



MAKING SENSE OF THIS WORLD

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US-Israel Strikes on Iran Decapitate the Regime: What's Next?

The military operation. In the early hours of last Saturday, the United States and Israel launched a sweeping joint military offensive against Iran, fundamentally reshaping the geopolitical landscape of the Middle East overnight. The operation, codenamed *Operation Epic Fury* by the Pentagon and *Roaring Lion* by Israel, marked one of the most consequential military escalations in the region in decades. President Trump justified the operation as a response to Iran's refusal to abandon its nuclear ambitions, despite the absence of supporting assessments from U.S. intelligence agencies that Iran was close to deploying missiles capable of reaching Europe or the American mainland.

The strikes began shortly after dawn, with massive explosions reported across Tehran, Isfahan, Qom, Karaj, and Kermanshah. Targets included nuclear facilities, ballistic missile infrastructure, and senior leadership figures. Among those killed was Supreme Leader Ayatollah Ali Khamenei, alongside Iran's defence minister, the commander of the Islamic Revolutionary Guard Corps (IRGC), and the secretary of the Iranian Security Council. Iranian state media confirmed Khamenei's death early Sunday morning at the age of 86, prompting the government to declare 40 days of national mourning.

Iran's retaliation was immediate and far-reaching. The IRGC claimed responsibility for attacks targeting 27 U.S. military bases across the Middle East, as well as Israeli military facilities in Tel Aviv. Qatar, the United Arab Emirates, Bahrain, Kuwait, and Jordan, all hosts to American military installations, were also struck. The UAE temporarily shifted schools to remote learning, while more than 1,400 regional flights were cancelled in a single day, underscoring the rapid spillover into civilian life and regional stability.

Succession Plans. The 88-member Assembly of Experts is tasked with selecting the next Supreme Leader, but no clear successor has emerged. Potential candidates include Khamenei's son Mojtaba, senior clerics Ali Larijani and Sadeq Larijani, senior Iranian cleric Ayatollah Alireza Araf, and Hassan Khomeini, grandson of the Islamic Republic's founder. Mojtaba Khamenei holds considerable influence through his ties to the IRGC, though hereditary succession sits uneasily within Shia clerical tradition. Meanwhile, Araf is serving as the interim Supreme Leader. Some observers have revived discussion of Reza Pahlavi Jr. as a potential transitional figure capable of guiding Iran through political change. Yet the pathway to such an outcome remains unclear. Any transition would require broad domestic legitimacy, not merely external backing. Recent history suggests that decapitating leadership structures does not automatically produce democratic transition; in some cases, it strengthens entrenched power networks rather than dismantling them.

Four scenarios ahead. History offers sobering parallels. From Iraq and Libya to Syria and Afghanistan, the removal or weakening of regimes has repeatedly proven easier than building durable political orders in their aftermath. Political transformation rarely emerges from sustained conflict, institutional collapse, and social fragmentation. Iran has established a temporary leadership council, yet the country's future remains deeply uncertain. Removing Khamenei does not necessarily mean regime change. The IRGC, not the clerical establishment alone, remains the central pillar of power.

Given this background, we foresee four scenarios ahead. 1) *Escalation.* In this unlikely scenario, Iran elects an even more extreme Supreme Leader, which escalates the conflict at regional level. 2) *The Venezuela's Playbook:* in this scenario, the regime remains in place, but chooses as Supreme Leader somebody much more accommodating and willing to compromise with the Americans. This could be the last chance for the IR to survive, and cannot be ruled out a priori.

3) *The Iraqi Chaos:* The IR collapses together with its leadership and the nation needs to be rebuilt from the ground up. But without boots on the ground from the Americans, and trillions of dollars in financial support, the country becomes a chaotic set of rival factions and tribes aiming at gaining overall control of the country, without ever succeeding.

4) *The Afghani solution:* the regime collapses and a new pro-Western leader is chosen, such as Reza Pahlavi. But without the full support of the US, the military and the population, Pahlavi becomes a sort of "Mayor of Teheran" the same way Karzai was called the "Mayor of Kabul," which remained in place until the Americans handed power back to the Talebans.

The economic implications are equally significant, particularly for global energy markets. Investors are bracing for a potential oil supply shock, with prices vulnerable to sharp swings between relief, should tensions ease, and sustained volatility if conflict persists. The Strait of Hormuz, through which roughly one-fifth of global oil supply passes, had already seen rising tensions in the weeks preceding the strikes. Any disruption would trigger an immediate global energy crisis.

Impact on global Geopolitics. Viewed alongside ongoing pressure on Venezuela's energy sector, the operation may further constrain supplies of discounted oil to China. Beijing's muted response so far raises broader strategic questions. As Washington demonstrates a willingness to intervene unilaterally to defend its interests abroad, China may increasingly argue that similar logic applies to Taiwan, which it considers a renegade province under its interpretation of the longstanding One China framework. The risk, therefore, is that a regional military escalation in the Middle East could accelerate strategic confrontations far beyond it.

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Looking Ahead

The Week Ahead: Unemployment To Remain Unchanged In US And EZ; QoQ And YoY GDP To Advance In EZ

In the US, in February, unemployment rate is likely to stand unchanged at 4.3%. NFPs are seen rising by 60K (*p*: 130K). In S&P Global Manufacturing and Services PMI are expected to edge down to 51.2 (*p*: 52.4) and 52.3 (*p*: 52.7) Composite PMI is seen falling too to 52.3 (*p*: 53.0).

In the EZ, in Q4, according to the third estimate, GDP growth rate is seen advancing by 0.3% q-o-q (*p*: 0.3%) and 1.3% y-o-y (*p*: 1.4%). In January, unemployment rate is likely to remain at 6.2%. In February, HCOB Manufacturing and Services PMI is expected to rise to 50.7 (*p*: 49.5) and 51.8 (*p*: 51.6).

In the UK, in February, S&P Global Manufacturing PMI is expected to rise to 52.0 (*p*: 51.8), while Services PMI is likely to decline to 53.9 (*p*: 54.0). Composite PMI is seen rising to 53.9 (*p*: 53.7).

The Quarter Ahead: Trump Orders US Agencies To Drop Anthropic, OpenAI Wins Pentagon Deal; Netflix Exits WBD Bid Trump ordered a six-month phase-out of Anthropic's technology from U.S. agencies after the Pentagon flagged it as a national security supply-chain risk, effectively banning its use pending legal compliance. Anthropic plans to challenge the decision. Meanwhile, OpenAI secured a deal to deploy its models on the Defense Department's classified network, signaling a shift toward federally controlled battlefield AI policy.

Netflix dropped its bid for Warner Bros. Discovery after Paramount's \$31-per-share offer for the whole company was deemed superior. Calling the higher price unattractive, Netflix stepped aside, clearing the way for a Paramount takeover that would reshape the media landscape. CNN is part of the WBD world, and is likely to end up in the orbit of the Trump's extended family.

Last Week's Review

Real Economy: Inflation Eased Off In EZ And Italy; QoQ GDP Decelerated In France And Advanced In Germany

In the US, in February, CB Consumer Confidence increased to 91.2 (*c*: 87.0; *p*: 89.0).

In the EZ, in January, headline and core inflation rates eased off to 1.7% y-o-y (*c*: 1.7%; *p*: 2.0%) and 2.2% y-o-y (*c*: 2.2%; *p*: 2.3%). In February, consumer confidence rose to -12.2 (*p*: -12.4) as expected. Among the largest EZ economies, in January, the headline inflation rate: *i*) eased off to 1.0% y-o-y (*c*: 1.0%; *p*: 1.2%) in Italy; *ii*) rose by 1.0% y-o-y (*c*: 0.8%; *p*: 0.3%) in Germany. Among the largest EZ economies, in Q4, according to the final estimates, GDP growth rate: *i*) decelerated to 0.2% q-o-q (*c*: 0.2%; *p*: 0.5%) and rose by 1.2% y-o-y (*c*: 1.1%; *p*: 0.9%) in France; *ii*) advanced by 0.3% q-o-q (*c*: 0.3%; *p*: 0.0%) and 0.4% y-o-y (*c*: 0.4%; *p*: 0.3%) in Germany.

In the UK, in February, Gfk Consumer Confidence shrank to -19 (*c*: -15; *p*: -16).

Financial Markets: Stocks Mixed; US Yields and US Dollar Fell; Oil And Gold Prices Were Up

Market Drivers: US stocks slipped as AI disruption fears and renewed trade uncertainty weighed on sentiment. A risk-off tone supported Treasuries, with yields declining on the week. In contrast, Europe's STOXX 600 rose 0.52% to a record high, lifted by strong earnings and investor diversification away from U.S. tech despite geopolitical and tariff concerns.

Global Equities: increased w-o-w (MSCI ACWI, +0.4%, to 1056.76). The US S&P 500 index declined (-0.4% w-o-w, to 6,878.88). In the EZ, share prices marginally declined (Eurostoxx 50, -0.0% w-o-w, to 6,129.85) In EMs, equity increased (MSCI EMs, +2.8%, to 1,610.70) Volatility is virtually rose to 20.55 (VIX S&P 500, 52w avg.: 19.4; 10y avg.: 19.9).

Fixed Income: w-o-w, the 10-year US Treasury yields were down (-13 bps to 3.96%). The 2-year US Treasury yields fell (-10 bps to 3.38%). The German 10-year bund yields declined (-9 bp to 2.65%).

FX: w-o-w, the US Dollar Index declined (DXY, -0.2%, to 97.61; EUR/USD +0.3%, to 1.18). In EMs, currencies rose (MSCI EM Currency Index, +0.7% w-o-w, to 1,883.91).

Commodities: w-o-w, oil prices increased (Brent, +2.2% to 72.87 USD/b). Gold rose increased w-o-w (+3.7% to 5,267.20 USD/Oz).

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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	M5S	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DIEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year

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