

2 March 2026

US strikes Iran: implications and what to watch

On 28 February 2026, the United States and Israel launched coordinated military strikes against Iran, targeting missile infrastructure, air defense systems and senior political and military leadership, resulting in the death of Iranian Supreme Leader Ayatollah Ali Khamenei. Iran has retaliated with missile attacks across the region.

These are significant developments from a geopolitical perspective. From a financial market perspective, the focus will be on whether oil supply is affected and especially whether flows through the Strait of Hormuz – the transit point of c20% of global seaborne oil – are disrupted for a prolonged period. At the time of writing, flows have slowed sharply, although there has not been a formal notification of Hormuz being closed.

What we know so far

Early on Saturday 28 February 2026, the United States and Israel carried out coordinated military strikes against targets in Iran. Explosions were recorded in multiple Iranian cities with the strikes described as significant in scale.

President Donald Trump said the strikes are intended to eliminate threats linked to Iran's nuclear and missile programs and urged Iranians to challenge their leadership. The strikes also targeted Iranian political and military leadership including the compound associated with Supreme Leader Ali Khamenei, the Presidential Palace and the National Security Council headquarters.

Iran has responded. Iranian forces launched missiles and drones targeting Israel and US military assets across the Gulf. This also included missiles fired towards Saudi Arabia, UAE, Qatar, Kuwait, Bahrain and Jordan where air defenses have been activated. Four US service members reported to have been killed as at the time of writing. Israel has declared a state of emergency, shutting schools and workplaces, while airports across the region have been closed. Additionally, the Houthis have announced a resumption of attacks in the Red Sea.

Markets opened on 2 March broadly as expected with the most notable move seen in oil and natural gas prices. Brent crude oil prices rose \$5 to \$78 at the London open, and \$18 higher than at the start of the year. Asian equity markets are lower with Japan's Topix down 1% whilst European stock markets are down around 1.5%. The S&P 500 is down 0.3% on the day at the time of writing. Bond yields across European markets are up on the day with US bond yields also higher. Gold is up 2%, while the broad US dollar index is up 0.8%. Japanese Yen and the Swiss Franc also higher.

Implications for oil prices

There are two main ways in which the oil price could be impacted. First, the Strait of Hormuz which connects the Persian Gulf and the Gulf of Oman carries approximately 20% of global seaborne oil trade including exports from Saudi Arabia, Iraq, Kuwait, UAE and Qatar's LNG. A large share of the flow goes to Asian markets. Saudi Arabia and the UAE have limited pipeline bypass capacity and have recently front-loaded exports as part of their contingency plans. Saudi Arabia shipped about 7m barrels per day (b/d) in February, its highest since 2023, while oil exports from the UAE are set to hit a record 3.5m b/d

according to Kpler. Second, Iran itself currently exports c1.5m b/d with around 90% of exports destined for Chinese refineries. Iran is already operating under sanctions and sanctioned oil at sea has been steadily increasing over the last few months as India has slowed purchases. Iranian oil production and exports have fallen in recent years as a result of sanctions and could fall further if things escalate materially. OPEC+ announced on 1 March it would increase oil output by 200,000 b/d to reassure oil markets.

If the Strait of Hormuz were to close for a prolonged period there would be a very large increase in oil prices with oil producers unable to get their oil to market. Much higher prices would be required to ensure that demand fell enough to meet the lower supply. While this is the key near term risk, oil prices, which had risen by \$10 in 2026 prior to the recent strikes could fall if the situation stabilizes. Furthermore, Iran has the potential to produce considerably more oil if the political environment improves.

The chart below shows that the oil price has fallen over the last few years and is soft, especially in real terms, compared with the levels seen since 1999. Before the strikes began over the weekend, oil had already rallied by c.20% on a year-to-date basis, suggesting the oil market had been pricing in the risk of escalation in the Middle East.

Brent Crude Oil price



Source: Intercontinental Exchange (ICE), MacroBond, Mercer as of 02 March 2026

Implications for the global economy and financial markets

The main economic impact of the conflict would largely come from higher (or lower) oil prices, increased transportation costs and potentially tighter financial conditions, if equities and other asset markets weaken. Separately, supply chains are likely to be disrupted, increasing costs. Insurance prices for ships travelling through the Gulf could now jump by as much as half according to Dylan Mortimer, marine team at insurance broker Marsh.

The impact on inflation from higher oil prices would depend on the severity and longevity of the oil price shock. On a country-by-country basis, it would also depend on an economy's oil and energy dependency and intensity.

If there is a large and sustained increase in the oil price, we could see higher headline inflation. The impact on underlying inflation would be more nuanced, depending on the hit to household disposable

income and the extent to which firms pass on higher input costs to their consumers. A Fed study¹ shows that a 10% increase in oil prices would raise the US headline inflation by 40bps cumulatively, spread over eight quarters. Core inflation could rise by a cumulative 15bps by its peak.

In terms of monetary policy, major central banks, including the Fed, would likely 'look through' an oil price-led increase in inflation unless there are increasing signs of second round effects, which would take some time to show up (in for example wage setting behaviors). However, energy-importing emerging market economies may face larger pressure as potentially weaker currencies would worsen import bills and add to inflationary pressures. India is particularly exposed given the volume of oil and gas that it imports from the Gulf.

Equities and other risk assets could fall if there were a major increase in oil prices. Government bond yields could fall with the hit to growth more than offsetting the impact of a rise in inflation. Finally, currencies such as the Swiss franc, the Japanese yen and possibly the US dollar could see strength as investors seek safe haven assets. However, we know that geopolitical events are almost impossible to forecast and their market impact generally fades over the medium to long term – see our historical paper *Peering through the Fog*².

Total Portfolio Considerations

We are not making any immediate changes to portfolios but continue to monitor the situation closely. We view moves in oil prices and potentially some near-term bid for safe haven assets being the main release valve for markets. We do not expect a huge move in oil provided the Strait of Hormuz remains open – as most expect – and so long as there are no major disruptions to energy infrastructure in the region. There is also likely sensitivity in the US to sharply higher oil prices given the affordability concerns ahead of the midterm elections.

As noted, geopolitical events are hard to forecast and for investors it can be difficult to predict the resulting impact on their portfolios. However, such events remind us that there are a number of actions that investors can take and which can be effectively embedded into regular processes to help navigate through periods of volatility:

- Identify **portfolio exposures** to understand possible concentrations and risk exposures at a **total portfolio** level.
- Utilise **fire drills and scenario analysis** to aid preparedness and prevent knee-jerk reactions from negatively impacting on long-term outcomes.
- **Diversification** – helping ensure effective diversification at a total portfolio level could reduce concentration and tail exposure by spreading risk across asset classes, regions and sectors.

In recent years, we have also refined our *Navigating market volatility playbook*³ which sets out a framework to help investors to more confidently navigate market volatility and to translate issues into possible actions.

¹ <https://www.federalreserve.gov/econres/notes/feds-notes/second-round-effects-of-oil-prices-on-inflation-in-the-advanced-foreign-economies-20231215.html>

² https://insightcommunity.mercer.com/research/62181ea9133a06001f4f2f31/Mercer_Peering_through_the_fog_Examining_examples_of_geopolitics_on_financial_markets

³ https://insightcommunity.mercer.com/research/68387eb133e74cbbc518a72d/Mercer_A_Playbook_for_Navigating_Market_Volatility_Consultant_deck

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