

US-Israel Strikes on Iran: What investors need to know



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Key takeaways:

- 1 US / Israeli strikes on Iran have thus far not disrupted oil supplies with the Strait of Hormuz remaining open (though some ships have chosen to avoid the area). Market reactions will hinge on whether energy flows are disrupted.
- 2 We outline four broad scenarios for potential oil and other market impacts, from stable supply with increased OPEC output to severe disruptions.
- 3 We outline some key indicators to monitor including crude futures, the US dollar's behaviour, OPEC+ decisions, and shipping movements through the Strait of Hormuz.

"This time is different." Four of the most dangerous words in financial markets. But sometimes things are different.

Following the US / Israeli strikes on Iran starting on Saturday 28 February, these are the questions we ask ourselves to determine if things are different today: What are the correct analogues to use? What are the possible scenarios we might face in the coming weeks? What must we now watch to determine what the possible market reaction will be?



Paul Jackson
Global Market Strategist

What we know so far

As we write on the afternoon of Sunday 1st March this is what we understand the current situation to be.

- Early on Saturday morning, the United States and Israel launched a coordinated military assault on Iran, code-named 'Operation Epic Fury' (US) and 'Roar of the Lion' (Israel). **This is different to the actions taken in 2025.** In 2025, the US directly opposed Israel's desire for extended military action and regime change.
- The scale of these strikes was larger than we've seen in the recent past and targeted a mix of Iran's leadership and military infrastructure. Israel struck the capital of Iran, Tehran, including the compound of Supreme Leader Ayatollah Ali Khamenei. Iranian state television has confirmed Khamenei was killed in the Israeli strike. Ali Shamkhani, Secretary of the Iranian Security Council, and Defence Minister Aziz Nasirzadeh have also reportedly been killed. **This is different.**
- Iran has retaliated with missile and drone strikes on US military installations across the region. Civilian areas have been hit in Dubai and Doha, but it is not clear whether these were targeted explicitly. Thus far it does seem as though Iran's retaliatory actions will be broader than in the past. **This is different.**
- We have not seen any reports of oil facilities across the region being hit or disrupted at this point. **This is not different.**

Iranian media claims the Strait of Hormuz is effectively closed, though the state hasn't issued an official blockade. A few ships have been attacked and the latest we have seen is that many are starting to drop anchor rather than travel through the Strait at this time.

Until a new leader can be elected by the 88-member Assembly of Experts (senior clerics), a trio of leaders has been selected to run Iran (the moderate president Masoud Pezeshkian, the hard-line head of the judiciary Gholamhossein Mohseni Ejei, and senior cleric Alireza Araf).

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What's next?

US President Donald Trump and Israeli Prime Minister Benjamin Netanyahu have stated they are pursuing regime change. This means it is not clear what would allow them to quickly declare victory and de-escalate. The situation remains incredibly fluid. The absence of well-defined objectives means the prospect of a prolonged campaign is heightened. Using recent analogies such as Operation Midnight Hammer from 2025 may not be fully appropriate, but they can help frame what we should be watching.

As we write, most markets are closed. We believe the initial reaction in markets is likely to be risk-off, but it might not stay that way. The medium-term reaction will likely be guided by how the oil and — to a marginally lesser degree — gas markets move. That will be determined by whether oil and gas supplies are disrupted and to what degree.

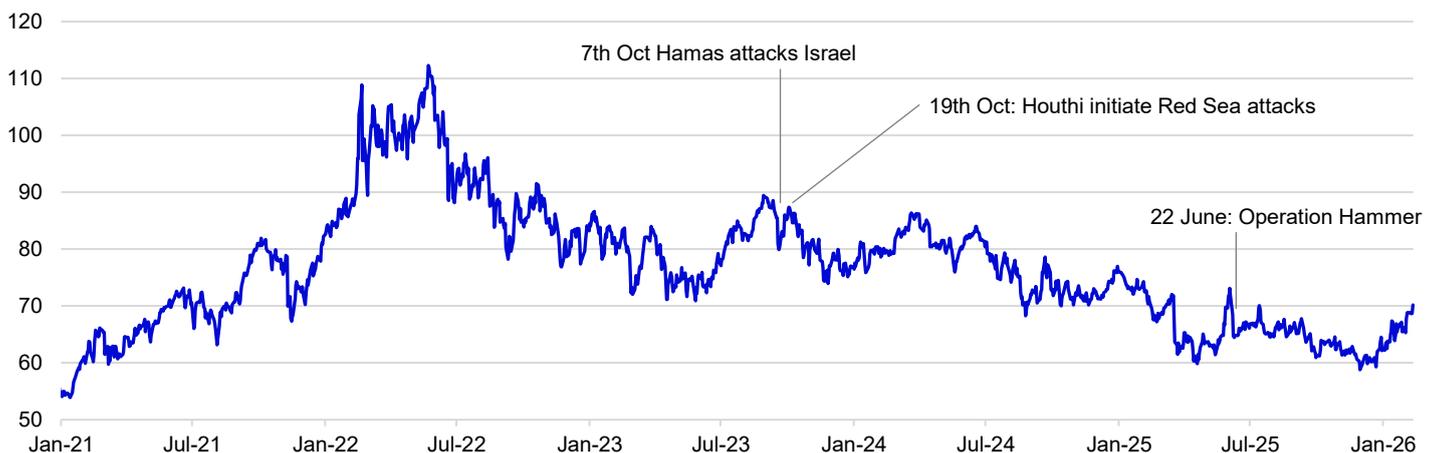
A core tenet to our view is that markets typically fade geopolitical events unless they materially alter economic fundamentals. History shows that markets are largely indifferent to these headlines, reacting meaningfully only when supply, growth, or inflation dynamics are disrupted. Two historical events stand out: In 1973 during the Yom Kippur War, and in 2022 in the wake of the Russia / Ukraine conflict, oil supplies to the world were restricted and a supply shock ensued. Inflation moved higher and risk assets lower (though in 2022, most risk assets recovered relatively quickly). In contrast, the Iraq-Kuwait conflict in 1999 and the US-Iraq conflict in 2003 did not have the same impact on equity markets because oil supplies were broadly unaffected. Oil supplies tend to only fall when demand falls. In 2003, 2004 and 2005 supplies rose.

In writing less than 48 hours since the first strikes, our assessment presently is that oil supplies are largely unaffected. That could change quickly. Indeed, it may not need physical restrictions so long as markets believe such restrictions are possible.

Recent history shows that limited actions in the Middle East have had only very brief impact on the price of oil. Equity markets too have largely ignored these events and moved higher.

Recent tensions in the Middle East have not supported oil for more than a brief period

Brent \$/bbl



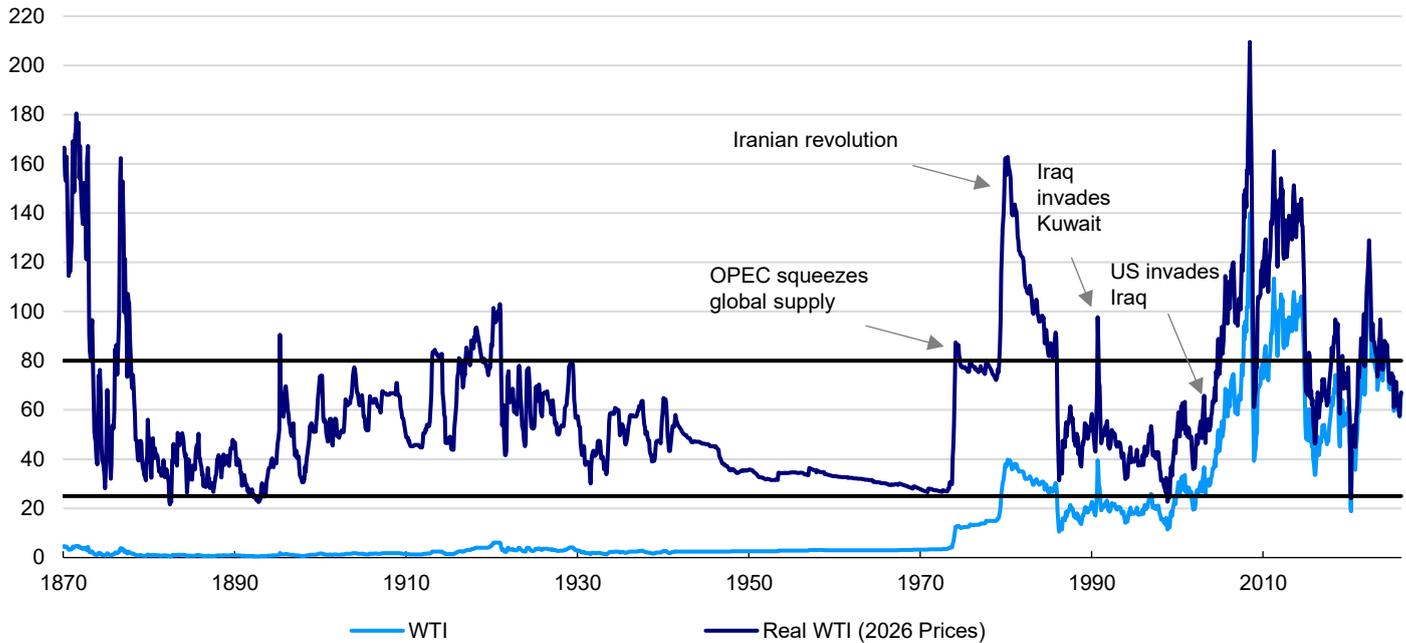
Note: **Past performance is no guarantee of future results.** Based on daily data from 17 January 2021 to 27 February 2026, as of 27 February 2026, showing the Brent 6th future price. Source: Bloomberg and Invesco Strategy and Insights.

However, the analogue from the last few years may not be the correct one to use given the limited nature of previous strikes, and the broader nature of the strike this weekend and the decapitation of the Iranian leadership.

Perhaps we can draw better conclusions by looking further back in time.

The following chart shows that oil prices have reacted abruptly to actual or feared reductions in supply from the region at various times in the past, though if fears about supply are not realised (Iraq's invasion of Kuwait for example), the price rise quickly dissipates.

A historical perspective: Long term oil price in today's prices (US dollars per barrel)



Notes: **Past performance is no guarantee of future results.** Based on monthly data from January 1870 to February 2026 (as of 27 February 2026). "WTI" is the West Texas Intermediate spot price. "Real WTI" expresses historical prices in 2026 terms, using the US consumer price index to make the transformation.

Sources: Global Financial Data, LSEG Datastream and Invesco Strategy and Insights

When the US invaded Iraq in 2003, the US only produced around 10% of total oil supply. Today it produces more than 20%. Also, the oil intensity of the global economy has fallen significantly over recent decades (by 48% between 1990 and 2024 and by 37% since 2003, based on the number of barrels of oil consumed per real PPP dollar of GDP).

The real price of oil rose significantly from 2003, but not because oil supplies fell, but rather because global growth accelerated.

If there is physical disruption of energy supplies from the region, such as key shipping routes or production infrastructure, the implications of these events will likely change and the historical analogues of 1999 (Iraq / Kuwait), 2003 (US / Iraq), 2019 (Abqaiq attack), 2023 (Hamas attack on Israel), and 2025 (Operation Midnight Hammer strikes on Iran) may not be relevant. **This time could be different.**

Potential scenarios

Though the situation is highly fluid and may change rapidly, we consider four broad scenarios (ordered from the least to the most impactful – i.e. higher oil prices and lower risk assets).

1. Iran’s military capabilities are disrupted, but oil facilities are not. Ships continue to pass through the Strait of Hormuz. Subjective probability 40%.

Under this scenario there is a good chance oil prices could fall in the coming week or weeks. A small premium in oil had been established ahead of the US/Israel actions. On Sunday 1 March, OPEC+ announced a larger-than-expected production increase, designed to partially offset disruption and provide political cover to Gulf producers. Of course, this relies on them being able to get the oil out.

2. Iranian oil facilities are disrupted. Subjective probability 10%.

In this scenario, we believe oil prices would move higher but in a relatively contained fashion. Iran supplies around 3% of global oil supplies (after allowing for its own consumption), much of which heads to China. OPEC+ could perhaps step in and close any gap. We ascribe a low probability to these facilities or pipelines being targeted as Israel and the US have little incentive to drive oil prices higher through such action. President Trump’s approval rating and prospects in the mid-term elections could be damaged if oil and therefore gasoline prices rose significantly.

3. Iran strikes oil and gas facilities in the region. Subjective probability 20%.

Iran has already made some symbolic strikes, but not yet on oil and gas facilities. These could be escalated and oil facilities in Saudi Arabia and others could be targeted. The 2019 Abqaiq drone attack — attributed to Iran — briefly removed around 7% of global crude supply. This caused an intraday spike of over 15% in Brent, but prices normalised within weeks once the damage was repaired. In 2019, the Saudis showed that they could repair these facilities quickly. The scale of any strikes and ability to restart is the unknown now. Thus far it appears Iran has targeted mostly US bases but not oil facilities or transport.

4. Iran or its proxies significantly restrict shipping through the Strait of Hormuz for a significant period. Global oil supplies fall. Subjective probability 30%.

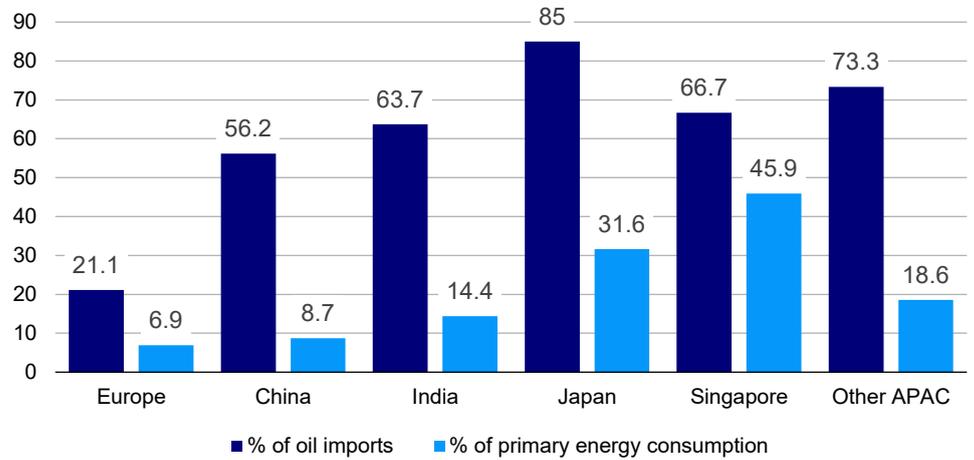
The final scenario is the most worrisome. Iran and its proxies do not need to physically block the Strait, they can just increase the risk of transit enough to raise the cost for ships to move through — specifically, the costs of insuring a ship. Already, war insurers of vessels are reporting that premiums to cover ships in the region could rise by up to 50% in the coming days.¹ Some are reportedly cancelling policies with the aim of reissuing policies at much higher rates on Monday.

A de facto partial blockade via the insurance market rather than a physical one caused the Red Sea effectively to close to much commercial traffic in late 2023/early 2024. The difference is that there were alternative routes to the Red Sea, around the Cape of Good Hope, but there is no alternative to the Strait of Hormuz. This is why watching the number of vessels moving here will be so critical to oil markets in the coming days. That said, a pipeline exists in the United Arab Emirates that could divert oil to ports that avoid the Strait of Hormuz. A similar Saudi pipeline from the gulf area to the Red Sea was recently capable of transiting 7 million barrels per day.

We believe this would be the most damaging scenario, with the global supply of oil and LNG restricted. As shown in the charts below, Asian countries are perhaps the most vulnerable, especially Japan and Singapore.

1. Financial Times: Insurers to cancel policies and raise prices for ships in Gulf and Strait of Hormuz; 28 February 2026.

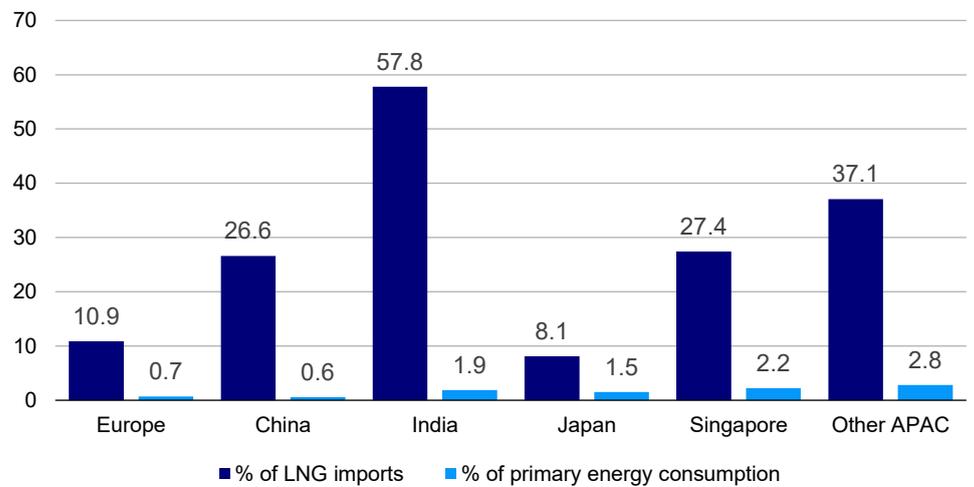
Vulnerability to Middle East oil (2024 data)



Notes: Vulnerability to Middle East Oil shows imports of crude oil and oil products from Middle East countries as a percent of total oil imports and as a percent of primary energy consumption in the countries and areas shown. Data is for 2024.

Source: 2025 Energy Institute Statistical Review of World Energy and Invesco Strategy & Insights.

Vulnerability to Middle East LNG (2024 data)



Notes: Vulnerability to Middle East LNG shows imports of liquified natural gas from Middle East countries as a percent of total LNG imports and as a percent of primary energy consumption in the countries and areas shown. Data is for 2024.

Source: 2025 Energy Institute Statistical Review of World Energy and Invesco Strategy & Insights

Anticipated market reaction

As markets open on Monday, we anticipate the initial market reaction will very likely be one of a risk-off nature. In particular:

- **Equities.** We expect equities to move lower in the immediate aftermath of these events, but the outlook thereafter hinges on how the situation unfolds. We think most of the effect is likely to be felt through higher oil prices. In other words, we expect energy producers to fare better than energy consumers. Within equities, cyclical and consumer sectors may be hit hardest. We expect defence, energy majors, and gold miners to benefit from this kind of geopolitical shock.

In terms of regional characteristics, we believe European equities are structurally more exposed to energy price shocks than US markets, given higher energy intensity in industry and greater dependence on imported hydrocarbons. This also applies to Japan. Many emerging markets that rely on foreign energy sources could be at risk, but energy-producing nations may fare better. We also note that many Asian economies rely on imports from the Middle East, which we think may result in downward pressure on local assets.

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- **Bonds.** We think that bond yields could rise in the short term on concern about higher inflation, though falling real yields (on concern about economic growth) could dampen the effect. It is possible that some government bond markets could benefit from so-called “safe haven” demand, but we think inflation concerns would dominate. On that basis, and given the energy independence of the US, we suspect US Treasuries may be less impacted than European and Japanese government bonds. We would expect high yield bonds to suffer a widening of spreads, as economic concerns build.
 - **The US dollar.** Normally we’d expect the dollar to rally in an early risk-off scenario, and that may still happen now. Since the US is an energy exporter, it could benefit if energy prices rise. We believe that US assets could be relatively well-insulated given the greater energy independence of the US economy. However, following 2025’s Operation Midnight Hammer, the dollar initially saw a tepid rally and then underperformed in the days thereafter. We think this could happen again now as the so-called “safe haven” status of the USD has recently been questioned. We expect the currencies of energy-exporting nations to strengthen, including the Canadian dollar, Mexican peso, Norwegian krone and Middle East currencies (though the effect on the latter may be dampened by the proximity to conflict).
 - **Energy.** At the time of this writing, Asian crude futures have just opened higher. As we outlined above, there are a range of possibilities for how oil and gas prices evolve. We expect the initial reaction to be a leg higher, reflecting elevated risks. We assess that the most likely outcome is that Iran’s military capabilities are disrupted, but that its oil facilities are not and that the Strait of Hormuz remains open. This would suggest a relatively modest boost to energy prices in the medium-term, in our view.
 - **Precious metals.** We believe that gold and silver prices are likely to rise as markets digest a new wave of geopolitical uncertainty. Even if the Strait of Hormuz remains open, we anticipate precious metals to benefit from greater uncertainty.

What are we watching now?

As noted above, we are monitoring the situation, particularly around the Strait of Hormuz. Tanker movements, US Navy statements, and insurance market rates are likely to be key areas of interest in the coming days. Similarly, Saudi Aramco and Abu Dhabi National Oil Company communications on infrastructure status can allay or heighten market concerns, depending on how missile strikes evolve. In the short term, Gulf airports’ operational status and international airspace restrictions will attract attention but likely bring minimal economic impact.

So what does this mean for our core views?

There are historical analogies for what might happen, but they are imperfect as this conflict is a more direct and escalatory confrontation. Still, they underscore a key market dynamic: without physical infrastructure damage or durable Hormuz disruption, spikes in crude (and natural gas) tend to fade as supply concerns prove transient. The key difference today is that Iran has already signalled and executed far wider retaliation than in any prior episode.

However, we emphasize our belief that most actors here do not want to see a major oil supply shock that harms the US and global economies. These are troubling and very fluid events, but based on the information we have today, we don’t materially change our core views.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

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