



J. Safra Sarasin

Macro & Strategy Flash

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War in Iran

Three scenarios

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The start of the war against Iran by the US and Israel wasn't a total surprise, given weeks of military buildout and stalled diplomacy. Still, with the top Iranian leaders killed in the opening strikes, and the regime fighting for its survival, the situation remains very fluid. We lay down three broad scenarios. Our central scenario (50% probability) envisions a relatively short, decisive campaign. Oil settles near \$75/bbl, lifting headline inflation by ~0.5pt temporarily and modestly weighing on growth. Our equity, FX, and fixed income targets hold, though volatility will spike. In the worst-case (25%), conflict drags on, damaging regional energy infrastructure. Oil surges above \$100 for months, pushing many economies in recession and leading to more persistent inflation. Gold could hit \$6'000; equities suffer at least a 15% drawdown. In the best-case (25%), the campaign ends within a few weeks with Iran's regime collapsing and military capacity greatly diminished. This scenario envisages minimal global economic fallout, and market moves rapidly reverse.

The situation remains very fluid

Air strikes by the US and Israel on Iran have significantly increased geopolitical tensions in the region, while underscoring the extreme fluidity of the situation. Developments remain highly uncertain, with the trajectory of the conflict contingent on rapidly evolving military, financial markets and political dynamics.

Three scenarios to frame potential outcomes and their macroeconomic and financial-market implications

In this context, we outline three illustrative scenarios to frame potential outcomes and their macroeconomic and financial-market implications. These scenarios are not forecasts, but rather analytical constructs designed to assess a range of plausible paths. Actual developments are likely to be more complex and may not align fully with any single scenario presented below.

[See our summary of scenarios on page 5](#)

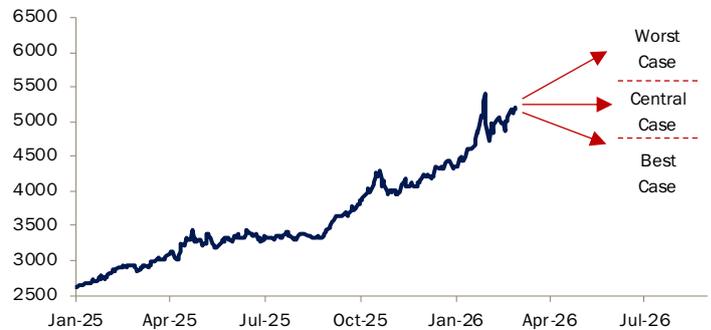
Exhibits 1 and 2: Both, crude oil and gold prices, would be pushed much higher in the worst case of a prolonged regional conflict

Brent oil, USD per barrel



Source: Macrobond, Bank J. Safra Sarasin, 02.03.2026

Gold, USD per troy ounce



Source: Macrobond, Bank J. Safra Sarasin, 02.03.2026



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1. Central Case: Contained Conflict (50%)

A. Macro

In our central scenario, the conflict drags on for several weeks, with limited impact on inflation and growth

- The air campaign continues for several weeks
- Iranian military capabilities are sufficiently degraded, limiting their ability to sustain attacks in the region. But the regime retains some military force, including through its proxies in the region
- Political considerations incentivise the U.S. administration to conclude the campaign before elevated oil prices impact the domestic driving season, and its economy more broadly
- Both parties return to negotiations, although outcomes remain uncertain and geopolitical ambiguity persists
- The Strait of Hormuz reopens without significant damage to regional energy infrastructure
- A residual geopolitical risk premium remains, with oil prices stabilising at around \$75/bbl—approximately 15% above levels at the start of the year
- Headline inflation in advanced economies increases by approximately 0.5 percentage points on average after 2–3 months, with a somewhat larger impact in Europe and a more moderate effect in the US. Emerging markets experience a more pronounced increase of 1–2 percentage points
- Inflationary pressures prove transitory, with limited second-round effects; the impact on core inflation is less than half of the headline increase
- Most central banks maintain a pause in the near term but eventually proceed with previously anticipated rate cuts (notably the Bank of England and the Federal Reserve)
- Elevated energy prices and increased policy uncertainty exert a modest drag on global growth of around 0.2 percentage points

B. Asset classes

Expect soft risk-off in our base case, with end-year targets unaffected

Fixed income

- Yield curves shapes unchanged. Some of the risk-off flows will reverse and lead to moderately higher yields across currency spaces
- Yield upside will be capped by uncertainty about labour market effects from AI disruption and negative news flow from private credit markets
- Credit spreads should remain stable or widen only moderately

FX and gold

- The US dollar should continue to trade at around current levels, with the trade-weighted DXY dollar index fluctuating within the 98-to-100 range in the near term
- We also expect the euro and the Swiss franc to trade at around current levels, while gold should be supported at above \$5'000 per troy ounce

Equities

- Expect volatility to remain elevated until risks to oil supplies and the global economy subside (VIX>20)
- Equity market drawdown to be limited to ~5% from the pre-air-campaign levels, leaving the S&P500 above 6'500
- As the military campaign is closing in, markets are set to recover. Our year-end target for the S&P 500 of 7'400 remains in place



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2. Worst Case: Prolonged Regional Conflict (25%)

A. Macro

In our worst-case scenario, the conflict escalates and drags on, with the oil price staying above \$100/bbl for an extended period of time. Inflation increases by >2%pts and many economies fall into recession

- Iranian military capabilities prove more resilient than initially anticipated
- The conflict broadens regionally, drawing in additional actors and preventing US disengagement
- The Strait of Hormuz remains closed, with damage to energy infrastructure; oil prices rise above \$100/bbl and remain elevated for an extended period
- Headline inflation increases by at least 2 percentage points across most economies, accompanied by more pronounced second-round effects and a rise in inflation expectations
- A recession becomes likely in several economies, particularly in Europe and oil-importing emerging markets
- A stagflationary environment complicates the calibration of monetary policy for central banks
- Economic divergence widens between net oil exporters and importers, with Europe and Japan more adversely affected than the US

B. Asset classes

Spike in oil prices would lead to severe risk-off, including higher US dollar, lower yields and sharp pull-back in equities. Year-end targets would likely be revised lower

Fixed income

- Yields likely to drop more meaningfully as high oil prices and geopolitical uncertainty would lead markets to price a higher probability of recession
- Credit spreads will likely widen materially to account for a weaker economy

FX and gold

- The US dollar should rise meaningfully in this scenario, with the trade-weighted DXY dollar index climbing above 100 in the near term
- A surging oil price would affect cyclical currencies most significantly, likely pushing EURUSD towards 1.15, while EURCHF may fall below 0.90, increasing the risk of FX interventions by the SNB
- We see gold climbing towards \$6'000 per troy ounce in this scenario and would probably revise our year-end targets in this event

Equities

- Expect volatility to spike (VIX>40)
- Equity market to pull back by up to 15% (S&P500<6'200)
- Defensive sectors and energy are set to outperform
- Net oil importers to suffer most: e.g. India, Korea, Japan, euro area markets
- Our S&P500 end-year target would likely need to be lowered to <7'000 as the economic fallout from sharply higher oil prices would be a major headwind to earnings in 2026



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3. Best Case: Confrontation Subsides Quickly (25%)

A. Macro

In the best case scenario, the military confrontation subsides rapidly, and the Iranian regime gives in on its nuclear and ballistic missile programmes. No visible impact on the global economy

- Active confrontation subsides within a few weeks
- Military campaign proves highly effective in degrading Iran's military capabilities
- Missile and drone attacks cease
- The Strait of Hormuz reopens promptly, with minimal damage to energy infrastructure
- The Iranian regime concedes on key issues, notably nuclear and ballistic programs
- President Trump declares a strategic success and withdraws the majority of US military assets from the region
- Oil prices decline rapidly toward approximately \$65/bbl
- The overall macroeconomic impact remains limited

B. Asset classes

Most optimistic outcome, leading to steeper yield curves, weaker US dollar and full reversal of equity sector moves in response to the campaign. End-year targets remain in place

Fixed income

- Yield curves would bear-steepen moderately as some of the risk-off flows reverse
- 10y bond yields will likely trade up to previous ranges. 4.25% mid-point 10y US Treasuries, 2.8% 10-year Bunds
- Yield upside will be capped by uncertainty about labour market effects from AI disruption and negative news flow from private credit markets
- Credit spreads will likely tighten slightly from current levels

FX and gold

- The US dollar should fall again, reversing its recent gains, with the trade-weighted DXY dollar index back at around 97 in the near-term
- This scenario would also allow the euro to reclaim its recent highs and ease upward pressure on the Swiss franc, while gold would likely retrace towards \$5'000 per troy ounce in the near term

Equities

- Expect volatility to fall (VIX < 20)
- Gains in energy and losses in discretionary/airlines likely to reverse
- Equity drawdown to remain very contained (S&P500 to remain above 6'700)
- Our year-end target for the S&P 500 of 7'400 remains in place



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Summary Table: Possible scenarios on the war in Iran

| Scenario / probability | Assumptions | Economic impact | Market impact |
|----------------------------|--|--|--|
| Base case scenario 50% | <p>Contained conflict Several weeks of air campaign weaken the Iranian regime but not to the extent that it collapses. The US and Iran re-enter negotiations.</p> <p>Strait of Hormuz reopens, no significant damage to energy infrastructure in the region</p> | <p>Oil price settles at around \$75/bbl, 15% higher than the level at the beginning of 2026 as some risk premium lingers</p> <p>Inflation increases on average 0.5%pts after 2-3 months in developed markets and 1-2%pts in emerging markets. Limited second-round effects</p> <p>Growth: Global growth 0.2%pts lower</p> | <p>Fixed Income: No meaningful curve change as risks linger on top of an already cautious sentiment. 10y yields up only slightly. Unchanged to somewhat wider credit spreads</p> <p>FX: USD to trade at around current levels, with DXY between 98 and 100 in the near term, EURUSD: 1.15 - 1.20, EURCHF: 0.90 - 0.92, Gold to trade between 5'200 and 5'500, FX and gold year-end targets remain in place</p> <p>Equities: Volatility elevated (VIX>20), defensive tilt, equity drawdown of ~5% from pre-campaign levels (S&P trough above 6'500), S&P 2026 year-end target remains at 7'400</p> |
| Worst case scenario 25% | <p>Prolonged regional conflict Iranian military capabilities remain strong even after weeks of US air campaign. Strikes on neighbouring countries continue and the US cannot disengage</p> <p>Strait of Hormuz stays closed, energy infrastructure damaged</p> | <p>Oil price rises above \$100/bbl and stays there for a prolonged period of time</p> <p>Inflation increases on average 2%pts with higher inflation expectations and larger second-round effects</p> <p>Growth: Recession likely in many economies especially in Europe and some oil-importing EM</p> | <p>Fixed Income: Substantially lower yields, also long-term maturities as recession gets priced. Sharp widening in credit spreads</p> <p>FX: USD to rise meaningfully, with DXY rising above 100 in the near term, EURUSD below 1.15, EURCHF below 0.90, Gold to move towards 6'000, Stronger USD and higher gold year-end targets</p> <p>Equities: Volatility spikes (VIX>40), defensive tilt, net oil importers exposed (India, Korea, Japan, euro area), 15% equity drawdown to (S&P <6'200), S&P year-end target would likely be reduced to <7'000</p> |
| Best case scenario 25% | <p>Confrontation subsides quickly US air strikes quickly destroy Iran's military capabilities over the next 4 weeks. Iran gives in on nuclear and ballistic capabilities. Trump claims a quick win</p> <p>Strait of Hormuz reopens rapidly, minimal damage to energy infrastructure</p> | <p>Oil price drops quickly back to \$65/bbl</p> <p>Inflation is not affected by the short-lived price movement</p> <p>Growth: limited economic impact</p> | <p>Fixed Income: Modest bear steepening as some of the risk-off positions are unwound, yields up to 4% to 4.5% range. Unchanged to slightly tighter spreads</p> <p>FX: USD to fall, with DXY back around 97 in the near-term, downward trend to continue EURUSD around 1.20, EURCHF above 0.92 Gold to retrace towards 5'000 in the near term FX and gold year-end targets remain in place</p> <p>Equities: Volatility drops (VIX<20), energy sector underperforms, discretionary/airlines outperform, equity drawdown reverses (S&P >6'700), 2026 end-year target remains in place (S&P: 7'400)</p> |

Source: Bank J. Safra Sarasin, 02.03.2026



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