

SPECIAL EDITION

# UBP Weekly View

US / Iran tensions | 2 March 2026



UNION BANCAIRE PRIVÉE

# US/Iran tensions

## Summary

The developments in the Middle East over the weekend mark an expanded regionalisation of previous conflicts, heightening the risk of a more prolonged crisis that could weigh on oil prices if tensions persist over the coming weeks. At present, supportive policy settings and resilient corporate earnings continue to underpin the global economic backdrop, leaving our baseline scenario intact, even though we cannot rule out a temporary spike in volatility should the situation deteriorate further.

## Market recap

	Last Close (27.02.2026)	1-Week Total Return	1-Month Total Return	Year-to-Date Total Return
S&P 500	6 879	-0.4%	-1.4%	0.5%
NASDAQ Composite	22 668	-1.0%	-5.0%	-2.5%
STOXX Europe 600	634	0.5%	4.2%	7.0%
MSCI Japan	2 409	3.4%	11.0%	15.3%
MSCI EM	1 611	2.8%	3.5%	14.7%
US 10yr Yield	3.95%	-14 bps	-30 bps	-21 bps
Gold (USD/oz)	5 278	3.4%	-2.3%	22.3%
Brent Crude Oil (USD/bbl)	73	1.2%	5.5%	19.1%

Source(s): Refinitiv

# Beyond the numbers

## Geopolitical risks

Geopolitically, the 'major combat operations' begun in Iran over the weekend by the United States and Israel represent both the second 'regime change' operation initiated by the United States in 2026 and also an ongoing reshaping of the Middle East's balance of power that began with the 7 October 2023 attacks on Israel by Hamas.

The overt 'regime change' objective outlined by US President Donald Trump raises the risk of a more prolonged conflict than the 12-day war of 2025, and an increased prospect of targeting of energy infrastructure in the Gulf by Iran, as well as of Iranian energy infrastructure by the United States and Israel in an attempt to weaken Iran's Revolutionary Guard following the assassination of Iran's leader over the weekend.

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Indeed, historically, investors have been rewarded for ‘looking through’ conflicts between, on the surface, mismatched adversaries, such as between the US and Iran currently. However, since World War II, prolonged conflicts, even between mismatched adversaries, such as following Russia’s 2022 invasion of Ukraine, have resulted in meaningful and, importantly, prolonged equity drawdowns for investors, requiring a proactive risk management approach as the current conflict unfolds.

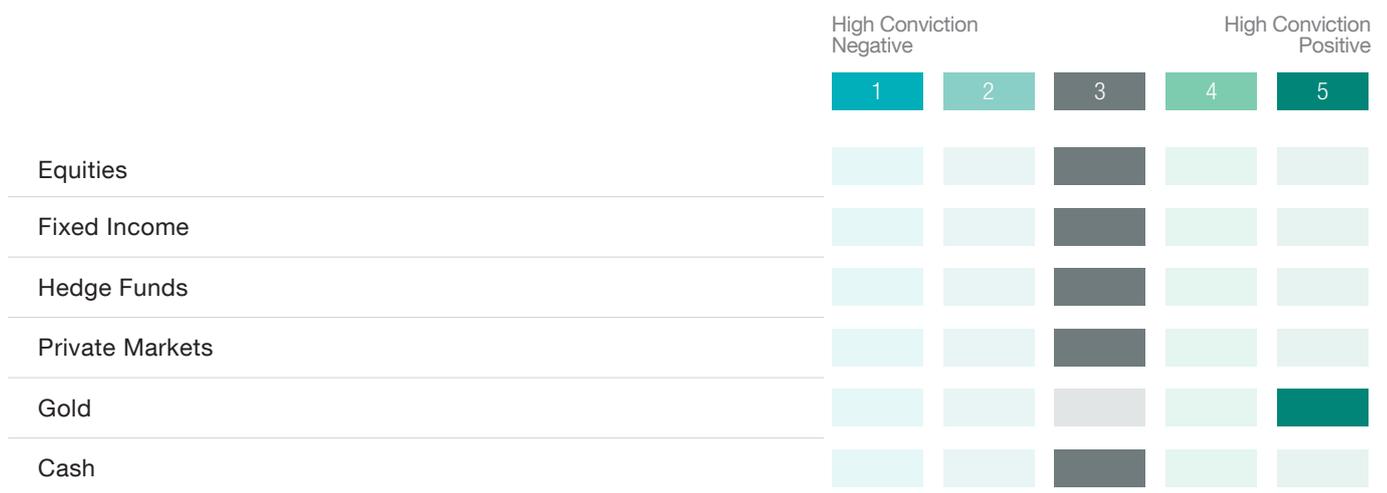
### Macroeconomics

With a conflict in the Middle East, oil prices are key, as they would act as conduit for the transfer of any energy shocks and geopolitical risks to the world economy. Brent prices reached USD 80/bbl this morning (Monday), and the situation remains uncertain, as this regional conflict could last for several weeks.

If oil prices remain around USD 80/bbl for a short period of time, the impact on global activity and inflation should remain limited and manageable. If oil reaches USD 100/bbl, the impact on activity should turn more negative, potentially knocking close to 0.5 percentage points off global growth as well as possibly adding around 2.0 percentage points to inflation. Should a scenario of a major oil disruption and a long closure of the Strait of Hormuz come about, oil prices could reach USD 120/bbl, which could severely damage current growth and potentially push activity into recession.

In the last year, the global economy has been resilient, and the impact of geopolitical shocks was rapidly absorbed. Now, however, the length and the magnitude of a major regional conflict in the Middle East looks more uncertain and the negative impact could potentially be higher for the Middle East, Europe and Asia, particularly as the latter two regions are heavily energy- and import-dependent.

### Asset allocation: strategic views as at March 2026



High Conviction Negative 1 2 3 | Baseline Allocation 3 | High Conviction Positive 4 5 | Previous view ● (no dot means no change)

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## Asset allocation and Equities

The primary transfer of the Iran conflict to financial markets is likely to occur primarily through oil prices. While broader financial conditions remained supportive through February, a sustained spike in the price of crude threatens to recalibrate 2026 interest rate expectations if energy costs begin to fuel broader inflationary pressures.

For now, the global economic backdrop is characterised by supportive policy settings and resilient corporate earnings, which prevents a fundamental shift in our baseline scenario. This positioning remains anchored in positive earnings growth, though we acknowledge that a temporary increase in volatility is likely if the situation escalates further.

At portfolio-construction level, we are emphasising risk mitigation through our fundamentally positive view on gold, as its convex profile provides valuable protection despite current valuations; consequently, we have increased our gold exposure in the last two weeks, funded by a reduction in our exposure to AT1s/hybrids.

Historically, oil shocks have short-lived effects on equity markets unless they trigger a persistent demand shock or liquidity crisis. At present, the record capital expenditure plans by artificial intelligence (AI) hyperscalers remain more consequential for the long-term macroeconomic outlook than the current oil market volatility.

As equity indices – particularly non-US benchmarks – remain close to all-time highs and appear vulnerable to profit-taking, we are managing the potential risk of market disruption and protecting the year-to-date positive performance by tactically hedging our exposure through options. Furthermore, we are upgrading our energy sector rating from 2/5 to 3/5 as a risk management exercise, maintaining this neutral tilt until the immediate threat of a supply shock dissipates.

We mitigate the risk of market disruption by safeguarding equity exposure with tactical trades

## Fixed income

Rates continued to decline last week, with 10-year US Treasury yields breaching the 4% mark on Friday despite both a higher-than-expected Producer Price Index (PPI) and the US Supreme Court ruling against global tariffs, as the markets positioned themselves in a risk-off mood in anticipation of a conflict with Iran. Spreads, which had been at multi-year lows for most of the year, moved up during the month, especially in the last couple of trading days, although the magnitude remains contained.

This morning, following the escalation of the conflict between the US/Israel and Iran, US rates initially opened lower, but rallied through the night and are currently up 3 basis points from their Friday close. This move is being driven by the spike in oil prices and the potential impacts on inflation that a prolonged conflict could have. Similar moves occurred in euro and sterling rates. We are maintaining our relatively elevated duration exposure (4.5 years in USD and GBP and 4 years in EUR) for the moment in view of the deflationary impact of

Following the US/ Iran tensions, US rates rose 3 basis points overnight, driven by a spike in oil prices and concerns over a lasting conflict

AI (among other aspects), but we would reassess this position in a scenario where the conflict drags on, given the impact of higher oil prices on inflation dynamics and also questions about US deficit increases to fund a prolonged war.

The Gulf Cooperation Council (GCC) bond markets enjoy some of the tightest spreads in emerging markets, with the UAE, Kuwait, Qatar and Saudi Arabia sovereign bond indices all having spreads under 100 bps. Naturally, if the conflict drags on, and if more infrastructure is targeted (airports in Dubai, Abu Dhabi and Kuwait were hit by Iranian missiles and drones over the weekend), the higher these spreads should move. It should be noted that, in our allocation we have very little exposure to the region.

As a precaution, we are reducing our exposure to high yield, namely AT1 bonds, given their valuations. Earlier this year the spreads on this segment of the bond market breached the lowest levels on record and hence look more susceptible to a repricing in a scenario where volatility increases, even if the ultimate impact on European banks is likely negligible.

## Forex and Commodities

The outbreak of hostilities in the Middle East has had an immediate and severe impact on markets, with Brent crude and gold trading towards materially higher levels of USD 80/bbl pb and USD 5,400 per oz, respectively. These moves are consistent with price actions that we have seen during other major conflicts, in which we have seen precious metal and oil prices rising rapidly in the days following the start of a conflict (e.g. Ukraine in 2022 and the Gulf Wars). Historically, these price rises tend to fade rapidly, with few lasting effects seen in the markets.

FX markets typically illustrate the following characteristics after the outbreak of hostilities:

- The effects on the USD tend to be mixed, and initial moves are rarely sustained for a prolonged period.
- Safe-haven currencies tend to outperform, though we note that the CHF has demonstrated a greater degree of outperformance than the JPY in this respect in recent years.
- Emerging market currencies typically underperform after the immediate start of a conflict, because market participants move to reduce total levels of portfolio risk.
- These effects tend to fade very quickly – meaning that for the FX market, investors should not panic –, as the most immediate moves are likely to dissipate in the near term.

Over the weekend, gold prices skyrocketed to levels of above USD 5,400 per oz. The upward move reflects an increasing geopolitical risk premium. In previous conflicts, geopolitical risk premia of between 5–10% are the norm, and we note that these upward moves tend to fade quite rapidly in the weeks following the outbreak of a conflict (e.g. the Iran–Iraq War in 1981, and the Gulf War in 1991). This price action has changed in recent years, with, for example, gold managing to sustain and maintain higher price levels for an extended period following the start of the conflict in Ukraine in 2022.

History shows that precious metal and oil prices tend to surge in the days following the start of a conflict, reinforcing gold's trajectory

We believe that gold is the cleanest expression of increasing risk aversion, because, unlike the energy sector, the fundamental backdrop for gold is one of inelastic supply and robust underlying demand, which has already propelled gold to hit fresh all-time highs in January this year. We note that futures investors hold around 60% of the long gold positions which prevailed in January 2026. Current positioning is equivalent to around USD 500 billion. A rule of thumb is that a USD 100 billion inflow is equivalent to around a 3% price rise for gold, meaning that if futures positioning reverts to January's levels, gold can easily rise by at least 5% from current levels of USD 5,400 per oz.

Depending on the intensity and duration of the current conflict, there is ample scope for gold to challenge the highs achieved in January (USD 5,590 per oz). The initial upward move is consistent with what we have seen during previous periods of military conflict, with commodity, precious metal and oil prices charging higher in the days following the outbreak of hostilities. If the conflict is drawn out over several weeks, this gives scope for gold to challenge recent all-time highs. We have consistently highlighted gold's naturally convex properties as being beneficial for investors in periods of heightened geopolitical risk. This is evident once again, and it underlines the importance of maintaining gold positions in portfolios despite elevated valuations.

## Energy

Energy commodities and energy equity prices had already moved sharply higher in anticipation of a conflict with Iran. Iran produces around 3.3 mb/d (~3% of global supply), with around 1.3 mb/d going to China. Iran sits on the Strait of Hormuz, which is critical for Iran's exports and through which around 20% of global crude and 20% of liquified natural gas (LNG) volumes transit. The Strait was effectively closed over the weekend and three tankers were reportedly attacked; however, Iranian authorities stated on Sunday that the waterway remains open. Only around 5 mb/d of pipeline capacity can bypass the Strait.

To date, no confirmed damage has occurred to key infrastructure, including Kharg Island (around 30mb storage; around 2mb/d capacity), however, several precautionary shutdowns were reported in Israel (gas fields), Saudi Arabia (550 kbp/d refinery), Iraq (some oil fields in Kurdistan) and Qatar (biggest LNG plant).

Inventories remain ample and spare capacity exists: large volumes of oil are held on water, with estimates varying from 300–500 mb/d, mainly both sanctioned Russian and Iran barrels. Additionally, the Organisation of the Petroleum Exporting Countries (OPEC) agreed on Sunday to increase output next month (by 206 kb/d), providing a limited buffer, although this would be insufficient in a severe chokepoint scenario.

Historically, geopolitical energy price spikes fade unless there are sustained supply losses, and the market impact tends to diminish unless barrels are physically removed. This conflict is different in scale and, should the instability continue and spill over, it will result in a structurally higher risk premium for oil due to uncertainty.

**Our upward-revised stance on energy aim to hedge tail risks**

We are closely monitoring three key tail risks that could significantly impact energy prices and the sector:

1. prolonged disruption in the Strait of Hormuz,
2. direct & sustained damage to regional oil & gas production and processing infrastructures,
3. a material and extended Iranian supply loss.

As the situation continues to evolve, we have placed our oil price forecast under review and have identified three potential scenarios:

1. Contained conflict: Limited shipping harassment with no lasting damage to supply or shipping. In this scenario, Brent crude prices may spike temporarily before retracing to approximately USD 70/bbl.
2. Rapid de-escalation: A swift easing of tensions leads to the unwinding of the risk premium, with oil prices returning to the low USD 60s/bbl.
3. Severe disruption: A prolonged closure of the Strait of Hormuz or significant damage to export terminals and infrastructure, coupled with a substantial loss of Iranian production, could push Brent crude prices up to around USD 120/bbl.

In the absence of prolonged disruption, much of the recent price movement in the energy equity sector may already have been priced in. If shipping remains undisrupted and energy supply continues without significant losses, the geopolitical risk premium is likely to compress, allowing commodity prices to retrace relatively quickly.

That said, as a risk management exercise, we have upgraded energy from a previously cautious 2/5 rating to 3/5 (meaning hold benchmark exposure, do not decrease yet) to hedge tail risks of any prolonged and significant escalation. The higher risk premium, if sustained, will also support corporate earnings and free cash flow upgrades.



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