

Alternative Allocations: The conflict in Iran—private markets implications

In the latest *Alternative Allocations*, Tony Davidow outlines the short-and long-term implications on private markets from the current Middle East conflict.

Introduction

On February 27, 2026 the United States and Israel launched a coordinated strike on Iran's leadership, killing Ayatollah Ali Khamenei and many of the leadership team. Since the initial attack, a torrent of strikes has continued, designed to take out Iran's ballistic missiles and leadership apparatus. Iran has launched strikes on Israel and on US bases in the region and threatened to shut down the Strait of Hormuz.

Roughly one-fifth of global crude oil passes through Iran's Strait of Hormuz,¹ making this corridor a critical chokepoint for the world's energy supply. Recent missile and drone attacks have escalated tensions in the region, prompting ships to suspend transit and causing a surge in insurance costs—or, in some cases, leaving vessels without any insurance backing at all.

We don't know how long this conflict will last, and whether there will be a peaceful transfer of power or a lingering conflict in the region. Iran has announced that the late Ayatollah's son, Mojtaba, will replace him as the supreme leader.

The disruption has created a global energy shock and fueled broader macroeconomic concerns, with oil prices rising above US\$100/barrel, the highest level in four years. The US stock market was down over 3% after the first week of the conflict, with indications that declines may continue. Oil prices that stay above US\$100 per barrel could have far-reaching effects on global markets and inflation.

Here, we explore how this geopolitical development may affect private markets and discuss the short- and long-term implications.

Short-term implications

In the short term, the conflict will likely lead to elevated volatility and higher oil prices. Some changes could have an impact on the private markets, either directly or indirectly.

The Federal Reserve (Fed) will likely pause in cutting rates until there is a resolution in the Middle East. Many investors expected perhaps two or even three rate cuts in 2026, but we think it is unlikely the Fed will change policy until the conflict is resolved.

Inflation will likely remain above the Fed's target. Elevated oil prices could lead to higher global inflation. An extended conflict could increase the chance

of a recession.

Global stock markets will likely remain volatile until the conflict is resolved, with an anticipated flight to quality investments. The markets have fallen sharply since the conflict began.

Private equity exits will likely slow until there is more market certainty. We had begun to see a pickup in mergers and acquisitions (M&A), transactions and signs of a more robust initial public offering (IPO) calendar.

The conflict has disrupted global supply chains, and an extended conflict may cause additional concerns. We have already seen major shipping and logistics companies halt activities in the region.

Long-term implications

Of course, we don't know how long the conflict will last or whether it could spread beyond Iran. So far, the events have not changed our long-term views regarding our outlook for private markets. We continue to see attractive opportunities in private equity, secondaries, real estate (equity and debt) and infrastructure.

Private equity: We continue to favor secondaries within private equity for both fundamental and structural reasons. Investors in the asset class increasingly find themselves in need of liquidity. The conflict with Iran could slow or delay, at least in the short run, the expected pickup in M&A, as well as exits. As a result, the structural need for liquidity continues to build.

Providing the needed liquidity for original investors while repricing exposure means secondary strategies could have a structural advantage in today's market environment. Secondary managers are able to buy into performing assets, often at discounts to net asset value (NAV), shorten the duration of the asset class for their investors and mitigate risk through broad diversification.

Private credit: Concerns about liquidity and credit quality in private credit have been numerous and widespread but in our view, overblown. We don't see systemic risks. At the same time, we think current market anxiety could widen spreads and create attractive entry points in private credit. As sentiment sours, less capital is flowing into the asset class, helping correct the supply-demand imbalance that developed over the last few years as money poured in.

We believe that commercial real estate (CRE) debt provides distinctive risk, return and correlation characteristics. CRE debt is well-positioned to help finance the "wall of debt" coming due over the next several years. Banks will likely continue to be reluctant to lend capital, and private credit managers can step in to fill the void, negotiating favorable pricing, terms and covenants.

Real estate: Real estate valuations are down from their 2021 peak, reflecting the higher interest-rate environment. We believe there is a meaningful difference between deploying capital in today's environment and doing so in 2020-2021, when valuations were substantially higher.

We continue to believe that industrial warehouse, health care, housing and consumer essentials retail sectors provide attractive opportunities, as durable

structural tailwinds support them. The current Middle East conflict will continue the trend of moving supply chains and logistic operations closer to home, thus creating opportunities in the industrials manufacturing sector.

Infrastructure: We believe infrastructure represents an emerging opportunity. We see four attractive infrastructure themes: digital infrastructure, decarbonization, deglobalization and demographics. In our view, these themes will play out over the next several years.

Digital infrastructure includes data centers, fiber optics and cell towers—highlighting the need to connect the world. Decarbonization reflects the growing emphasis on transforming our energy consumption and needs. Deglobalization reflects the need to reshore our supply chains and logistics; and demographics is the need to respond to population growth in certain regions and aging demographics in others.

Conclusion

The conflict in the Middle East will likely continue to provide short-term disruption, elevated volatility and higher oil prices. It has destabilized the region and put stress on key alliances. At this point, it is unclear what comes next, and whether there will be a peaceful transfer of power.

From a long-term perspective, we continue to believe that private markets represent an attractive set of opportunities. We view private markets as “patient capital”—investments that will play out over a multiyear time horizon. We encourage patience and avoiding the temptation to act on emotional impulses.

The conflict with Iran has not changed our highest conviction ideas—secondaries, real estate (equity and debt) and infrastructure. Often, short-term volatility and uncertainty create long-term opportunities to deploy capital.