

U.S. and Israel strike Iran

Market impact likely hinges on the scale of oil-supply disruption

IN A NUTSHELL

- U.S.–Israeli strikes on Iran raise geopolitical risk. We expect markets to react mainly via oil-price dynamics.
- Oil (and other commodity) prices are likely to spike in our view. A subsequent recovery should depend on the extent of disruptions to Iranian supply and Strait of Hormuz flows.
- We expect perceived safe-haven assets¹ to benefit, while risk assets face near-term pressure as risk premia increase.

On Saturday, February 28, Israel and the U.S. launched a strike on Iran. U.S. President Donald Trump stated this was a “massive and ongoing operation,” while Israeli Prime Minister Benjamin Netanyahu clarified that the operation’s goal was “to remove the existential threat posed by the terrorist regime” and indicated it would go on “as long as needed.” Iran has begun retaliating by launching missiles toward Israel and striking U.S. military bases in the region.²

This comes after a second round of nuclear talks between U.S. and Iran had concluded without a deal on February 17 and the U.S. had rapidly increased its military presence in the region with a deployment that was seemingly tailored to a multiday invasion.³ Another round of technical talks had been planned in Geneva in the week starting March 2, however, Trump had stated on Friday (Feb 27) that he was “not happy” with the progress of the talks.⁴ According to the Washington Post, both Saudi Arabia and Israel had been lobbying Trump for weeks, saying that “Iran would come out stronger and more dangerous if the U.S. didn’t strike now, after amassing the largest military presence in the Middle East since the 2003 invasion of Iraq.”⁵

During the joint U.S. and Israeli strike, Iran’s Supreme Leader Ayatollah Ali Khamenei and other senior members of the Islamist regime were killed on Saturday. According to sources comparing it with previous operations in the Middle East, the U.S. military presence “lacks the size and capabilities needed for major combat operations or regime change,” which would require ground forces.⁶ The Center for Strategic & International Studies reports that, based on the current presence, the operation is expected to last for approximately a week.⁷ Trump also hinted at this time frame, announcing the “bombing, ... will continue, uninterrupted throughout the week or, as long as necessary to achieve our objective of peace throughout the middle east and, indeed, the world!”⁸ While regime change is one of Trump’s announced goals, several sources⁹ suggest this may not be a necessary condition to ending the strike. According to a recent poll, the majority of Americans did not support any military action in Iran and feared a prolonged conflict, which puts significant pressure on the U.S. President in a midterm election year.¹⁰ Instead, Trump has called on the Iranian people to take over the government.¹¹

¹ Financial safe havens are investments or assets that are expected to retain or increase in value during times of market turbulence.

² “U.S. and Israel launch attack on Iran as Trump calls for regime change,” The Washington Post as of 2/28/26

³ 7 Experts on the Risk of a Wider War with Iran,” Politico Magazine as of 2/24/26

⁴ “Trump says he’s ‘not happy’ with Iran talks but will wait to see what happens in further rounds,” PBS NewsHour as of 2/27/26

⁵ “Push from Saudis, Israel helped move Trump to attack Iran,” The Washington Post as of 2/27/26

⁶ “With Trump’s Middle East Buildup, Think Desert Fox—Not Desert Storm,” Center for Strategic & International Studies as of 2/27/26

⁷ “With Trump’s Middle East Buildup, Think Desert Fox—Not Desert Storm,” Center for Strategic & International Studies as of 2/27/26

⁸ See for example “US and Israel launch massive attack on Iran,” Politico as of 2/28/26 and “Trump floats regime change in Iran, muddying the administration’s message,” Politico as of 2/28/26

⁹ “Despite massive US attack and death of Ayatollah, regime change in Iran is unlikely,” The Conversation as of 2/28/26

¹⁰ “CBS News poll on Americans’ views on Iran prior to conflict,” CBS News as of 2/28/26

¹¹ “Trump says new call for regime change in Iran justified by ‘imminent threats’ to US,” abcNews as of 2/28/26

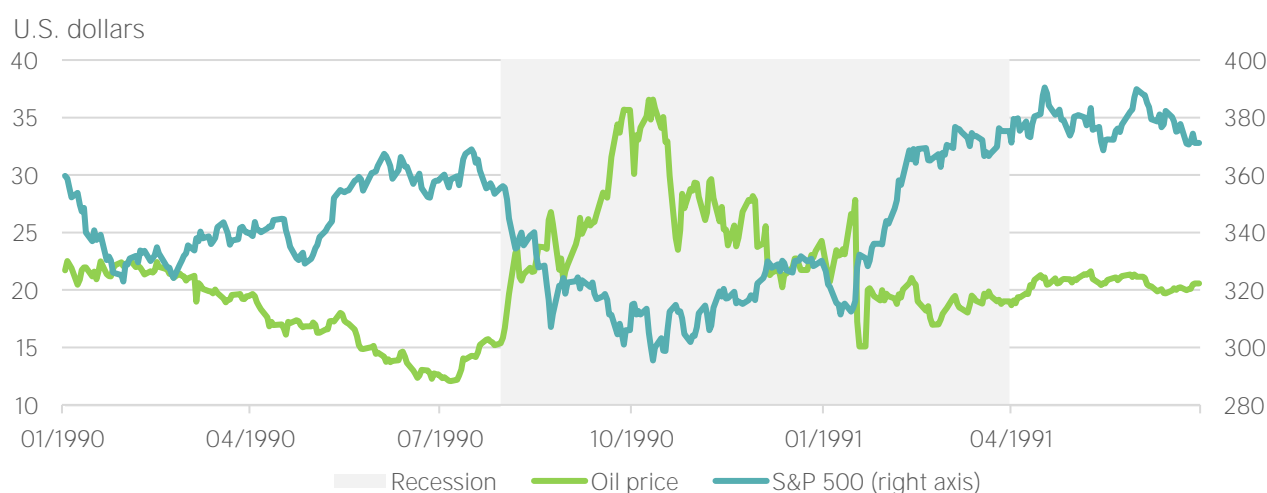
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Economy and markets will likely be most affected by the oil-price reaction

If history is a guide..

Geopolitical tensions tend to leave markets more or less unaffected as long as they have no impact on fundamentals. The oil price has traditionally been an important transmission mechanism from conflict to fundamentals and markets. A classic example of such a development was Iraq's invasion of Kuwait on August 2, 1990. The oil price, which averaged \$18 in 1990 until July 31, 1990, jumped to \$36. A recession began in the U.S., and the S&P 500 fell from 369 in mid-July to 295, thus narrowly meeting the definition of a bear market (a decline of at least 20%). While the recession (National Bureau of Economic Research definition) continued until April 1991, the stock market bottomed out in October 1990 and exceeded its pre-war level in February 1991.

Oil price vs. S&P 500 development during 1990 Kuwait invasion



Source: Bloomberg Finance L.P., DWS Investment GmbH as of 2/26/26

In addition to the oil price, supply chains have emerged as another important transmission mechanism for geopolitical events in the economy and markets. In the case of Iran, however, global supply-chain dependence is very low – so in our view the main impact should come from the oil price.

Two fundamental factors influencing the oil price

For the oil price it matters most whether the strike leads to a prolonged disruption to supply or just a short-term shock. Venezuela and the strike on Iran last year were both short-term shocks and the effect on the oil price faded fairly quickly. With regards to the current strike, two fundamental factors can influence oil supply and, consequently, oil prices. First, the impact on Iranian supply and, second, any disruption to trade in the Strait of Hormuz.

Iran produces ~4% of global oil supply

Iran produced 3.13 million barrels per day (mb/d) in January 2026, equivalent to about 4% of the world's crude oil.¹² Given the very low supply and demand elasticity in the short term, any decrease in that supply could lead to significant jumps in

¹² Iran Crude Oil Production, Trading Economics as of January 2026

the oil price, although part of the move had already happened before the strike. A subsequent recovery of the oil price would also depend on how quickly the Organization of the Petroleum Exporting Countries (OPEC) could compensate for the lost supply. "OPEC's spare capacity is roughly half of Iran's total output," states Darwei Kung, Head of Commodities at DWS.

20% of petroleum liquids and LNG flows are shipped through the Strait of Hormuz

Iran controls the northern side of the Strait and could disrupt shipping via mines, submarines, missiles and boats. According to early reporting, Iran has already warned ships to avoid the Strait of Hormuz.¹³ Nearby fighting could also lead vessel operators to avoid the Strait voluntarily – and some have actually already paused or reduced transits through the Strait, given the worsening security after the U.S.'s strike on Iranian nuclear sites in June 2025.¹⁴ However, the U.S. Energy Information Administration (EIA) notes that there are very few alternative options to transport oil from any of the Gulf states if the Strait is blocked. Only Saudi Arabia and the United Arab Emirates (UAE) have pipelines that bypass the Strait, but their capacity is limited.¹⁵ Kung notes: "If the strike were to sink a ship in the Strait of Hormuz, for example, it would be blocked for months which would lead to prolonged supply disruption. A ground invasion would also be a lot more disruptive to supply than air strikes only."

Restrictions on traffic through the Strait of Hormuz or a full blockade could therefore have a significant impact on the oil supply. In the last two years, an average of 20 mb/d of petroleum liquids passed through the Strait of Hormuz, equivalent to around 20% of global consumption and global supply.¹⁶ In addition, 20% of Liquefied natural gas (LNG) flows are also shipped through the Strait of Hormuz.¹⁷ Therefore, any disruption would put significant stress on the energy markets. Given U.S. shale and LNG production, the impact would be felt more in Europe and Asia than in the U.S.

Operational oil-supply-disruption scenarios

1. Short-lived logistical frictions to moderate export disruption (no transit impairment)

This scenario assumes that U.S. military action avoids energy infrastructure and the Strait of Hormuz remains open, with Iran responding in a calibrated way that prevents major escalation. While any disruption would begin as short-lived logistical frictions – mainly brief tanker delays lasting 1–3 weeks and reducing supply by up to 0.5 mb/d—a broader strike targeting additional strategic assets could introduce temporary interruptions at export terminals and short-term power or communication outages. As a result, Iran's crude exports could decline more materially, by roughly 0.8–1.5 mb/d for 4–10 weeks, depending on how quickly operations normalize. We would expect gold and oil prices to increase but return to prices slightly lower than pre-conflict levels as markets anticipate an end to the disruption.

2. Transit impairment

This scenario describes a major U.S. strike and a strong Iranian response, where Iran increases maritime pressure in the Gulf but avoids fully closing the Strait of Hormuz to prevent damage to its own economy and China's, which relies on Iranian oil. Iran would employ tactics like fast-boat harassment, selective tanker seizures and drone or missile demonstrations to heighten risk. Shipping would slow, with some vessels withdrawn, higher insurance costs and potential naval escorts, reducing fleet productivity. Stephan Werner, Head of Investment Strategy Equity at DWS, notes "We estimate this productivity loss to translate into an effective supply tightening of ~2.5 mb/d for several weeks. This could cause Brent prices to surge and prompt spreads to widen, much like early 2022, as market participants compete for immediate oil supplies." Similar to the previous scenario we do expect prices to come down once an end to the disruption is on the horizon.

¹³ Source: Frank Kelly, Founder & Managing Partner at Fulcrum Macro Advisors LC as of 2/28/26

¹⁴ "Shipping groups avoid the Strait of Hormuz to reduce exposure after U.S. strikes on Iran," CNBC as of 6/23/25

¹⁵ "Amid regional conflict, the Strait of Hormuz remains critical oil chokepoint," U.S. Energy Information Administration as of 6/16/26

¹⁶ "Strait of Hormuz tensions: Impact on global oil prices amid Iran-US standoff," Gulf News as of 2/23/26

¹⁷ "Strait of Hormuz tensions: Impact on global oil prices amid Iran-US standoff," Gulf News as of 2/23/26

3. Transit blockage in the Strait of Hormuz

This scenario is a substantial departure from prior engagements between the U.S. and Iran. We would expect the price impact on commodities to be longer and more sustained. The oil price could spike and stay elevated until the Strait is reopened / fully operational. In addition to losing Iranian barrels, export from other gulf states could also be interrupted until the Strait is clear for seaborne traffic again. The gold price would likely make new highs. Other commodity prices could also rise, especially those exported from the Gulf. LNG from Iran, the UAE and Qatar would face disruptions, though some flows could be rerouted via pipelines. As Iran is the world's third-largest Urea exporter, Urea prices would likely increase, raising fertilizer and industrial-goods costs and potentially pushing food prices higher.

Frank Kelly, Founder & Managing Partner at Fulcrum Macro Advisors LLC, notes that in addition to the Strait of Hormuz possibly being closed, he is also closely monitoring whether critical Gulf oil infrastructure would be struck, which "could be as or more disruptive to Gulf oil exports." Darwei Kung, Head of Commodities at DWS, notes, however: "The U.S. has demonstrated a strong desire to maintain oil production. During the 1990-91 Gulf War, U.S. and allied forces went out of their way to protect oil fields with ground troops. During the more recent conflicts, the U.S. and Israel have demonstrated the very clear intent to avoid destruction of the oil infrastructure for both Iran and Venezuela. Iran could try to disrupt the oil production, and we would expect the U.S. to apply full force to protect the oil infrastructure."

Other asset-class implications

Fixed Income & Currencies:

"In the short term, we expect perceived safe-haven assets, such as Bunds and U.S. Treasuries, to benefit. Any longer-term impact would depend on the impact that the oil price development has on growth and inflation," says Oliver Eichmann, Head of Rates, EM and Duration for EMEA.

Xueming Song, Currency Strategist at DWS, states: "Given the heightened geopolitical uncertainty, we expect currencies that are historically considered safe havens, such as the U.S. dollar and the Swiss franc, to strengthen, while more risk-sensitive Emerging-market currencies may weaken."

Equities:

The capital markets were already anticipating a military strike. According to Polymarket, markets were pricing in a considerable probability of a strike by the end of March.¹⁸

Thomas Bucher, Head of Investment Strategy Equity at DWS, notes: "As long as U.S. military action remained locally contained, we assume that equity markets would not react strongly and would not suffer lasting damage." We rather expect them, similar to other risk assets, to suffer initially and – in line with the developments in the Kuwait attack in 1990 – recover once an end to the conflict is foreseeable and the oil price comes down again. However, the outcome of such a military operation is unforeseeable and the situation as well as the capital-market implications have to be re-assessed on a daily basis.

¹⁸ Polymarket as of 2/26/26

Summary

We expect the joint U.S. and Israeli strike on Iran to continue at least until the end of the week. The strike should impact the economy and markets mainly via the oil-price reaction, which is determined by the restrictions the conflict could impose on Iranian oil production and trade flows in the Strait of Hormuz.

As the strike goes on, we expect oil (and other commodity) prices to rise sharply. If the Iranian retaliation were to be aimed at getting back to the negotiating table, we would expect oil prices to come down again quickly. An escalation that impacts the Strait of Hormuz could significantly impair oil supply and see the oil price rise sharply and remain at elevated levels until the Strait is fully operational again.

In the short term, we expect perceived safe-haven assets, such as U.S. and German government bonds and gold, to benefit, while risk premia in equities and other risk asset classes increase. Any longer-term impact would depend on the impact that the oil-price development has on growth and inflation.

Glossary

Brent crude is a grade of crude oil dominant in the European market.

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

The **Organization of the Petroleum Exporting Countries (OPEC)** is an international organization with the mandate to “coordinate and unify the petroleum policies” of its meanwhile 12 members.

A **recession** is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

The **risk premium** is the expected return on an investment minus the return that would be earned on a risk-free investment.

The **S&P 500** is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

Shale oil is a type of unconventional oil found in shale formations.

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

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