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Rising tensions in Iran are sending shockwaves through energy and financial markets. Global oil flows, inflation expectations, and market sentiment are all under pressure. In this climate of uncertainty, careful observation and strategic positioning are key.

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Introduction

The Iran war has formally begun. US and Israeli operations targeted every layer of Iranian state power simultaneously: political leadership in Tehran, nuclear facilities across multiple provinces, missile production and air defence systems, IRGC (Iran Revolutionary Guard Corp) infrastructure, ports, oil assets, airports, and military bases stretching from west to south. The objective extended beyond a single facility. The strikes were designed to degrade political authority, military capability, nuclear development, and economic infrastructure in one coordinated move.

The most consequential development came within hours. Supreme Leader Ali Khamenei was killed, alongside the Defence Minister, senior IRGC commanders, and nuclear officials. The likely outcome, according to intelligence assessments, is a consolidation of power by IRGC hardliners and the appointment of a new Supreme Leader, potentially within days.

Iran's retaliation widened the battlefield. Missile and drone strikes targeted Israel in multiple waves, also extending to Bahrain, Qatar, the UAE, Kuwait, Jordan, Iraq, Saudi Arabia, Syria, and US bases across the region. Gulf states, initially seeking neutrality, are now granting airspace access, intelligence cooperation, and logistical support to Washington.

Iran also announced the closure of the Strait of Hormuz, through which roughly 20 million barrels of oil per day and 15% of global LNG transit. While an effective blockade remains uncertain, war-risk insurance premiums have surged and shipping costs are rising. If sustained, disruption would disproportionately impact major importers such as China, India, Japan, and the EU, while also threatening Gulf exporters whose energy flows depend on the strait.

Here are ten essential FAQs that help frame the impact.

FAQ #1: What is Iran's strategy?

Iran's primary objective is regime survival. Tehran appears to assume that US domestic support for a prolonged conflict is limited and that President Trump faces a narrow political window with significant operational risks. Iranian leadership likely expects an initial wave of US/Israeli strikes followed by renewed negotiations. The US objective of eliminating key leadership and degrading missile capabilities suggests an attempt to reshape negotiating dynamics rather than pursue full-scale occupation.

From a game-theory perspective, Iran holds three strategic levers. First, time: by avoiding fully saturated missile attacks, Tehran appears to be deliberately preventing escalation while prolonging the conflict, increasing political costs for Washington. Second, the Strait of Hormuz: any meaningful disruption could push oil above \$100, triggering global inflationary pressure. Third, regional escalation: involving GCC states (Saudi Arabia, UAE, Qatar, Bahrain) could lead to attacks on oil infrastructure and tankers, creating a severe supply shock. The religious dimension, significant Shia populations across several GCC countries (55% in Bahrain, 30-40% in Kuwait, 15% in the UAE, 10-15% in Saudi, 10% in Qatar), adds additional destabilisation risk.

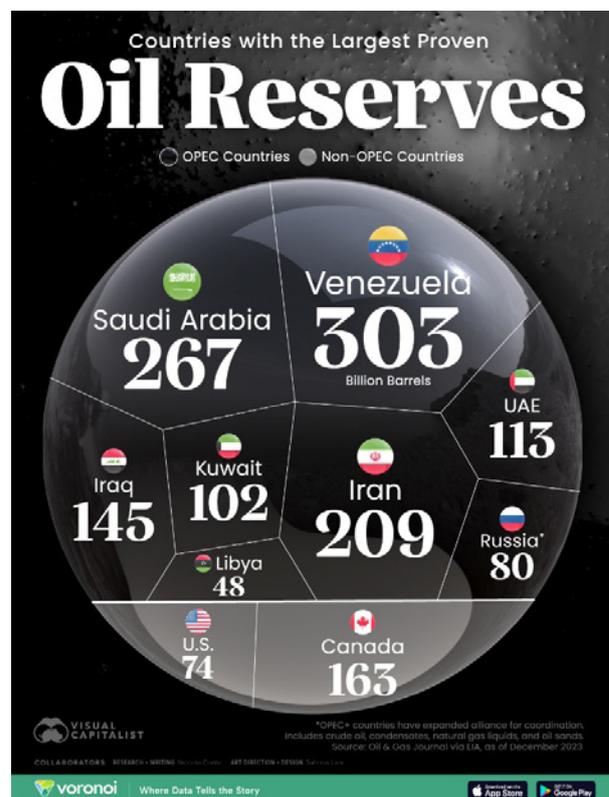
FAQ #2: What does Trump want to achieve?

At the geopolitical level, the strategy extends beyond Iran itself. The objective appears to be indirect pressure on China. China imports over 70% of its oil, with Venezuela, Saudi Arabia, and Iran collectively controlling roughly 45% of global proven reserves. By targeting energy-aligned states, Washington reshapes global energy leverage without directly confronting Beijing.

Military objectives are more immediate: prevent Iran from acquiring nuclear capability, destroy missile infrastructure, neutralise naval capacity in the Gulf, and encourage internal regime destabilisation. Key defence, intelligence,

naval, and aerospace facilities were targeted, including missile development sites. Trump has emphasised preventing future missile threats to US territory.

Risks remain substantial: finite missile interception capacity, potential mining of the Strait of Hormuz, and the historical failure of regime-change strategies. Domestic US support is fragile, however, early market signals are stable. US 10-year yields remain below 4%, WTI below \$80, and Russia/China have not escalated rhetorically. The operation appears ahead of schedule following the early elimination of key leadership figures.



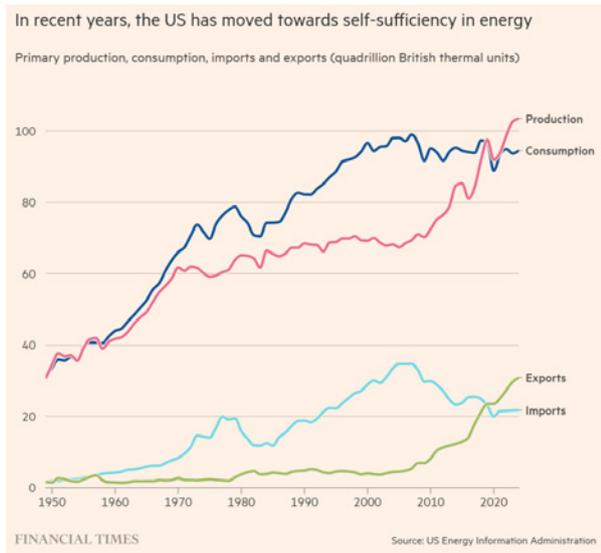
Source: Visual Capitalist

FAQ #3: Why does Trump not appear concerned about a potential surge in oil prices?

Washington appears to believe that supply fundamentals will contain price shocks. Staying true to its role of stabilising the oil market, OPEC+ has announced a modest production increase of 206,000 barrels per day starting April. The US has not signalled plans to release oil from its Strategic Petroleum Reserve, implying confidence that disruptions will be temporary.

Iran represents less than 3% of global supply, and the US is largely energy self-sufficient, with only 17% of energy consumption imported in 2024, the lowest in four decades. This structural shift reduces direct vulnerability.

However, indirect effects matter. Oil benchmarks influence gasoline prices globally. A move toward \$100 per barrel could push US CPI from 2.4% to above 4%, limiting Federal Reserve rate cuts and weighing on consumer sentiment. Even if physical supply remains manageable, inflation expectations and financial conditions could tighten meaningfully. The administration appears to be betting that any spike would be short-lived and insufficient to derail economic momentum.

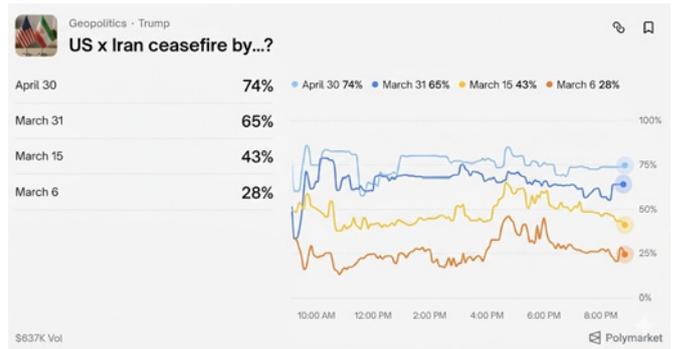


Source: FT

FAQ #4: How long could this conflict last?

The conflict is unlikely to be a single, short-lived “surgical strike” like Operation Hammer in June. Instead, it appears structured as a rolling operation conducted over multiple days, potentially shifting tactics during night operations. Unlike prior contained events, current dynamics suggest sustained military engagement aimed at degrading strategic capabilities rather than symbolic retaliation.

Market-based probabilities reflect this uncertainty. Polymarket assigns only a 28% probability of a ceasefire within the current week, rising to 43% by mid-month. Even by month-end, the probability stands near 65%, implying a meaningful 35% chance of conflict extending beyond one month.



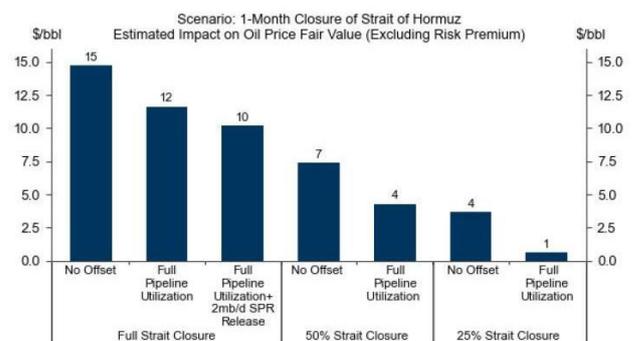
Source: Polymarket

FAQ #5: How has oil performed during war time?

Over 20 million barrels per day transit through the Strait of Hormuz, making any disruption highly visible. Yet past conflicts suggest that initial panic fades once supply adjustments occur.

In 1990 (Iraq-Kuwait), oil surged +89% before falling -57% within nine months. In 2003 (US-Iraq), oil rose +24% before declining -33% within 12 weeks. In 2022 (Russia-Ukraine), oil reached \$130 before dropping -43% over 18 weeks. Across ten major conflicts over 35 years, the average post-spike decline has been roughly -35%.

Goldman Sachs estimates current prices already embed an ~\$18 per barrel risk premium, roughly equivalent to a six-week full halt of Hormuz flows. A full one-month closure could add \$10-15 depending on offsets such as spare pipeline capacity or SPR releases. Markets appear partially positioned ahead of the event, suggesting the war premium may be significant but ultimately temporary.



We do not take into account any potential boost to long-dated prices from a potential perceived reduction in medium-term spare capacity.

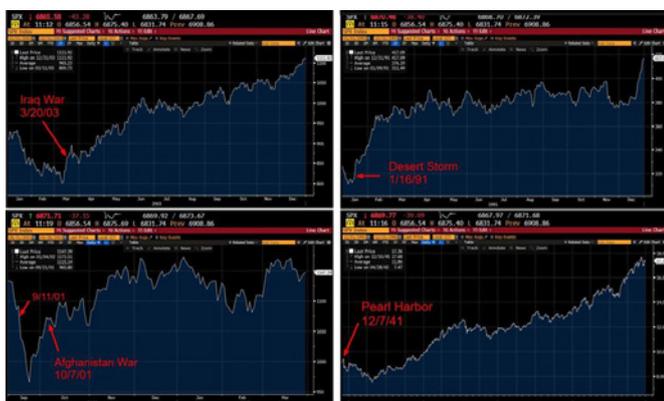
Source: Goldman Sachs Global Investment Research

FAQ #6: How did equity markets perform during war time?

Historical analysis of US military conflicts since World War II shows that equity markets typically experience short-term volatility followed by recovery. Data covering dozens of overseas strikes indicates that the S&P 500 posts positive returns in most cases within three, six, and twelve months after an event. On average, markets rise about 12-13% one year later, despite interim drawdowns averaging roughly 11-12%.

The accompanying charts highlight consistent patterns across major conflicts. During the 1990 Gulf War, equities declined sharply, with a peak drop of about 14.7%, before rebounding strongly, gaining roughly 27% over the following 12 months. After the September 11 attacks, markets fell abruptly by around 11.6% to their lowest point but recovered rapidly, delivering gains of approximately 21% within a year. Similarly, the 2003 Iraq War marked a turning point, as stocks rallied after significant pre-war losses. Longer-term charts, including the period following Pearl Harbor, also illustrate sustained upward market trends once uncertainty subsides.

Overall, historical evidence suggests that war-driven panic often creates temporary market dips rather than lasting bear markets, with recoveries averaging roughly 27% from market bottoms.



Source: Bloomberg

FAQ #7: What does this mean for China?

China's status as the world's largest crude oil importer places energy security at the centre of its geopolitical strategy. The country consumes roughly 15 million barrels per day, with more than 70% sourced from overseas. However, China reduces vulnerability by diversifying supply rather than relying on a single producer. Russia accounts for about 20% of imports, followed by Saudi Arabia and Iraq, while Brazil, the United Arab Emirates, Kuwait, Oman, and Angola provide additional volumes. Iranian oil represents only 6-8% of total imports, limited by sanctions and shifting trade conditions, making it important but not essential.

China has also strengthened resilience through nearly one billion barrels of strategic and commercial reserves, offering several months of protection against supply shocks. Its main exposure lies in transport routes, as a large share of imports passes through the Strait of Hormuz, leaving Beijing sensitive to potential disruptions and regional instability.

FAQ #8: Is it still a good time to buy defence and energy stocks, oil, and gold?

Major geopolitical tensions in the Middle East are driving strong rallies in energy and defence stocks, alongside gains in gold as investors seek safety amid heightened risk. Defence contractors and energy firms have already climbed significantly this year, with much of the advance occurring alongside news of potential conflict escalation. Market action suggests key sectors have priced in much of the upside, leading some strategists to caution against buying at current peaks. The attached graph shows pronounced gains in oil, energy, and defence indices relative to broader markets, while gold's steady rise reflects safe-haven demand amid uncertainty. Looking ahead, further conflict developments could influence crude prices and market rotations, but short-term sell-the-news dynamics may challenge immediate entry into these crowded trades.

FAQ #9: What are the likely scenarios for oil prices and markets?

Global markets are reacting cautiously to tensions in the Middle East, with a potential disruption in the Strait of Hormuz posing the most severe risk. A prolonged closure or attacks on Gulf oil infrastructure could push oil above \$100 per barrel, reignite inflation, depress global growth, and hit consumer sentiment in the US ahead of midterm elections. Asia and Europe would face significant economic pressures, while the dollar and US yields could surge, forcing central banks into difficult policy choices.

A more likely scenario sees Iran's exports partially disrupted, lifting oil to around \$80 per barrel before easing, with inflation effects remaining manageable and equities eventually rebounding. Current market moves are muted: oil is up 8%, gold 3%, S&P 500 futures down 1%, and the Nikkei 225 down 1.5%, reflecting that much of the risk was already priced in. The attached graph illustrates oil, gold, and equities' recent volatility against broader market trends.

FAQ #10: How would an energy price spike impact growth and inflation in the main global regions?

Since the US and Israel launched a military strike on Iran three days ago, oil prices have risen by about 15%. If this increase translates into a similar rise in global energy prices, considering that roughly 20% of both global oil and liquefied natural gas (LNG) passes through the Strait of Hormuz, the potential economic impact can be assessed. To reach the effects described below, energy prices would need to remain, on average, 15% higher for at least one quarter, as growth impacts are measured quarterly.

As a guideline cited by Fed Chair Powell, in the US, a 10% rise in energy prices typically increases inflation (CPI) by slightly less than 0.2 percentage points (pp) and reduces GDP growth by less than 0.1pp. In the Eurozone, the ECB expects a 15% energy price increase to raise inflation (HICP) by 0.4 to 0.5pp and reduce GDP growth by slightly less than 0.2pp.

For major emerging economies, the effect depends on whether they are energy exporters or importers. A 10% oil price rise boosts GDP for exporters like Russia by about 0.25pp and Brazil by nearly 1pp, while it reduces GDP for China by over 0.5pp, India by 0.3pp, and South Korea or South Africa by roughly 0.2pp. Inflation rises 0.2pp per 10% energy increase in China and India, and 0.3pp in South Korea and South Africa, with Brazil under 0.2pp.

These figures are rough estimates, isolated from other shocks, and typically non-linear. A larger energy price rise could amplify these effects beyond the numbers presented.

Conclusion

Markets face heightened uncertainty following US and Israeli strikes that eliminated Iran's top leadership. While the country's state and security structures remain intact, the lack of a clear diplomatic path raises the risk of prolonged conflict and continued pressure on energy shipping, keeping a geopolitical premium on oil prices. The potential closure of the Strait of Hormuz is pushing OPEC+ to consider alternative supply options, adding to market unease.

Despite these risks, the global economy remains resilient. Earnings growth, stable employment, supportive financial conditions, and strong investment in AI, electrification, and infrastructure underpin ongoing late-cycle momentum. Equity leadership is broadening beyond mega-cap tech, and fiscal and monetary policies remain accommodative.

Investors are advised to favour EM/Asia equities and US sectors linked to supply-side investment, including defence, infrastructure, and industrials. Gold serves as strategic collateral, liquidity should be preserved, and duration exposure managed carefully.

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