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US Public Policy | North America

US/Iran: A Roadmap for the Next Few Weeks

The President suggested that the US-Iran conflict could last a few weeks or "as long as it takes." We see market disruption arising from logistical impairment & broader geopolitical risk. We map policy paths that could determine the length of the conflict and provide a roadmap for the near term.

Key Takeaways

- What to watch for? See inside for more, but our key takeaways below:
- Length of the conflict: we are tracking 1) a clearer prioritization of US objectives, 2) Iranian military infrastructure proxy activity, and 3) traffic through the Strait of Hormuz as reliable benchmarks
- Brent: watch for back-end repricing evidence of sustained disruption: a sustained move materially above \$80–85/bbl is more likely to require the 2-year forward to start rallying as well
- LNG: signs of a longer outage could push prices higher, into the \$20-30/mmbtu range
- Cross-asset strategy: our base case remains the same, but watch for growing downside tail risks and key correlations
- FX: impacts depend on the length of the disruption. Short-term higher energy prices could be best expressed via long USD/SEK and short EUR/CHF trades, whereas de-escalation is best expressed via short NOK/SEK
- Rates: the two clearest themes in the Treasury market resulting from the US-Iran conflict were: 1) risk reduction; 2) upside inflation risks took precedence for market participants over downside risks to growth.

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Executive Summary

Risks of market disruption seem to be more tied to logistical impairment in oil markets (in particular vis-à-vis tanker delays, convoys, insurance) than outright supply disruption. The **market reaction** on Monday seemed to reflect that principle, and our US equity strategists have **noted** that geopolitical risk events historically do not lead to sustained volatility for US equities, though a sharp or persistent rise in oil prices could pose a risk to the duration of the business cycle.

Exhibit 1: Summary of scenarios and market impacts

Policy Backdrop	Oil Impact	Description	Conflict Duration	Break Impact	LNG Impact	Economic Impact	Cross Asset Impact
De-escalation / risk premium eases	Negotiated outcome / no physical supply disruption	Rapid containment; shipping lanes remain open; geopolitical risk premium unwinds	< 4-5 weeks	\$60-65/bbl Represents the removal of the estimated \$7-8/bbl geopolitical risk premium	JKM -88-10/MMBtu; TTF -89-11/MMBtu Consistent with base case LNG pricing when Europe is adequately supplied and Asian demand absorbs marginal cargoes	Little to none	Risk assets continue to outperform; volatility can stay elevated as markets weigh further geopolitical flare-ups
Managed escalation / logistics friction	Fleet productivity shock; logistics disruption without production loss	Tanker delays, higher insurance and freight costs; flows continue but inefficiently	4-5 weeks	\$75-80/bbl Temporary effective supply loss from shipping frictions removing several hundred kb/d, without a sustained outage	JKM -115-18/MMBtu; TTF -915-20/MMBtu Europe stays up for flexible cargoes; Asia partially price-sensitive	30-40bp push to headline inflation in most economies over 18 months, though central banks may look past it	Risk assets still outperform; equities lock through inflationary shock as temporary rates vol stays elevated vs. equity vol
Severe disruption / demand destruction	Extreme logistics shock	Sustained impairment of Hormuz transit; tanker flows materially curtailed; insurance withdrawn	> 5 weeks	\$100-100/bbl Prices force material demand destruction if logistics constraints translate into a multi-month effective supply loss	JKM -225-35/MMBtu; TTF -830-40/MMBtu Europe clears the market via industrial demand curtailment, pulling cargoes from Asia	Larger inflation push and potential GDP growth impacts create dual risks for central banks	Bonds outperform as central banks prioritize labor market risks; equities underperform amid weaker growth

Source: Morgan Stanley Research; Note: The de-escalation path reflects Scenario 1 previously laid out by our oil strategists. Managed escalation and severe disruption both reflect Scenario 4 to different degrees of severity.

How Long Could This Campaign Last?

While we don't maintain a base case on the duration of the conflict, the administration's messaging has been that the campaign should be measured in weeks rather than months, signaling uncertainty for the near term. President Trump **said** Tuesday that the conflict could last "as long as it takes," after giving a four to five-week timeline. As that unfolds, **here's what we'll be watching for to assess the potential duration:**

- **A clearer prioritization of the objectives** tied to the conflict: The President on Monday laid out a few unique objectives, including elimination of Iran's missile arsenal, its navy, and clamping down on proxy activity. These objectives are broader than the initial focus of the US-Iran talks, which apparently focused on just the regime's nuclear programs and response to domestic protests. Each of these objectives come with a shorter or longer time frame, so any indication from the administration its final goals could be instructive. For example, regime change is likely a longer-term ambition than something like destruction of the country's nuclear program, which could be more reflective of last summer's strikes. We would also consider diplomatic or negotiation-based re-engagement as a signal that a resolution could come sooner.
- **Missile launcher capacity:** Iran was estimated to have 2,000 ballistic missiles last year but likely a much larger number of Shahed-136 drones, and it has **reportedly** fired about 1,200 projectiles since the start of the conflict. Meanwhile, the US and its regional allies largely rely on PAC-3 interceptor missiles for air defense, of which ~600 were built in 2025. While these figures do not fully capture total inventories or rates of depletion, they suggest that missile capacity on both sides – or the eventual need for additional supplies – could meaningfully constrain the duration of an active conflict.
- **Traffic through the Strait of Hormuz:** We have long been of the view that an outright closure of the Strait of Hormuz was a low-likelihood event given its

associated economic risks to Iran and in jeopardizing flows to key customers like China. As of this writing, it [appears](#) that a closure is de facto underway, but the US intends to provide insurance guarantees and naval escorts for oil shipments. This policy has the potential to reduce but not fully mitigate deliverability risks, depending on the implementation details. See our strategists' daily tracker [here](#).

- **Frequency of strikes/missile exchanges/new offensives:** High levels of military engagement could signal a more sustained conflict, and a reduction in frequency could signal de-escalation or a pivot toward more traditional diplomatic channels (like discussions negotiated by third-party countries). Similarly, an increase in proxy operations across the region (in Lebanon, Iraq/Syria, etc.) could point to a more sustained conflict. Any public discussion of off-ramps (like bilateral talks, appointment of envoys, mediated negotiations, etc.) would indicate movement away from a longer-term engagement.

Mechanics of a Fleet Productivity Shock

Assuming no off-ramps emerge, we assess the current situation as reflective of Scenario 4 (fleet productivity shock) as [laid out](#) by our oil strategists Martijn Rats & team. A fleet productivity shock entails a variety of measures designed to raise risk and uncertainty, including the following: selective tanker seizures, drone overflights, missile demonstrations, etc. (see more [here](#)).

These efforts likely result in shipowners temporarily withdrawing tonnage, leading to longer effective transit times. Our analysts estimate that a reduction of effective productivity of the vessels operating on these routes implies a reduction of nearly 2 billion tonne-miles per day in effective transport capacity (around 6% of global crude shipping capacity). These operational constraints also likely correspond to an effective tightening of about 2-3 m/d for a period of several weeks.

Buffers to a shock of this magnitude include 1) incremental Gulf exports already on the water, 2) a slowdown in Chinese stockpiling, 3) limited bypass routes that reduce Hormuz dependence, 4) OPEC+ policy flexibility and any deliverable spare capacity, and 5) strategic stocks as a last-resort bridge if a disruption becomes physical and prolonged. Our strategists believe **the disruption likely exceeds the offset that could be achieved through these buffers**.

Market Transmission Channels

- **Brent: watch for back-end repricing & evidence of sustained disruption.** Our strategists note that front-month dislocations can be volatile during acute geopolitical episodes, but they are rarely sustained unless the back-end also reprices higher. The risk of the Strait of Hormuz closure doesn't singularly necessitate a large durable move in the 2-year point unless evidence emerges that the disruption will be prolonged or will translate into physical supply loss. Said differently, in the very short run, the front month can still spike on risk premia and freight-driven effective tightening, but a sustained move materially above \$80–85/

bbl is more likely to require the 2-year forward to start rallying as well. That would be the market's way of signalling that it is no longer pricing this as a transient logistics shock, but as a longer-lived disruption with implications beyond the prompt window.

- **LNG: signs of a longer outage could push prices higher.** Following news that Qatar has halted LNG production (putting ~20% of global supply at risk), JKM has rallied >50%, which we think reflects a significant but relatively short 1-2 week outage. Signs of a longer outage could translate to an increase of prices into the \$20-30/mmbtu range. It would remove a similar amount gas supply as was lost during the onset of the Russia-Ukraine conflict in 2022, and potentially drive a similar price reaction (2022 average LNG price was ~\$34 with a peak of \$70). Conversely, if exports resume quickly, price moves tend to reflect the situation relatively quickly.
- **Cross-asset strategy: mind the tails and correlations.** Our base case remains unchanged – broadening global growth supports broadening global equities rally; AI thematic driving greater differentiation and dislocations rather than dampening returns for all risk assets. We have to acknowledge that the downside tail risks have grown, especially for European and EM assets given perceived higher oil and geopolitical exposure, but if anything, that raises our conviction in our long global equities view via US and Japan. That said, what we're concerned about from a multi-asset perspective is correlations. Should the price of oil be sustained at a high level – enough to make inflation sticky and weigh on growth (i.e., supply shock) – we could very well move back to the correlation regime we saw coming out of the pandemic. Back then, because the typical relationship of inflation and growth moving up and down in tandem did not hold, bonds worried about inflation could not offset losses in equities, which were concerned about growth. This could very well mean the "traditional" negative stock-bond returns correlations break once again, hitting strategies like 60/40 equity/bond portfolios.
- **Rates: traversing across inflation and growth risks:** The two clearest themes in the Treasury market resulting from the US-Iran conflict were: 1) risk reduction; 2) upside inflation risks took precedence for market participants over downside risks to growth. How long investors maintain this outlook and the monetary policy guidance from the Fed will shape the direction of Treasury yields and curve shape. The duration investors can operate under this framework in viewing the balance of risks may be informed by this Friday's jobs data. Should February payrolls deliver the downside surprise like our economists expect, we think downside risks to growth will start to demand investor attention. In that case, the Treasury market rallies – with the curve bull-flattening or bull-steepening depending on how dovish Fed communication becomes. If Friday's jobs data does not give information to shift the balance of investor concern, the Treasury market will remain linked to movements in oil prices.
- **FX: impacts depend on the length of the disruption.** We favor short NOK/SEK in a de-escalation scenario, as the pair's correlation to oil prices is robust across a range of degrees of oil futures curve backwardation and is less sensitive to risk sentiment than EUR/NOK and USD/NOK. Long USD/SEK and short EUR/CHF look attractive in a short-term disruption scenario in which energy prices rise and futures curve shift into deeper backwardation. Long USD/SEK and short EUR/CHF exhibit the highest correlation and sensitivity to oil prices in the most

backwardated scenarios (i.e., when 2y futures trade at least 25% below 1m futures). Finally, we would expect short EUR/NOK to perform well in a structurally higher energy price scenario in which investors reassess structural energy supply capacity.

Strait of Hormuz Closure: Material Disruption

While we note that the current dynamic seemingly reflects Scenario 4 from the team's original [Iran scenarios](#), the outcome is materially more extreme given the closure of the Strait of Hormuz. While the administration has suggested it plans to insure tankers moving through the Strait, it's too early in our view to assess the durability of that pledge or the likely implications to oil delivery. The core premise of that scenario was not a loss of upstream oil and gas production, but a disruption in the industry's ability to move barrels to end markets. That distinction remains critical: oil production across Saudi Arabia, the UAE, Kuwait, Iraq, and even Iran itself has not been impaired, which explains why OPEC+ quota headlines have had little market impact. **This is not a production shock; it is a logistics shock, exactly as framed in Scenario 4, where tanker delays or obstructions effectively cap deliverability despite ample supply at the source.**

What has surprised us relative to the original scenario analysis is the severity of the disruption. The expectation was for delays – yet tanker flows through the Strait of Hormuz have, at least temporarily, fallen close to zero (as our [daily tracker](#) shows). Even modest delays have outsized consequences in a tight tanker market: if this scale of disruption is sustained, the only equilibrating mechanism is demand destruction, implying oil prices in the \$120–130/bbl range. While this is not our base case, absent near term visibility on a meaningful restoration of flows, the market will increasingly be forced to price this tail risk.

The government can take potential steps to mitigate this risk by doing the following (some of these actions have been taken as of this writing):

- Offer tanker insurance
- Prevent exports of crude oil
- Organize tankers to sail in/out of the Strait of Hormuz in convoys under navy protection (historical precedent for this during the tanker wars in 1987/88)
- Leveraging the Strategic Petroleum Reserve to add supply to the market (an option the White House has [reportedly](#) rejected)

Ultimately, however, logistics-based shocks of this nature are resolved by de-escalation (see first section above).

Midterm Elections: Most Likely Transmission Mechanism is Gas Prices

Recent public polling data indicate that a majority of Americans oppose U.S. military action related to the Iran conflict, with several [surveys](#) showing more voters disapprove than approve of current strikes and involvement. Specifically, a *Washington Post* poll found that 52% of respondents oppose the recent airstrikes on Iran while only 39%

support them, with especially strong opposition among independents and younger voters (a cohort that we [highlighted](#) as one that has moved the furthest away from the president since Jan 2025). Typically, voters tend to [prioritize](#) domestic issues compared with foreign policy (the economy, inflation, jobs, and cost-of-living concerns in particular).

However, the conflict could become more relevant for voters to the extent that it results in higher gasoline prices (an outcome our strategists have highlighted as increasingly likely). Given the administration's [political focus on affordability](#), we expect to hear policy proposals to mitigate this issue, but note that the president is relatively limited in terms of energy policy (a point that we made [here](#)).

Even a limited rise in oil prices, if sustained, could delay the Fed's easing cycle by introducing more noise into when and whether inflation dissipates. The history of oil price shocks since 1980 suggests the effects are mostly isolated to headline inflation and do not pass through to core inflation. If the ~10% increase in oil prices is maintained, then rates of headline inflation would move higher over the next 3-4 months before dissipating, which translates to a ~30bp push to annual headline inflation. In such a scenario, cuts could come later than our economists currently expect, even if the Fed ultimately looks through the shift. However, the geopolitical uncertainty behind the shift in oil can also increase market volatility and cause asset prices to retrace. If oil prices become high enough to cause a deterioration in economic activity, the Fed could shift towards cuts once it sees weakness in the labor market or consumer spending, even with inflation still high.

Research Resources on Iran: Commodities

- [The Oil Manual: Iran Scenarios - Updated \(2 Mar 2026\)](#): We raise our near-term oil price forecasts significantly to reflected heightened uncertainty of supplies from behind the Strait of Hormuz. Oil production has not been disrupted yet, but markets will likely reprice deliverability: impaired Hormuz transit, higher risk premia, and possible tonnage withdrawal. This tracks Scenario 4 from our [previous note](#), which sees fleet productivity cut, effectively tightening supply even as production from the region holds up.
- [Energy: Strait of Hormuz - Daily Tracker \(2 Mar 2026\)](#): Our daily tracker with maps of tanker positions, transit metrics for different vessel classes, freight rates, and a time-stamped summary of key developments and risks.
- [Global Gas & LNG: Middle East Uncertainty \(2 Mar 2026\)](#): Qatar has halted LNG production, putting ~20% of global supply at risk. With near-term resolution, prices could quickly reverse gains, but a longer disruption could start to mirror the effects of Russia/Ukraine.
- [The European Gas Manual: Iran Scenarios - TTF Edition \(3 Mar 2026\)](#): Following Monday's 35% spike, we raise our TTF price forecast to \$16/mmbtu near-term as geopolitical risk premium likely persists near-term, but we still expect prices to soften towards the end of the year and into 2027 as more LNG supply comes online.
- [Global Macro Forum: First Thoughts on Middle East Geopolitical Tensions and What It Means For Markets \(2 Mar 2026\)](#): With the events in the Middle East over the last 48 hours, we provide our quick takeaways on what heightened geopolitical tensions may mean for macro and markets.

Research Resources on Iran: Equities

- [US Equity Strategy: Cutting Through the Narratives \(2 Mar 2026\)](#): Geopolitical events historically have not led to sustained volatility for US equities. Absent a sharp and persistent rise in oil prices (i.e., Brent > \$100/bbl), we remain constructive due to the combination of positive operating leverage, supportive and pro-cyclical policy, and the potential for AI-driven efficiency gains.
- [European Equity Strategy: Evaluating Exposure to Geopolitical Risks \(3 Mar 2026\)](#): We see continued tactical risks to EU equities and reiterate our preference for Defensives over Cyclicals. At the sector level, Energy, Metals & Mining and Defence show the strongest positive correlation to oil prices. Conversely, Airlines, Autos, Banks and Luxury display the most negative correlation profiles.
- [EEMEA Equity Strategy: Middle East Geopolitics Playbook \(2 Mar 2026\)](#): Within EEMEA equities, Egypt & Turkey screen as the most sensitive equities, while South African gold miners and CEE refiners are among the most resilient. We also provide a screen of the stocks we found to be the most/least correlated to oil.
- [Asia EM Equity Strategy: Oil Disruption Risks - Asia Impacts and Sensitivities \(2 Mar 2026\)](#): We advise hedging against further escalation, including through stocks/sectors with positive vs. negative oil betas, as well as thematic beneficiaries in Defence and Energy Security. While the value characteristics of Japanese equities may help support performance, we expect broader derisking given that Japan is a major energy importer.
- [Quantitative Equity Research: Navigating Equity Factors Through Oil-Supply and Geopolitical Risk \(2 Mar 2026\)](#): Our analysis of oil price sensitivity suggests defensive value and low-leverage stocks are best positioned, though we are mindful of momentum reversal and headwinds in revisions.
- [US Energy: Iran Conflict Key Stats & Sensitivities \(2 Mar 2026\)](#): Upstream (E&P) and integrated producers could see tailwinds from any increase in oil. Refiners could also see tailwinds if product prices rise, partially offset by higher feedstock & freight.
- [Middle East Escalation: Implications for U.S. Defense Sector \(2 Mar 2026\)](#): Operation Epic Fury demonstrates the central role played by Defense Primes to U.S. defense strategy. We see a continuing favorable background for U.S. defense budget growth, supporting our Attractive view of the Defense sector.
- [European Energy: The EU Majors Under the 'Fleet Productivity Shock' \(2 Mar 2026\)](#): With a stronger outlook for oil and gas prices, supported by a geopolitical risk premium, we move our sector rating to In-Line from Cautious. However, EU majors are also significantly exposed to physical assets in the region (upstream, refining, LNG).
- [European Utilities: The Case for Utilities \(2 Mar 2026\)](#): We expect Utilities to be resilient in current market conditions, offering appealing defensive quality growth. With the Energy Security theme back in focus for investors, we expect continued outperformance vs. the market through 2026.

Research Resources on Iran: Economics

- [Asia Economics: Assessing Downside Risks from Geopolitical Tensions – Duration is Key \(1 Mar 2026\)](#): Sustained geopolitical tensions would increase downside risks to Asian economies as supply-driven oil price spikes weigh on growth and macro stability. Every US\$10/bbl sustained rise in oil prices will hit Asia's GDP growth directly by 20-30bps. Moreover, high trade exposure in Asia means there could also be indirect effects to growth arising from downside risks to global growth and trade.
- [Euro Area & UK Macro: Assessing the Impact of Higher Oil Prices \(2 Mar 2026\)](#): Higher oil prices, if sustained, would lift inflation and weigh on growth in the EA and UK. We see a 40bp impact on EA HICP from a \$10 shock on Brent, and a 30bp near-term move in UK inflation. In a scenario in which inflation is meaningfully lifted by energy prices this year, we would likely see the ECB on hold pushing cuts further out until after the main impact from oil prices passed.
- [Japan Economics: BoJ Watch – Middle East Uncertainty Raises the Risk of a BoJ Rate Hike Delay \(1 Mar 2026\)](#): We had already viewed the likelihood of an interest rate hike in March or April as low, but the BoJ is now even more likely to adopt a cautious stance given the uncertainty in the Middle East. If tensions are prolonged, we also see a growing possibility that the June rate hike, currently part of our base case, could be further postponed.
- [Korea & Taiwan: Oil Price to Weigh on Inflation; Central Banks to Stay Cautious \(3 Mar 2026\)](#): We see a quick partial pass-through of higher oil prices to inflation in Taiwan and Korea, supported by weak FX. However, with a weak demand backdrop, we think the BoK and CBC will be cautious about turning to rate hikes.
- [CEEMEA Macro Focus: The Impact of Higher Oil Prices \(2 Mar 2026\)](#): Near-term growth and inflation impacts. Headline CPI in South Africa could breach 4.0% y/y, skewing risks towards another pause from the SARB in March. In CE3, low inflation currently provides some protection from an oil price rise. With geopolitical risks creating uncertainty about Israel's outlook, we now expect the BOI to remain on hold in March.
- [Egypt Economics, Credit and Macro Strategy: US-Iran Developments: Implications for Egypt \(1 Mar 2026\)](#): Compared to prior geopolitical risks such as the Gaza and Ukraine conflicts, Egypt's direct exposure to a US-Iran military escalation is more muted. We expect economic spillover effects on Egypt through three main channels: 1) The balance of payments; 2) Inflation; and (3) The fiscal balance.
- [Global EM Strategist: Is 2022 a Guide? \(2 Mar 2026\)](#): So far, the move up in oil prices has not resulted in a large move higher in VIX. Further oil price rises could put incrementally more pressure on risk appetite and EM. CEE screens as sensitive to both energy and risk appetite, while MXN and other high-beta EMs could be exposed if VIX moves higher than it has so far.

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	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
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Equal-weight/Hold	1590	43%	374	41%	24%	725	44%
Not-Rated/Hold	4	0%	1	0%	25%	1	0%
Underweight/Sell	588	16%	87	10%	15%	220	13%
Total	3,710		906			1636	

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