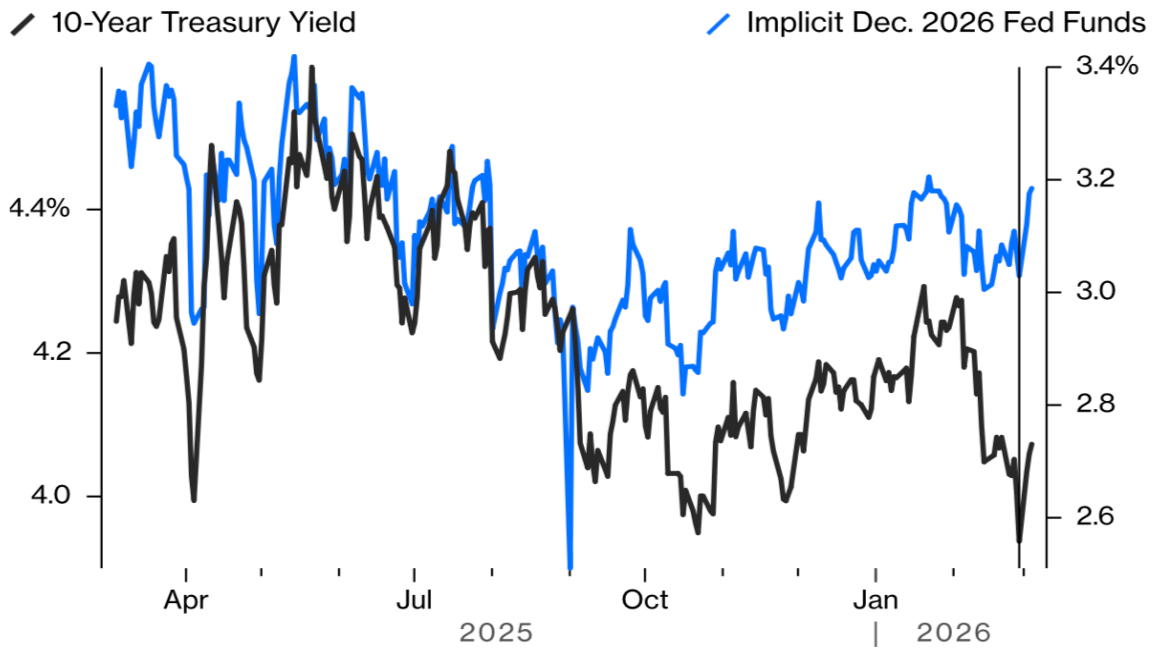
Government bonds have attracted relatively limited defensive flows during the current crisis. Investors appear more focused on the inflationary impact of rising energy prices than on the traditional safe-haven role of sovereign debt. Fiscal concerns—ranging from Germany's relaxation of its debt brake to expectations of higher government borrowing—have further reduced the appeal of long-dated bonds. Yields on Germany's 10-year Bund, the eurozone benchmark, have risen about 14 basis points this week.

The US-Iran conflict is therefore becoming a key concern for fixed-income markets because of its potential impact on inflation and global growth. A sustained increase in oil prices could push inflation higher and complicate the Federal Reserve's policy outlook. If energy costs remain elevated, investors may anticipate fewer interest-rate cuts, which would place upward pressure on bond yields.

Indeed, US Treasury yields have risen alongside oil prices (**Figure 4**), reflecting concerns that higher energy costs could prolong inflation and limit the Federal Reserve's ability to ease policy. The yield on the 10-year Treasury note has moved back above 4%, raising borrowing costs for businesses and households.

Market-based inflation expectations have also increased. The five-year breakeven inflation rate—the gap between nominal Treasury yields and inflation-protected securities—rose to around 2.55% from 2.46% at the end of last week, suggesting that investors are beginning to price in higher inflation risks linked to the conflict.

Figure 4: Sliding Rates Turned Around

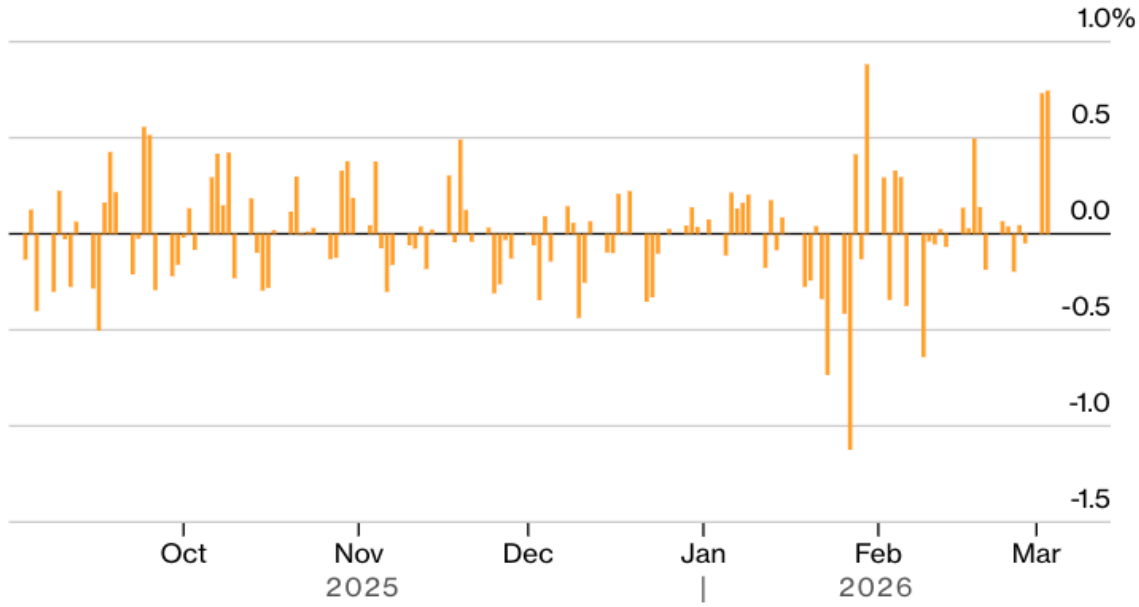


Source: Bloomberg

The Dollar Reasserts Its Safe-Haven Role

The US dollar strengthened following US strikes on Iran, reassuring investors that it continues to function as the world's primary safe-haven currency during periods of geopolitical stress. The move restores the dollar's traditional crisis role after months of uncertainty about its reliability, particularly when it failed to appreciate during last year's tariff-driven market selloff.

Figure 5: Dollar Rises (Price change 1 Day Percent)



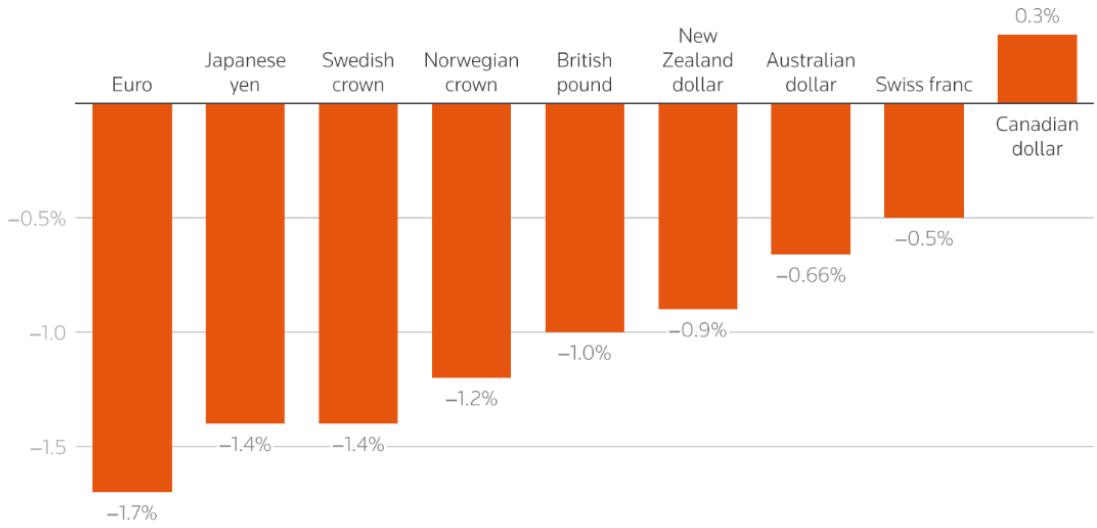
Source: Bloomberg

The rally has also been supported by rising inflation expectations linked to higher energy prices. Options markets reflect a similar shift in sentiment: traders are increasingly paying to hedge against a stronger dollar, while risk-

reversal indicators show the most bullish short-term positioning for the currency since June. Most other G10 currencies weakened by more than 1% against the dollar, with investors reducing long positions in both the euro and the pound.

Other traditional safe-haven currencies have also shown resilience. The Swiss franc continues to benefit from Switzerland's strong fiscal position and persistent current-account surplus. The Japanese yen may also perform relatively well in periods of extreme market stress, as Japan's external balance and the tendency of domestic investors to repatriate capital provide structural support for the currency.

Figure 6: Developed Market Currencies Drop Versus the Dollar This Week



Source: Reuters

Middle East Capital Flows: Safe Haven vs Petrodollars

A prolonged conflict with Iran could weigh on economic growth across the Middle East, increasing financial uncertainty and potentially triggering capital outflows. Sovereign wealth funds, private investors, and regional institutions may seek to protect assets by shifting funds into US Treasuries, dollar-denominated assets, and major global financial centers, reinforcing the dollar's traditional safe-haven role during periods of geopolitical stress. Such flows reflect investor responses to rising risk rather than a deliberate strategy to redirect capital from the region.

At the same time, a severe disruption to Saudi oil exports would weaken the traditional petrodollar recycling mechanism that channels Gulf energy revenues into global financial markets. If shipments through the Strait of Hormuz were curtailed, Saudi export earnings could fall despite higher prices, reducing capital flows from regional sovereign wealth funds into US equities and technology investments. In the current cycle, part of these flows has supported investment in artificial intelligence infrastructure. In such a scenario, however, the broader macroeconomic shock from higher energy prices and weaker global growth would likely outweigh any liquidity support from petrodollar inflows, weighing on global equity markets, including in the United States.