

Markets have entered the 'fog of war' phase in the Iran conflict, with simmering tensions in the Middle East turning into a regional shock, although we can only guess how events will develop from here. Oil is a fever gauge for geopolitics, and currently the Strait of Hormuz is in focus – what do investors need to keep in mind?

Key take-aways

- Middle East tensions have escalated into a regional shock, but the base case remains a short-term oil price spike rather than a full-blown supply crisis.
- The real threat lies in damage to oil infrastructure—not shipping routes—with current disruptions more precautionary than destructive, limiting immediate supply impacts.
- A swift rebound is likely if hostilities stay contained: Brent crude may touch USD 80–90, but sustained levels above USD 100 require prolonged conflict and infrastructure damage, deemed low probability.
- Equity investors should stay defensive, while oil and gas can hedge portfolios tactically. It's also important to monitor US Treasuries, which are still acting as a safe haven.

The US-Iran tensions have escalated into war; and oil as the fever gauge for geopolitics reacts accordingly. Unlike earlier confrontations, the mission is not the destruction of infrastructure, but regime change. This context adds complexity and length.

Julius Baer analysis clearly shows that the real economic danger lies not in the rhetoric around a closure of the Strait of Hormuz but rather in any serious damage to key regional oil and gas infrastructure. The key transmission channel, therefore, is the oil price. So far, trade through the Gulf is impaired, but infrastructure damage appears limited and the market looks prepared for a disruption lasting days or weeks rather than months. This means that three broad scenarios are possible.

Oil: Three possible outcomes of Middle East conflict

Scenario	Probability	Oil Price	Market Dynamics
Swift & intense	Above 60% chance	Oil tops above USD 80 in March and eases before summer. Brent crude oil briefly tipping into the USD 80–USD 90 range before easing as Washington seeks a political exit and Iran's response stays contained.	Trade through Hormuz is crippled temporarily, there is no serious damage to oil & gas infrastructure. The conflict remains contained; Iranian exports are down lastingly.
Enduring & chaotic	Up to 30% chance	Oil tops up to USD 100 before summer, eases into autumn. Oil stays north of USD 90 for longer, tightening financial conditions and reviving stagflation worries.	The conflict spreads and brings chaos; oil & gas infrastructure is seriously damaged. Shipping risk lingers, oil shipping requires security escorts. Prolonged due to regime-change objective.
Oil crisis (Tail Risk)	Below 5% chance	Oil spikes lastingly and dents the world economy, out of the fog of war. A full-blown oil crisis, with severe infrastructure damage and sustained regional spillover.	Military dominance against Iran and proven defences of key oil & gas infrastructure speak against this scenario. Severe infrastructure

Scenario Probability Oil Price**Market Dynamics**

damage occurs; sustained regional spillover.

Remains the scenario that oil still hedges best.

With regard to the flow of oil & gas from Middle Eastern producers to consumers in Asia and Europe, trade has largely ground to a halt for precautionary reasons. The clogging of ships on both sides of this trade chokepoint, however, bears further consequences, which are likely being taken negatively by the market. With storage space filling up, oil fields and refineries will be forced into curtailments, as already allegedly reported in Iraq. Such news will likely add to the prevailing supply concerns, adding further fuel to the energy shock in the very near term. Our base-case scenario remains a short-lived, intense spike in oil and gas prices.

So far, we are not aware of any significant damage to ships or infrastructure, nor of any serious attempts by Iran to close this shipping route. The risk of oil & gas supply disruption largely depends on how long the Iranian regime can endure, as well as its military strength and command lines.