Perspectives

Flash Comment

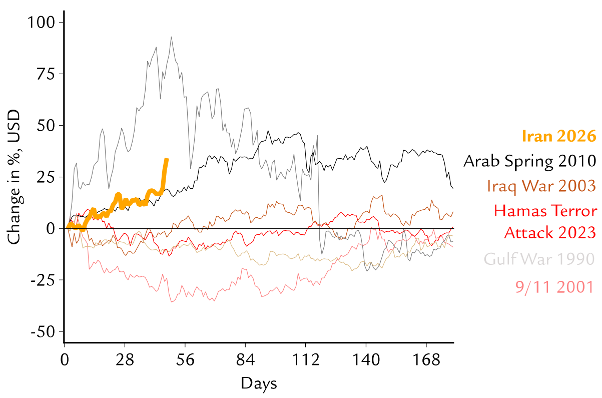
3 March 2026

Iran war and its implications

Our economic assessment

- The US and Israel entered a direct war with Iran.
- Oil prices have surged to around $80/bbl due to supply risk premia. As the oil price is the main global macro transmission channel, three plausible scenarios for this month are outlined below.
- *Base case – elevated oil prices in the range of $80–90/bbl:* hostilities persist as the US and Israel seek to further weaken Iran's military and nuclear capabilities. Iran does not fully close the Strait of Hormuz, but tankers increasingly avoid the area. Offsetting factors help cap the upside on prices: a) OPEC+ supply increases b) Saudi & UAE pipelines combined are able to divert roughly 6.5 million bbl per day, bypassing Hormuz c) China's high inventories reduce near-term replacement needs d) Iran front-loaded exports, providing a floating-storage buffer.
- *Positive scenario – swift de-escalation:* a rapid halt to hostilities, possibly including a "deal" with new Iranian leaders, brings oil prices back to pre-war levels.
- *Negative scenario – lasting oil price shock:* the destruction of energy infrastructure or a long closure of the Strait of Hormuz pushes oil prices above $100/bbl. Europe/Japan are also hit by higher gas prices. Central banks, notably in energy-importing economies, face a trade-off between supporting economic growth and containing renewed inflationary pressure.

Brent crude oil prices: impact of selected geopolitical events



Sources: Bloomberg, Macrobond, Swiss Life Asset Managers Research, Last data point: 03.03.2026

Financial markets developments

- The overall market impact has so far been limited, as the escalation was not unexpected. The main factor driving markets is the price of energy.
- European equities dropped sharply, given Europe's high reliance on Middle Eastern energy. US equities were less affected due to US energy independence.
- Market-implied inflation expectations have risen, pushing global government bond yields up.
- Credit spreads widened in Europe and in lower-rated or energy-sensitive sectors; US spreads were largely stable. EM bonds of countries outside the Middle East saw indirect pressure from higher US yields and a stronger USD.
- CHF briefly strengthened before the SNB pushed back; the USD benefitted from safe-haven flows due to the US status as a net energy exporter.

Our current market assessment

- The market reaction so far is consistent with previous periods of heightened geopolitical tension. The market does not seem to be pricing in a high probability of our negative scenario.
- In our base case, we expect equity markets to recover, credit spreads to remain broadly stable, and interest rates to show limited movement as the global economic backdrop continues to be supportive and corporate earnings are solid. However, net energy-importing countries and energy-intensive sectors are likely to lag those that are energy exporters or less oil-dependent.
- The Swiss franc should stay firm but is unlikely to appreciate significantly against the euro, given the SNB's readiness to intervene. The USD may strengthen further versus the EUR, reflecting the eurozone's reliance on imported energy.
- Uncertainty around geopolitical developments and oil prices remains exceptionally high. In this environment, we continue to adopt a prudent risk stance while ensuring portfolios remain broadly diversified, including real assets, commodities, and precious metals in the portfolios, where possible.

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