

## US/Israel/Iran Conflict

### INVESTMENT TEAM COMMENTARY

***On Saturday, February 28, the United States and Israel struck Iran in an operation called "Operation Epic Fury". According to The Wall Street Journal, Israeli and American intelligence services seized an exceptional opportunity in which the highest Iranian political and military leaders - including Supreme Leader Ali Khamenei - were gathered, to carry out a massive broad daylight airstrike that devastated the complex where they were located. Iranian state media confirmed that Supreme Leader Ali Khamenei was killed on the morning of February 28 in Tehran. As of the morning of March 2, military operations by the various belligerents are ongoing.***

### ECONOMIC IMPACT

The first and main transmission channel of this shock is the price of commodities, especially oil, which had already risen by more than 16% since the beginning of the year on the New York (WTI) market, and 19% on the London (Brent) market, its main benchmark. This negative supply shock represents a loss of wealth for all net importing countries: concretely, if price increases prove durable, they will weigh on household purchasing power and slow companies' investment as production costs rise. Europe is more exposed from an energy standpoint than the United States, which is now a net exporter of oil.

The second channel is confidence. Geopolitical tensions heighten uncertainty, reduce the confidence of economic actors, and encourage households and companies to adopt a wait and see attitude. The magnitude of this effect will depend on the duration and intensity of the escalation in the Middle East.

Regarding oil and all else being equal, each persistent \$10 increase per barrel generates approximately +0.4 percentage points of additional inflation (mainly through the energy component). In terms of growth, the negative impact would be lower in the United States than in the Eurozone, for the reasons mentioned above. In the U.S., the drop in consumption would be partially offset by increased investment in the sector. Based on the elasticities used in Ofi Invest AM models (see [here](#) for example), such a shock would have an impact of around -0.2% on Eurozone GDP and -0.1% on U.S. GDP.

Obviously, the final macroeconomic impact will depend on how the situation evolves, although we can already say that the most extreme alternative scenario would likely be that of a real and lasting blockade of the Strait of Hormuz, something that has never happened in the past. The consequence of such an event would be a major shock to oil prices, which could reach \$100 per barrel. Depending on how long such a price level is maintained, the Eurozone could enter a phase of GDP stagnation.

Faced with this type of extreme supply shock - which would mainly affect the most volatile components of inflation - we believe that the ECB, and probably the Fed, would keep interest rates stable at first, waiting to observe how the situation evolves.

Despite the unpredictability of this situation, one factor discouraging a prolonged war (beyond the four weeks mentioned on March 1 by President Donald Trump) and pointing toward a relatively rapid de-escalation is that higher oil prices would further erode American purchasing power - the dominant domestic issue ahead of the 2026 midterm elections.

## **MARKET IMPACT**

It is always risky to play the geopolitical expert, and at this stage, it is very difficult to know with certainty how this conflict will end. Beyond all military scenarios, some factual elements are important to highlight.

Oil prices are expected to continue rising, although the magnitude of the increase will depend on the aftermath of this weekend's strikes. This increase in energy prices, even if temporary, should be seen as both recessionary and inflationary - at least in the very short term. Logically, European markets should decline and volatility should rise. Despite the stagflationary impact of higher oil prices, we believe long term yields should fall slightly, playing their usual role as a safe haven. Likewise, the credit market should see spreads widen.

Until now, we have noted that even though equity market valuations were significantly above long term averages, we remained constructive because earnings growth (mainly in the U.S.), combined with continued significant inflows, justified this overvaluation in a context of resilient growth and clear central bank policy. While it does not seem wise to sell during this period of volatility, it is probably too early to increase positions. We cannot rule out a pessimistic scenario in which the conflict lasts longer than expected and oil prices soar and remain sustainably above \$100. In that case, the correction would be more pronounced and could provide an opportunity to increase exposure.

In the meantime, government bonds (particularly inflation-linked bonds) should be less affected during this uncertain period, and gold should continue to benefit from its safe haven status.

Finally, on the currency front, the dollar should benefit from renewed uncertainty and volatility - even though, paradoxically, the United States is one of the main actors in this conflict.

**Completed on March 2 at 9:00 a.m.**

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