

# The Short View



*The Short View offers insights on key macro and market stories and is designed to promote discussion and debate.*

## Macro outlook revisions after Iran war shock

5 March 2026

In this note, we update our macroeconomic forecasts for the US and the eurozone in response to the escalation of geopolitical tensions in the Middle East. We also assess an adverse scenario in which the conflict lasts longer and energy supply suffers heavier disruption than we currently expect.

### 1. Baseline scenario is short-lived disruption

Our new baseline scenario envisages that military operations against Iran last for a few weeks, after which tensions and energy disruption ease. Oil and natural gas prices gradually decline from recent highs. The effects of the energy-price shock already in train are larger for the eurozone than the US, particularly when it comes to inflation (our 2026 eurozone inflation forecast rises from just below 2% to about 2.5%) while the impact on GDP growth should be moderate. Our macro forecasts for the US remain largely unchanged.

### 2. Central banks likely to look through the shock

In our base case, we still expect the Fed to cut rates just once this year and the ECB to remain on hold well into 2027, although for the ECB risks for this year have shifted from additional easing to early tightening.

### 3. An adverse scenario would significantly raise inflation, hit growth

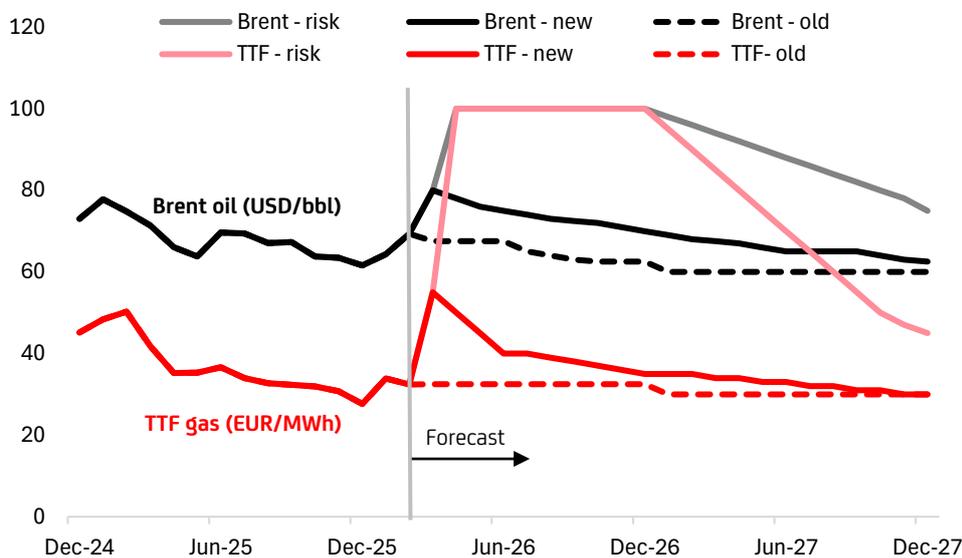
We simulate the effects of a more adverse scenario in which Brent prices climb to USD 100/bbl and European gas prices to EUR 100/MWh, stabilising at these levels over the remainder of the year. The Fed and, particularly, the ECB would face uncomfortable trade-offs as inflation jumps while growth weakens. Whether rate hikes will be needed crucially depends on the development of inflation expectations.

In this report, we update our macroeconomic projections for the US and the eurozone in light of the sharp escalation in geopolitical tensions across the Middle East and the surge in global energy prices that has followed US-Israeli strikes on Iran and Tehran's subsequent retaliation. The recent wave of Iranian attacks on critical oil and gas infrastructure in Saudi Arabia, Qatar and Kuwait, and repeated interruptions to tanker traffic through the Strait of Hormuz have amplified uncertainty around energy supply and pricing dynamics.

Against this backdrop, we reassess the baseline outlook for growth, inflation and monetary policy across the two major advanced economies, focussing on the main transmission channels of the shock to the real economy: energy prices, sentiment, and financial conditions. In addition to the baseline, we examine an adverse scenario in which the conflict proves more protracted and supply disruptions exceed expectations, leading to more persistent energy-market tightness, a sharper inflationary impulse and steeper headwinds to growth.

### CHART 1: BASELINE AND RISK SCENARIO FOR ENERGY PRICES

BRENT OIL PRICE (USD/BBL) AND EUROPEAN (TTF) GAS PRICE (EUR/MWH)



Source: Macrobond, The Investment Institute by UniCredit

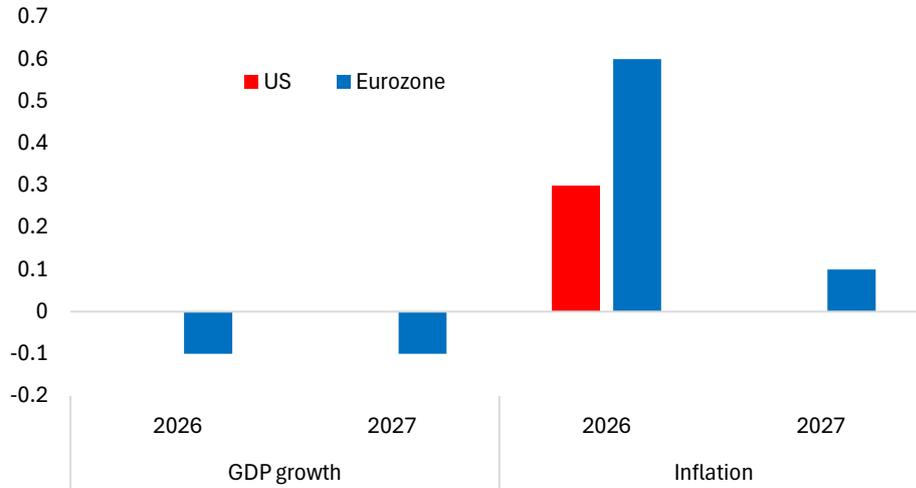
### New baseline scenario

Our new baseline scenario envisages that military operations in the Gulf region will not last long, probably a few weeks. We make this assumption based on two considerations. Firstly, the likelihood of Iran's leadership surviving increases if Tehran avoids a major escalation that disrupts its oil exports, alienates other Gulf countries and leads to even more powerful strikes by the US and Israel. Secondly, the US administration does not seem to care much about exporting democracy and it appears more interested in leadership change than in regime change, which would require more persistent military action. In Washington, there is little appetite for a prolonged war ahead of mid-term elections.

In this scenario, oil and natural gas prices would soon start to decline from the recent highs of around USD 80/bbl (Brent) and EUR55/MWh (Dutch TTF). De-escalation would lead to a progressive normalisation in tanker traffic in the Strait of Hormuz and energy commodity prices would enter a declining trend, although the descent might be slow as Iran is likely to remain politically unstable for some time. By the end of the year, we assume that oil prices will have edged down to USD 70/bbl and gas prices will have declined to EUR 35/MWh. This would be followed by a second leg of descent in 2027, when the political risk premium embedded in energy costs should revert to end-2025 levels.

**CHART 2: BASELINE SEES A MODEST IMPACT**

IMPACT ON ANNUAL GDP GROWTH (PP) AND CPI INFLATION (PP)



Source: BEA, Eurostat, The Investment Institute by UniCredit

For the US, we expect very little, if any, impact on the growth outlook, given the country is a net exporter of energy, is not reliant on imports from the Middle East, and the economy was on a strong growth path before the attacks on Iran. In a broadly-zero-sum game, US energy producers are likely to gain from higher global energy prices, while non-energy producers and consumers will be worse off as they would face increased production costs and inflation. Overall, our GDP growth forecast remains unchanged at 2.4% for this year and 2.0% for 2027. The peak effect on year-on-year consumer price inflation will probably be moderate, about 0.2-0.4pp, with the shock set to fade quickly after a year. In yearly average terms, inflation will continue to hover clearly above the Fed's target in both 2026 (3%) and 2027 (2.6%).

In the eurozone, the hit to GDP growth is likely to be moderate, probably around 0.1pp in each of the two years, reducing our forecast to 0.9% for 2026 and 1.3% for 2027. The eurozone economy has proved more resilient than expected to the tariff shock and we expect such resilience to continue, supported by expansionary fiscal policy, solid private-sector balance sheets and an investment recovery that looks increasingly well entrenched. Private consumption, currently the weak link of domestic demand, might suffer more as renewed price pressure erodes household purchasing power and weighs on already low confidence. The shock would likely generate a meaningful inflationary impulse, with the outlook swinging from a prolonged period of slightly below-target inflation to at least a year of above-target inflation. The peak effect on year-on-year inflation is close to 1pp and our 2026 inflation forecast rises from just below 2% to about 2.5%. However, we expect the price boost to be temporary. We do not pencil in meaningful indirect and second-round effects and inflation would return to the ECB's target in 2027 as the energy shock subsides.

With economic activity largely unaffected and inflation somewhat higher, the Fed would likely be even more inclined to keep rates on hold until the end of Fed Chair Jerome Powell's term on 15 May. His nominated replacement, Kevin Warsh, might find himself in a difficult position, given US President Trump's demand for much lower interest rates. We still think the central bank would cut rates once this year, assuming inflation expectations remain well anchored.

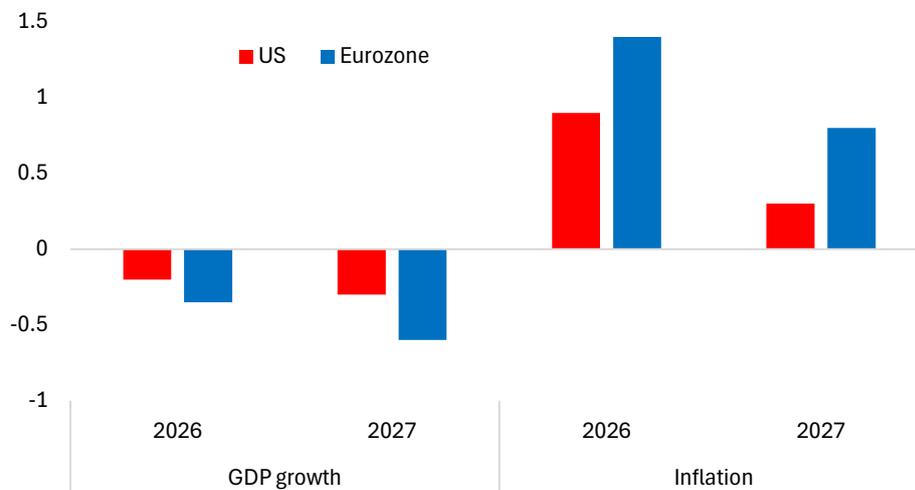
In the eurozone, we expect the ECB to look through the energy-price shock, given that inflation expectations are likely to remain in check. We confirm our view that the ECB's next move will be a hike in late 2027, while for this year the balance of risks has shifted from additional easing to a possible rate hike.

## Adverse scenario

In the adverse scenario, we assume an escalation and a lengthening of the duration of the war. The stocks of energy products built up before the conflict by major countries would dwindle and ongoing disruption in the Strait of Hormuz would increasingly weigh on oil and gas prices. Under this scenario, prices reach USD 100/bbl and EUR 100/MWh, respectively, stabilising at these levels for the remainder of the year. A tightening of financial conditions and loss of confidence are likely to amplify the drag of the energy shock on growth. We are not pencilling in additional fiscal policy easing. However, this assumption might prove overly cautious, suggesting that our estimate for the hit to economic activity would probably be at the upper bound of a plausible range of outcomes. We envisage a slow decline in energy prices in 2027, with oil and gas prices down to USD 75/bbl and EUR 45/MWh by the end of next year.

### CHART 3: ADVERSE SCENARIO SEES SIGNIFICANTLY HIGHER INFLATION, LOWER GROWTH

IMPACT ON ANNUAL GDP GROWTH (PP) AND CPI INFLATION (PP)



Source: BLS, Eurostat, The Investment Institute by UniCredit

In this scenario, the US economy would likely see a sharp rise in inflation of more than 1pp at its peak within a year, pushing the average inflation rate to 3.6% for this year and to 2.9% for 2027. The cumulative impact on GDP growth is likely to be modest, about -0.4 to -0.6pp through end-2027 – taking growth down to a still-solid 2% in 2026 and slightly below this in 2027. One of the main risks here would be a major sell-off in tech stocks, given their high valuations and intensive energy usage. This would have repercussions for AI-related investment – a big source of US growth in 2025 – and lead to negative wealth effects. Wealth effects have been a major driver of consumption growth in recent years.

In the eurozone, inflation would follow a hump-shaped trajectory. It would rise strongly until early 2027, hovering in the 3.5-4% area for most of the next twelve months before embarking on a steep downward trend that takes it below the ECB's target by the end of 2027, assuming no major indirect and second-round effects. The average inflation rate would exceed 3% in 2026 and remain north of 2.5% in 2027. On the growth front, we do not expect a full-blown recession, but economic activity might stagnate or shrink slightly in 2H26 before recovering slowly next year. Overall, GDP growth for 2026-27 would decline by a cumulative 0.8-1.0pp, to an average of 0.7-0.8% for both years, as private consumption shrinks while investment weakens materially. If financial conditions tighten particularly strongly and supply chains suffer major disruption, the negative growth shock might be even larger.

The Fed and the ECB would face an uncomfortable trade-off as growth weakens while inflation accelerates away from their targets. Whether they are forced to hike interest rates, thus further dampening activity, would depend a lot on the development of inflation expectations at longer maturities. In the US, the inflation shock is likely to be more moderate, but it comes after four years of above-target inflation, which increases the risk of de-anchoring. In

the eurozone, the ECB would be challenged by a larger revision to the inflation outlook, which would, however, occur with inflation already in line with the central bank's target. In general, inflation expectations tend to be more sensitive to energy and food prices, because these items are bought regularly by households and their price changes tend to feed through to other categories of goods and services. Central banks will have to be vigilant, and we see a meaningful likelihood that that they will ultimately be forced to raise rates. Section heading (if required)

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