



Iran war: De-escalating or escalating?

Frédérique Carrier – London

The Middle East conflict has thrust energy markets into crisis. While diplomatic overtures this week offered a glimmer of de-escalation, military buildups and continued strikes suggest that the conflict remains fluid. We examine the evolving strife, market risks ahead, and the lessons history offers investors.

Taking stock

Now in the fourth week of the war, the U.S. and Israel have made significant strides in degrading Iranian key infrastructure and larger naval assets. However, Iranian assaults on Middle Eastern energy infrastructure have been relentless, causing lasting damage. The Strait of Hormuz, a key choke point for global energy markets with about 20 percent of global oil and liquified natural gas (LNG) supply usually transiting it, remains severely restricted.

Hopes of de-escalation rose this week after multiple major U.S. news outlets reported that the Trump administration had relayed messages to Iran via third-party mediators, a claim that Iran's Foreign Ministry confirmed. Even as diplomatic signals appeared to shift, however, U.S. forces continued to build up in the region, including the deployment of thousands of Marines and additional naval assets. Airborne forces reportedly are also on the way. All the while, Israeli strikes on Iranian infrastructure persist, and Iranian attacks on regional energy facilities and Israeli cities continue.

RBC Capital Markets, LLC's Head of Global Commodity Strategy and Middle East and North Africa Research Helima Croft points out that this is not a conflict in which

decisions are controlled by a single decision maker, unlike the Venezuelan episode. Iran has incentives to prolong the conflict, if only to restore deterrence against future American and Israeli military actions. For the Iranian regime, now run by younger, more hardline figures, the conflict appears existential. Moreover, it's unclear the degree to which Israel calibrates its decisions with Washington, suggesting to us that escalation dynamics may not be fully synchronised between the two allies.

So even if U.S. President Donald Trump seeks a swift end to the conflict or aims for a ceasefire during negotiations—perhaps mindful of high U.S. gasoline prices and potential inflation pressures ahead of the November midterm elections—he may not be able to make a deal, as the decision does not lie solely in Washington. Iran and Israel also have a say.

Commodity market risks

The damage to Middle Eastern energy infrastructure is already extensive. The International Energy Agency (IEA) estimates that, so far, 40 Middle East energy facilities have been severely damaged across nine countries. It will take time, perhaps at least several months, for the oil fields, refineries, and pipelines to come back online. Qatar's energy minister suggested it would take between

For perspectives on the week from our regional analysts, please see [pages 3–4](#).

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three and five years to repair the damage to the country's Ras Laffan natural gas facility from Iran's recent missile attacks. It is responsible for 17 percent of Qatar's LNG production capacity.

Overall, the IEA estimates that 11 million barrels per day (bbl/d) of oil have been lost. To put this in context, the oil shocks of the 1970s were for the loss of 4–5 million bbl/d. In addition, 140 billion cubic meters of natural gas have been lost compared to some 75 billion cubic meters associated with Russia's invasion of Ukraine.

In Croft's view, if the conflict were to persist for several months, with little improvement in maritime transit through the Strait, oil prices could exceed the 2008 high of \$146/bbl. However, we think such a shock could be mitigated if energy shipments resume through the chokepoint, whether via bilateral agreements between Iran and friendly or neutral trading partners, or through alternative mechanisms. However, even with increased tanker flows, the region's energy infrastructure would remain vulnerable absent a durable ceasefire, leaving oil prices elevated and susceptible to renewed spikes.

Natural gas prices could also continue to rise. A proxy used for global LNG prices is the price of gas at Europe's main gas trading hub, the Dutch Title Transfer Facility. Prices have already roughly doubled from pre-crisis levels of around €32 per megawatt-hour (MWh) and could approach €130/MWh if outages persist and LNG flows remain disrupted. This is below the 2022 post Russia-Ukraine war peak of over €300/MWh, thanks to more supply having come on stream since then, though such levels would nonetheless be economically painful.

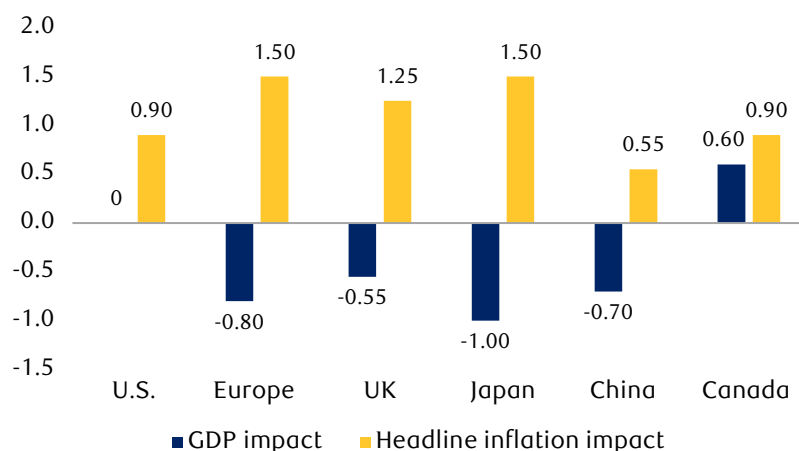
But it's not only energy prices that are being affected. Given that the Strait of Hormuz also handles some 25 percent of global fertiliser exports and around 30 percent of urea trade, a prolonged disruption in the Strait would cause delays in fertiliser shipments. This and higher prices would likely weigh on crop yields later in the year, adding pressure to food prices. Helium supplies, a gas vital to semiconductor manufacturing, are also being negatively impacted.

U.S. and Canada versus others

RBC Economics urges investors to look at this energy crisis in the context of a U.S. economy whose backdrop remains relatively constructive. In RBC Economics' view, it is hard to see a recession occurring because of this shock. The U.S. benefits from relative energy and food security. The federal government is running a fiscal deficit of six to seven percent of GDP—too high for many

Some regions can weather the economic impacts of an energy shock better than others

Total percentage point change vs. RBC Global Asset Management's forecasts



Note: Assumes a permanent \$40/barrel increase in oil prices and a 50% increase in natural gas prices; as at March 9, 2026.

Source - RBC Global Asset Management, Bloomberg Economics, Organisation for Economic Co-operation and Development

Americans' comfort, but it's stimulus nonetheless. Around 20 percent of household incomes consist of inflation-indexed social security transfers, near historic highs, while the unemployment rate remains close to record lows. At the same time, significant AI investments and productivity gains continue to support economic growth.

However, oil prices settling at \$100/bbl could lift the Consumer Price Index towards 3.5 percent, complicating the Federal Reserve's policy stance and placing additional strain on low- and middle-income households already absorbing a multi-year inflation wave, tariff pressures, and the prospect of higher borrowing costs.

Outside the U.S., countries that rely on imported energy, such as Japan, European states, some emerging economies, and to a lesser extent China and the UK, will likely feel the squeeze from higher energy prices. Countries that have closed refining capacity to offshore carbon-intensive industries are particularly at risk, in our view. A prolonged conflict would increase the economic downside in the most affected economies. Canada, as a net energy exporter, stands out to us as a potential beneficiary.

Fixed income and equities

So far, the highest volatility has been observed in fixed income markets which have focused on the inflationary impact of the conflict. Expectations of further rate cuts for most central banks have flipped to the potential for multiple rate hikes. At some point, we think the focus will likely shift to the impact on economic growth, and this could end up tempering consensus rate hike expectations.

With respect to equities, risks are growing that this may turn into what RBC Capital Markets, LLC's Head of U.S. Equity Strategy Lori Calvasina calls a "growth scare"—an episode in which fears of a recession that does not materialise start to be priced in.

In the five growth scares since the global financial crisis of 2008–09, the S&P 500 has experienced drawdowns of between 14 percent and 20 percent which have ranged in duration from two to nine months. Calvasina believes that equities have likely already entered a growth-scare drawdown. As it may take time for equity markets to fully assess the impact of the crisis on corporate earnings, it may not be a swift correction akin to the 2025 tariff episode, in her view, when the S&P 500 declined 19 percent and then quickly reversed course, climbing to a new all-time high less than three months later.

Lessons from the past

Crises often reshape government policy. The 1973–74 oil shock prompted many countries to establish strategic petroleum reserves to guard against future supply disruptions. Today's crisis may similarly elevate energy security higher on policy agendas, accelerating investment in renewables, electrification, and potentially a broader revival of nuclear power.

For now, we think investors should expect heightened equity and fixed income market volatility, as the conflict could evolve along several different paths. Longer-term investors may wish to remember that in the major military conflicts since World War II, equity markets troughed well before the formal end of hostilities.

UNITED STATES

Alan Robinson – Seattle

■ **U.S. stock indexes remained near four-month lows during the week.** Investors clung to hope that equities might stabilize near current levels, although conflicting talk of ceasefires in the Iran war added to the uncertainty.

■ Given the potential disruption to the global economy from this conflict, **equity investors have been surprised that the broad U.S. market indexes have held up relatively well**, with the S&P 500 index “only” 6%–7% below its Jan. 2026 all-time high. Amy Wu Silverman, RBC Capital Markets’ Head of Derivatives Strategy, weighed in, noting that **the relative calm on the surface hides turbulence beneath**. She also noted several sub-sectors of the market performed well, offsetting broader declines elsewhere. Some of these areas are obvious, such as Energy and chemicals that benefit from supply disruptions. Some less obvious areas include selected technology companies. This dynamic is reflected in the Cboe Volatility Index, a gauge of fear in the market that surged higher at the start of the year well before the onset of hostilities in the Persian Gulf (see chart).

■ **We believe this raises two points.** First, institutional traders likely hedged their positions before the conflict started, thereby minimizing subsequent panic selling. Second, stock picking is likely to be more important as volatility ratchets up.

■ **The volatility of news flow in the technology sector also picked up during the week.** Shares of social media companies, Meta Platforms and YouTube owner Alphabet, were negatively affected after a California court found the companies’ products were deliberately built to be addictive and failed to protect their youngest users. This raised investors’ fears of a potential “Big Tobacco” moment for these companies with the prospect of mass

litigation over several years leading to significant changes in the industry. In a somewhat more positive development, Alphabet researchers announced a new algorithm that could allow more efficient use of the memory storage needed for AI development. This negatively impacted memory chip stocks on lower demand fears but also raised the prospect of a “Jevons Paradox” effect in which the more efficient technology becomes, the more demand will rise.

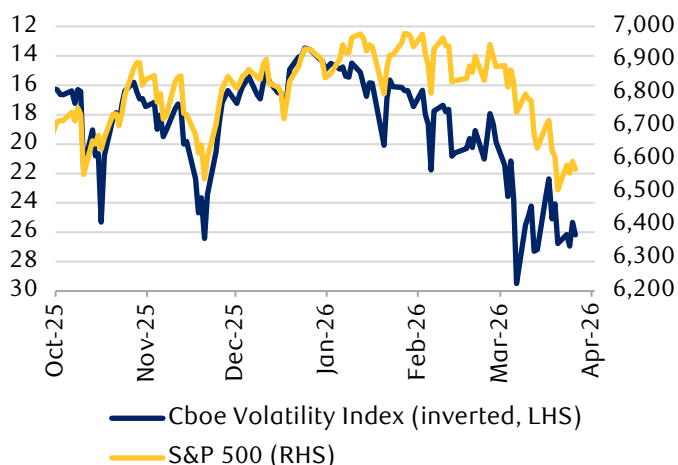
CANADA

Elizabeth Grant & Matt Altro, CFA – Toronto

■ **Canada’s housing market remained in a stalemate in February as both buyers and sellers pulled back.** Home resales slipped another 1.3% from the prior month, while new listings fell 3.9%. The ratio of sales to new listings rose to 48% from 46% in January—though conditions vary considerably across regions, with Ontario and British Columbia having wider selections of homes compared to other areas. The national composite MLS Home Price Index fell for the fifteenth consecutive month in February, declining 0.6% from January and 4.8% from a year ago. This marks nearly two years of year-over-year price erosion and a decline of 20% since 2022. Meanwhile, across Canada, fewer sellers entered the market in February compared to January. However, inventory remained at a six-year high equivalent to five months of sales, particularly in Ontario and B.C., which is likely to keep downward pressure on prices. RBC Economics anticipates a potential uptick in activity as warmer weather approaches, but cautions that recovery is likely to be gradual and uneven because confidence must be rebuilt amid the current uncertain economic environment.

■ **Economic conditions in Canada have remained more resilient than feared since the onset of U.S. tariff threats**, with per-capita GDP rising in 2025 and expected to do so again in 2026, according to RBC Economics. While tariff uncertainty remains a key risk to the cautiously optimistic outlook, most Canadian exports remain duty-free under the Canada-U.S.-Mexico trade agreement (CUSMA) and previous Bank of Canada interest rates have partially alleviated household debt concerns. **Renegotiation of CUSMA will begin this summer**, and while RBC Economics does not expect any significant divergence from the current agreement, there is no certainty that the U.S. administration won’t attempt to achieve specific goals, in our view. **As the price of oil has risen more than 60% year to date due to the Middle East conflict, Alberta stands to see a large net positive impact** given its scale of operations in this sector; **Saskatchewan and Newfoundland and Labrador are likely to benefit from higher energy prices.** While this dynamic may be a positive for Canada’s GDP, its impacts on household affordability remain top of mind.

The “Fear Index” broke down months before the S&P 500



Source - RBC Wealth Management, FactSet; daily data through 12pm ET 3/26/26

UK & EUROPE

Guy Foster, CFA – London

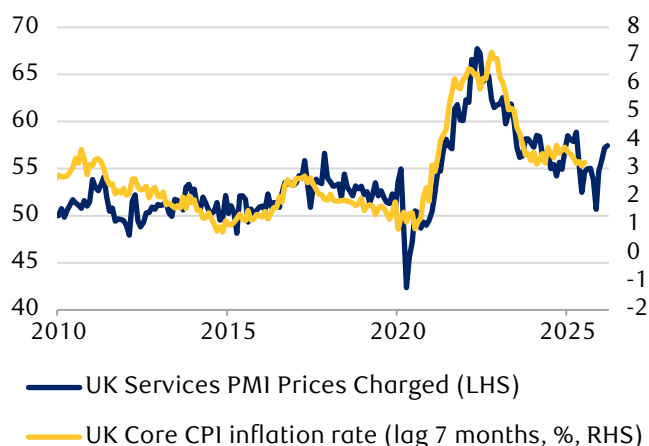
■ European markets remain understandably preoccupied by the Middle East conflict, specifically the impact on energy prices, rendering the UK's official Consumer Prices Index release of limited import. However, some data remain relevant such as the purchasing managers' indexes (PMI). Because they are based on companies' surveyed responses since the outbreak of the conflict, the **PMIs confirm that businesses are experiencing the fastest acceleration in input prices since 2023**. It was most pronounced in manufacturing, but services output prices were affected too, although not enough to immediately offset the higher input costs.

■ **The tone from policymakers remained hawkish.** Bank of England Chief Economist Huw Pill discussed how uncertainty should not be used as an excuse not to act to contain inflation. Fellow Monetary Policy Committee member Megan Greene discussed how there will be lasting inflationary effects from the conflict even in a best-case scenario.

■ By contrast, Deputy Governor Sarah Bredon acknowledged that **second-round effects would be less likely now than in 2022 due to the weaker labour market**. We believe that is unquestionably true, but having spent most of the last four years missing the inflation target materially to the upside, policymakers feel compelled to err on the side of the hawks.

■ Throughout Europe, the pass-through of higher energy prices affects companies via changes in monetary policy,

More UK firms raised services prices in March, suggesting the inflation rate will rise in the future



The Core Consumer Prices Index excludes energy, food, alcohol, & tobacco. On average, the Purchasing Managers' Index leads changes in the Core CPI by around seven months and has already partly reflected the increase in services prices charged since the conflict began in Iran, which official CPI data have yet to capture.

Source - Bloomberg, S&P Global, Office for National Statistics; data range 1/1/10–3/15/26

and more directly as well. High bond yields mean lower real estate valuations as well as less deal flow because the financing costs for new deals have risen. **Real estate yields, which had fallen to their lowest since 2022, have now risen to their highest since 2023. Sectors such as consumer services and retail, on the other hand, will see less volume growth because of the real income compression from energy price inflation.** Price-to-earnings ratios are at the lower end of their range but do not currently stand out. All these factors combine to affect auto sales, where financing costs, running costs, and general economic confidence are all relevant considerations.

ASIA-PACIFIC

Nicholas Gwee, CFA – Singapore

■ **After three consecutive weeks of declines, Asia-Pacific equity markets are posting modest rebounds this week** as they digest news of a potential de-escalation in the Middle East. Leading the recovery are India and Thailand, two of the countries most affected by the closure of the Strait of Hormuz. **But the fuel crisis in the region is far from over:** Thailand's government reduced its fuel subsidy as it became strained by the sharp increase in oil prices, and implemented fuel rationing at some petrol stations; Malaysia reduced the monthly subsidized entitlement for its most popular vehicle fuel as the costs of the subsidy spiked; South Korea imposed a price cap on fuel for the first time in three decades to shield its economy; Beijing raised its refined oil prices for the fifth time this year; and Indian refineries are seeking advance payments for gasoline and diesel fuel.

■ Japan is one of the developed markets hit hardest since the start of the conflict due to its reliance on crude oil imports. At the same time, the country's crude reserves are among the largest in the region. **In the short term, we think Tokyo is better positioned than other regional governments to shield its economy from the sharp rise in fuel costs, but sustained higher fuel prices will be a concern.** RBC Global Asset Management estimates that a permanent \$40/bbl oil price increase combined with a 50% natural gas price increase would lower Japan's GDP growth by 1% and raise inflation by another 1.5%.

■ **Yields on 2-year and 5-year Japanese Government Bonds have hit record highs as the market prices in rate hikes from the Bank of Japan (BoJ).** The central bank held the policy rate steady at its most recent meeting, but BoJ Governor Kazuo Ueda said more board members were concerned about upside inflation risks compared with downside growth (and inflation) risks. RBC Global Asset Management models suggest Japan is the G7 economy most exposed to an energy shock given its significant import dependence. The BoJ was already on a path of gradual interest rate hiking, and we expect this to continue.

MARKET Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	6,591.90	-4.2%	-3.7%	14.1%	26.3%
Dow Industrials (DJIA)	46,429.49	-5.2%	-3.4%	9.0%	18.1%
Nasdaq	21,929.83	-3.3%	-5.6%	20.0%	33.8%
Russell 2000	2,536.38	-3.6%	2.2%	21.0%	22.3%
S&P/TSX Comp	32,382.60	-5.7%	2.1%	27.8%	47.6%
FTSE All-Share	5,405.43	-7.6%	1.0%	15.6%	25.3%
STOXX Europe 600	587.49	-7.3%	-0.8%	6.3%	15.2%
EURO STOXX 50	5,649.33	-8.0%	-2.5%	3.2%	12.0%
Hang Seng	25,335.95	-4.9%	-1.1%	8.5%	53.8%
Shanghai Comp	3,931.84	-5.6%	-0.9%	16.7%	29.9%
Nikkei 225	53,749.62	-8.7%	6.8%	42.3%	33.0%
India Sensex	75,273.45	-7.4%	-11.7%	-3.5%	3.4%
Singapore Straits Times	4,904.54	-1.8%	5.6%	24.0%	53.4%
Brazil Ibovespa	185,424.28	-1.8%	15.1%	40.4%	46.1%
Mexican Bolsa IPC	68,131.82	-4.6%	5.9%	28.1%	20.5%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	4.330%	39.3	16.3	1.7	8.5
Canada 10-Yr	3.485%	35.8	5.2	40.8	-0.4
UK 10-Yr	4.839%	60.6	36.0	8.6	85.1
Germany 10-Yr	2.958%	31.5	10.3	16.0	58.6
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	4.66%	-2.3%	-0.6%	4.3%	9.2%
U.S. Investment-Grade Corp	5.20%	-2.4%	-0.9%	4.6%	10.0%
U.S. High-Yield Corp	7.41%	-1.3%	-0.6%	6.1%	15.3%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	4,511.51	-14.5%	4.4%	49.4%	107.7%
Silver (spot \$/oz)	71.40	-23.9%	-0.4%	111.7%	189.3%
Copper (\$/metric ton)	12,008.77	-9.7%	-3.6%	19.0%	37.1%
Oil (WTI spot \$/bbl)	91.35	36.3%	59.1%	32.4%	11.5%
Oil (Brent spot \$/bbl)	103.20	42.4%	69.6%	41.3%	19.0%
Natural Gas (\$/mmBtu)	2.98	4.1%	-19.2%	-22.5%	84.3%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	99.6510	2.1%	1.4%	-4.4%	-4.4%
CAD/USD	0.7241	-1.2%	-0.6%	3.4%	-1.6%
USD/CAD	1.3810	1.2%	0.6%	-3.3%	1.6%
EUR/USD	1.1558	-2.2%	-1.6%	7.1%	6.7%
GBP/USD	1.3360	-0.9%	-0.9%	3.2%	5.7%
AUD/USD	0.6946	-2.4%	4.1%	10.2%	6.2%
USD/JPY	159.4800	2.2%	1.8%	6.4%	5.3%
EUR/JPY	184.3200	0.0%	0.2%	13.9%	12.3%
EUR/GBP	0.8651	-1.3%	-0.8%	3.8%	0.9%
EUR/CHF	0.9152	0.7%	-1.7%	-3.9%	-6.1%
USD/SGD	1.2813	1.3%	-0.3%	-4.1%	-4.8%
USD/CNY	6.9026	0.6%	-1.2%	-4.9%	-4.3%
USD/MXN	17.7732	3.2%	-1.3%	-11.4%	6.6%
USD/BRL	5.2185	1.8%	-4.7%	-8.4%	4.9%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

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Source - Bloomberg; data as of 3/25/26

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As of December 31, 2025

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			Count	Percent
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Sell [Underperform]	46	3.03	3	6.52

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