

Special Coverage: Markets assess the impact of Iran conflict

Key takeaways

- ◆ The US and Israel struck Iran this weekend in Operation Epic Fury, resulting in the death of Iran’s Supreme Leader and leading to retaliation by Iran across several countries. There’s considerable uncertainty on the succession, on how the military conflict evolves and on the many ramifications for the regional and global economy.
- ◆ The market impact will mostly depend on how long the conflict lasts, whether oil transit through the Strait of Hormuz is blocked and whether Iran’s oil production is interrupted.
- ◆ Markets don’t seem to be jumping to that conclusion, though there’s a clear hit to risk appetite, with Egyptian and Saudi Arabian markets down 4-6% on 1 March. A lasting conflict would boost oil, gold, USD, JPY and CHF, flatten yield curves and hurt equities, with cyclicals and European stocks underperforming the US and Asia.



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What happened?

- At the time of writing, Iran has launched a new round of missile and drone attacks targeting Israel and several Gulf cities, after vowing retaliation. While it said it targeted military bases, some civilian assets were also hit across 7 countries, shocking people and likely to hurt confidence. Consequences in the region are wide-ranging, from physical damage to airport shut-downs, delivery delays, freight costs and higher insurance premia.
- For oil markets, two things matter: the transit through the Strait of Hormuz and Iran’s oil production level (almost all of its crude exports go to China). The Hormuz chokepoint is where 19% of global supply transits. A former commander of Iran’s Revolutionary Guards said that the government would allow oil ships to pass through the Strait of Hormuz. Bloomberg shows that a number of ships have made U-turns, but others have still been transiting, suggesting that traffic is down but has not completely stopped. We believe that a prolonged blockade would be hard to implement, but even a short one would cause an oil price spike.

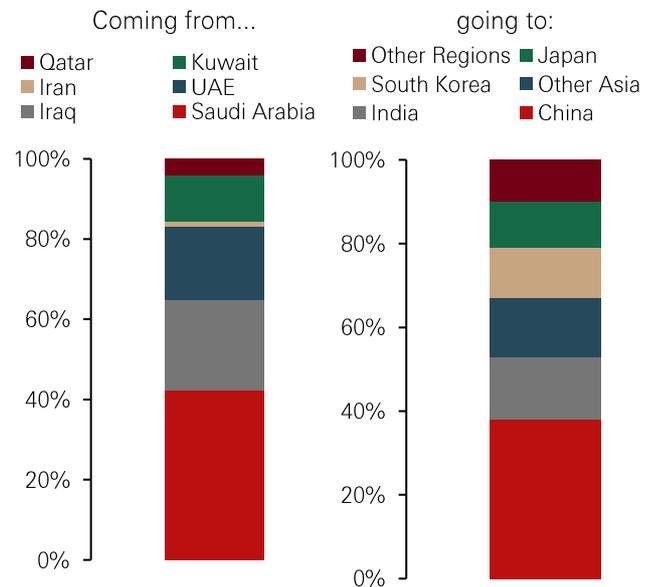
Crude oil production levels, by country (million barrels per day)



Source: EIA, HSBC Private Bank and Premier Wealth as of 1 March 2026.

- Iran's production of oil stands at 4.7mn barrels per day, coincidentally almost matching the 4.6mn bpd spare capacity at OPEC (mainly in Saudi Arabia). OPEC+ had already planned to meet and is expected to lift its April quota by 137K bpd and double the pace of monthly hikes to 280kbd from May to July. Bigger production hikes could help a bit, but only if the oil can transit through the Strait of Hormuz.
- Risk appetite may be hit for the length of the conflict, or longer if markets believe the new powers in Iran continue to pose a threat to oil supplies, regional stability and confidence.

Who uses the Strait of Hormuz?



Source: Bloomberg, HSBC Private Bank and Premier Wealth as of 1 March 2026.

Investment implications for different scenarios around Iran

- As the situation continues to evolve, there may be moments of more optimism and pessimism. We believe we will hover between scenario 2 and 3 in the short term.

	Scenario 1: Negotiations are restarted and tensions ease	Scenario 2: Strikes ease but uncertainty remains	Scenario 3: Strikes continue across several countries
Implications	<p>Economy:</p> <ul style="list-style-type: none"> Lower oil prices ease inflation, supporting consumption Europe and Asia benefit most as energy importers Equity volatility falls <p>Oil: Drifts lower</p> <p>Rates: Europe has more room to cut; US is steady</p> <p>FX: USD softer; EUR and EM currencies recover</p> <p>Equities: Risk-on; cyclicals, Europe and Asia benefit; markets rotate back towards tech from energy/materials</p> <p>Credit: Spreads tighten; emerging markets and high yield supported</p> <p>Safe havens: Gold softens</p>	<p>Economy:</p> <ul style="list-style-type: none"> Growth remains resilient; oil prices elevated but not disruptive Investment sentiment is cautious amid geopolitical uncertainty <p>Oil: Volatile near ~USD70</p> <p>Rates: Rates in line with our current forecast: Fed/ECB on hold; BoE continues to cut</p> <p>FX: USD modestly firmer; JPY supported, EUR weaker</p> <p>Equities: US resilient; defense and oil supported</p> <p>Credit: Investment grade and emerging markets are preferred over high yield</p> <p>Safe havens: Gold supported as a hedge</p>	<p>Economy:</p> <ul style="list-style-type: none"> Oil price spike lifts short-term inflation expectations Real incomes in Europe and emerging-market importers decline Confidence weakens; downside risks to growth rise <p>Oil: Sharp spike; supply risk dominates</p> <p>Rates: Any planned cuts are delayed</p> <p>FX: USD moves higher vs EUR and GBP (EUR/GBP lower). JPY more supported and CHF outperforms in Europe</p> <p>Equities: Broad risk-off; Europe and oil importers underperform; UK outperforms due to defensive value and energy exposure; cyclicals underperform defensives; banks hurt by a flattening yield curve and growth risks</p> <p>Credit: Spreads widen</p>

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