

Military strikes against Iran – first thoughts

Key Messages

- 1. The United States and Israel launched joint military strikes against Iran over the weekend.** Limited market reactions at this stage.
- 2. Base-case scenario:** military operations and political uncertainty remain elevated short term, but shipping lanes and energy exports remain largely operational. Tensions ease and risk premium reduces soon.
- 3. In our two alternative scenarios,** the risk is high inflation and sustained uncertainty. That environment would likely support the USD and limit its downside during the period. It is unlikely that central banks would react even in these alternative scenarios.
- 4. We upgrade Oil to Neutral from Negative with a short-term target of USD 80 for Brent.** However, we keep our mid-term (12-month) target range of USD 60–70: once the Iran-related disruption risk eases, the market will focus on underlying overcapacity.

The events over the weekend and our first thoughts

The United States and Israel launched joint military strikes against Iran over the weekend. The targets were political leadership, missile capabilities, and naval facilities. Iran's retaliation was faster and broader than last year's strikes. With much of the Iranian leadership apparently eliminated, it is not yet clear who will assume leadership or what their priorities will be. It is also uncertain how, or whether, a regime change could be achieved and what the implications might be. Oil prices rose sharply, briefly reaching USD80/barrel. The decline in equity markets is limited at this stage. Safe-haven assets such as gold, government bonds and the Swiss franc were up, with US 10-year yields remaining below 4%.

The impact for oil prices and the economy

During this escalatory phase, we expect a sizeable upward impact on oil and gas prices as geopolitical risks increase. Particularly when Iran is involved, there is the threat of Iranian retaliation by blocking the entrance of the Persian Gulf (the Strait of Hormuz), through which more than 20% of global oil and LNG supply passes. Currently Iran is not actively blocking the Strait of Hormuz, but *de facto* it is temporarily closed as oil tankers (or their insurance companies) don't want risk navigating through the Straits.

In our base-case scenario, we see short-lived military action (a few days or weeks), a fast resolution without regime change and no prolonged energy disruption. Under this scenario, military operations and political uncertainty remain elevated in the short term, but shipping lanes and energy exports stay largely operational. Tensions ease and the market risk premium reduces soon, with the oil price returning to its recent USD 60 – 70 trading range. Equity markets soon rebound.

Scenario 2: Escalating or long-lasting military conflict with regular energy and logistical disruption (negative scenario). The oil price could rise further, potentially above USD 100, inflation would then increase, with a higher risk of economic recession and of a significant equity market correction.

Scenario 3: Change in Iranian regime, co-operating with the West, signing of a nuclear deal and the lifting of export sanctions (constructive scenario). We assign a low probability to this third scenario.

Since the end of 2025, Iran has experienced significant domestic turmoil, with protests over economic deprivation, currency devaluation, high inflation, and declining living standards. Demonstrations in several cities pointed to deep structural dissatisfaction. If a political transition leads to internal stabilisation and reduced confrontation with the West, the medium-term implications could be constructive. The oil price could fall below USD 60, as the current oil risk premium dissipates. The oil market would then reflect bearish underlying fundamentals (oversupply) without the support of Middle East supply disruption.

Taking into account these different possible scenarios, with the risk of a sustained disruption in the Strait of Hormuz, we upgrade our view on Oil to Neutral from Negative with a short-term target of USD 80 for Brent. However, we keep our mid-term (12-month) target range of USD 60-70, as once the Iran-related disruption risk eases the market will look again at underlying overcapacity in the global oil market.

On the macro side, the downside risk is high inflation and sustained uncertainty. This is not present in our base-case scenario. However, in the two alternative scenarios there is upside for inflation, and the risks are somewhat higher for the eurozone. The advantage is that eurozone inflation is currently low and well below US levels. That environment would likely support the USD and limit its downside during the period. It is unlikely that central banks would react in these alternative scenarios; they would probably look through the near-term inflationary pressure.

Epic Fury, Little Impact on market so far

Both the extent of the operation “Epic Fury” and the response by Iran go beyond what markets have expected up to now. We now face the risk of an extended period of higher oil prices, potentially rising above USD 100 in the worst case. Unless this risk materialises, we do not expect the current episode to have a long-lasting negative impact on the economy and business profits.

Historically, such episodes have in the main failed to derail the economy, resulting in only a temporary market correction. Looking at all major Oil/Middle East-related geopolitical risk events since 1990, we find that the S&P 500 has lost only 5% on average, and that it took the market less than 41 days to recover those losses (Table 1).

At this point in time, we do not think this episode will be any different and would rather see any extended market weakness as a long-term buying opportunity. Were crude oil to trade at much higher prices for an extended period, thereby derailing global economic growth, we would have to reassess our current Positive stance on equities. Hence, we will closely monitor the situation in the Strait of Hormuz very closely, as the fate of the equity market will be determined by the oil price in the coming weeks.

TABLE 1: HISTORY SUGGESTS THAT THE IMPACT FROM GEOPOLITICAL CRISES ON THE EQUITY MARKET IS LIMITED

Events	Date	S&P 500			
		Move at T	max Drawdown (MDD)	Days until MDD	Days until recovery
US attacks on Iran	28.02.2026	?	?	?	?
US attack on Iranian Nuclear sites	22.06.2025	0,96%	0,00%	1	1
Russian Invasion in Ukraine	24.02.2022	1,55%	-2,53%	1	1
Iranian General Killed In Airstrike	03.01.2020	-0,70%	-1,34%	1	5
Saudi Aramco Drone Strike	14.09.2019	-0,30%	-4,00%	19	41
North Korea Missile Crisis	28.07.2017	-0,10%	-1,50%	14	36
Bombing of Syria	07.04.2017	-0,10%	-1,20%	7	18
Boston Marathon Bombing	15.04.2013	-2,30%	-3,00%	4	15
London Subway Bombing	05.07.2005	0,90%	0,00%	1	4
Madrid Bombing	11.03.2004	-1,50%	-2,90%	14	20
U.S. Terrorist Attacks	11.09.2001	-4,90%	-11,60%	11	31
Iraq's Invasion of Kuwait	02.08.1990	-1,10%	-16,90%	71	189
Reagan Shooting	30.03.1981	-0,30%	-0,30%	1	2
Yom Kippur War	06.10.1973	0,30%	-0,60%	5	6
Munich Olympics	05.09.1972	-0,30%	-4,30%	42	57
Tet Offensive	30.01.1968	-0,50%	-6,00%	36	65
Six-Day War	05.06.1967	-1,50%	-1,50%	1	2
Gulf of Tonkin Incident	02.08.1964	-0,20%	-2,20%	25	41
Kennedy Assassination	22.11.1963	-2,80%	-2,80%	1	1
Cuban Missile Crisis	16.10.1962	-0,30%	-6,60%	8	18
Suez Crisis	29.10.1956	0,30%	-1,50%	3	4
Hungarian Uprising	23.10.1956	-0,20%	-0,80%	3	4
N. Korean Invades S. Korea	25.06.1950	-5,40%	-12,90%	23	82
Pearl Harbor Attack	07.12.1941	-3,80%	-19,80%	143	307
Average		-0,97%	-4,53%	18,91	41,30
Average (Oil / Middle East related events since 1990)*		-0,66%	-5,37%	15,86	40,86

Source: BNP Paribas, Bloomberg

Equity sectors – short- vs long-term impacts

We are seeing the usual suspects benefitting from the current situation as both energy and defensive names are trading higher. On the other hand, consumer-related stocks, especially discretionary sectors, like travel and leisure, are unsurprisingly facing selling pressure, as are energy-intensive companies and logistic networks.

Whether or not the situation has a longer lasting impact on those sectors is too early to tell. This will be subject to the extent of the current oil spike, both in terms of magnitude and duration. Our preferred hedges against a downside scenario are defence and oil service companies. The former are enjoying structural tailwinds which are being reinforced by the current situation, as it should encourage higher defence spending irrespective of the outcome of the US/Israel operation in Iran. The Oil Services subsector should benefit if oil infrastructure is heavily impacted, which might strain oil majors. We think that increasing investments to reduce dependence from the chokepoint Hormuz should provide some longer lasting support to this segment.

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