Perspectives

Flash Comment Real Assets

SwissLife
Asset Managers

9 March 2026

Iran war and its implications

Latest development

Over the weekend, the price of a barrel of Brent crude oil in USD shortly rose by around 25%. Since the beginning of the war, equity indices have lost between 5% and 10%. 10-year government bond yields increased by 15–30 basis points.

Impact on Europe's real estate and infrastructure markets

- How events in the Middle East will shape European real estate and infrastructure markets will depend on the length of the conflict and constraints on the energy markets.
- Economic uncertainty would affect the letting markets, while a geopolitically determined wait-and-see stance would affect the transaction market.
- Only a longer-lasting conflict with persistent inflationary or economic pressure would have structural consequences and thus the relevance that is analysed in detail below.

Flight to safe assets

Uncertainty leads to increased volatility on the financial markets. Institutional investors such as pension funds, insurance companies or sovereign wealth funds seek stable cash flows during such periods and shift capital to real assets.

The offer of real estate and infrastructure

- Relatively stable and predictable cash flows
- Lower price volatility than for equities
- Portfolio diversification benefits

Inflation: real estate as a protection mechanism

- Rising energy prices are increasing inflationary pressure. Real estate is considered to provide protection from inflation because:
  - Leases are often indexed
  - Rents at strong locations continue to rise and new lettings enable higher income to be generated
  - Tangible assets better preserve their real value

Operating costs and expansion of renewable energies

- Rising energy prices increase ancillary costs. The focus will shift even more to the energy consumption of buildings, especially with regard to ESG and other regulatory requirements and the long-term competitiveness of energy-intensive properties.
- The expansion of renewable energies in Europe continues to gain in importance in order to reduce dependence on fossil energy imports and increase the resilience of the energy system.

Interest rate environment: possible scenarios

- In the baseline scenario, we expect key ECB and SNB interest rates to remain unchanged. Higher commodity prices can influence inflation and indirectly influence monetary policy. Two alternative scenarios are plausible:
- Scenario A: Key interest rates to be raised
  - Should second-round effects in terms of inflation force central banks to tighten monetary policy again, transaction activity in the real estate market would be dampened.
- Scenario B: Key interest rates to be lowered
  - Central banks could react to a sharp downturn in the economic environment with interest rate cuts in order to stimulate activity. In this case, the investment market will experience a revival in the medium term.

Conclusion

- The key factor is the interest rate trend.
- Long-term investors are advised to continue to focus on robust structural drivers. Our focus is on the "4 L": living, life science & tech, logistics and light industrial.
- The infrastructure sector enjoys stable long-term demand in the areas of defence, energy & network infrastructure and communication.

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