

Alex Grassino, Global Chief Economist, shares his latest views on the recent increase in military activity and geopolitical tensions in the Middle East.

Middle East Conflict and Market Risk

Global geopolitical and economic uncertainty has unfortunately become a defining characteristic of the 2020s, the recent increase in military activity and geopolitical tensions in the Middle East being yet another example. The beginning of U.S. and Israeli military operations against Iran prompted swift retaliatory action, which included an attempted drone strike on Qatar's energy infrastructure. While no damage was recorded, a major liquefied natural gas terminal was closed, signaling the potential for broader fallout than resulted from the June 2025 Israel-Iran conflict.

While North American equities have so far been relatively unaffected, there have been pronounced and intuitive reactions in other segments of the market. Oil and natural gas prices have jumped, while traditional safe-haven assets have also for the most part been acting rationally, with gold, silver, and the U.S. dollar all up. Global bond yields are one exception, having risen as of this writing. This dynamic potentially reflects heightened concerns about renewed inflation and the indirect impact it could have on future central bank decisions.

While there are clearly a lot of unknowns, we are currently focusing on three major variables in our effort to assess the potential market and economic implications of the conflict:

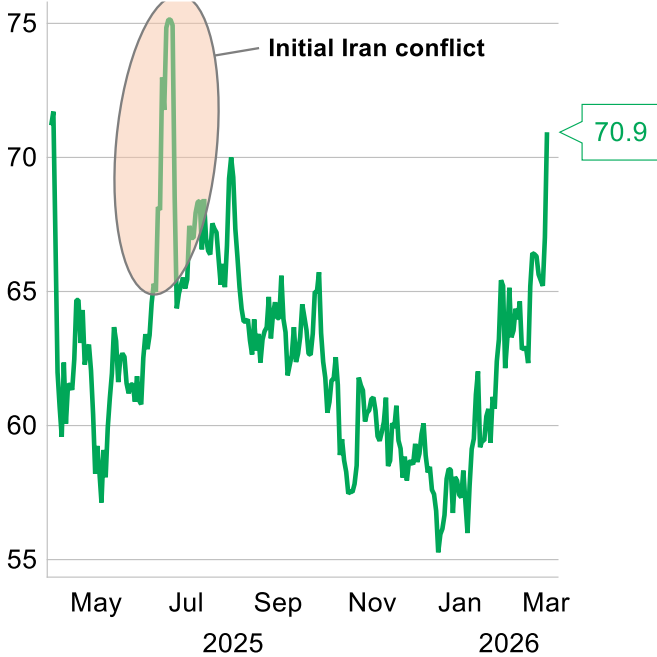
- Time.** For now, our base case is that this latest episode will be relatively short-lived. Our rationale is simple: The Trump administration has developed a track record of fairly brief, focused military operations (e.g., Iran in June 2025 and Venezuela in January 2026). If that is indeed the case again this time, the direct economic impact would likely skew more toward temporary distortions than major inflection points, with markets quickly reverting to pre-war narratives. The most obvious historical comparison would be the price action for oil and natural gas during and after the U.S. and Israeli strikes on Iran in June 2025.

Netherlands TTF Natural Gas Forward Month 1



Source: Bloomberg, Macrobond, Manulife Investment Management, as of 3/2/2026.

Oil (WTI \$/BBL)



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If the current conflict were to extend much longer than a few weeks, market and economic impacts could become more significant, with the relatively 'benign' outcome implying sustained but somewhat moderate energy price increases. In that case, if only Iranian energy production were disrupted, current excess global supply could somewhat mitigate the disruption. However, other regions would probably be more vulnerable, including countries that rely directly on Iranian oil (e.g., China, India, and Asia more broadly). A larger concern would be the risk of

wider global disruptions, at least partly due to some closure of the Strait of Hormuz, perhaps leading to a more pronounced move higher in energy prices. However, as long as military action stayed confined to military targets and didn't affect energy infrastructure, a relatively prompt reversal could be plausible.

- Infrastructure.** Energy prices would likely increase dramatically if commercial infrastructure (namely the energy production complex) were to be targeted and damaged/destroyed anywhere in the region. In this scenario, energy prices could surge and begin to weigh more heavily on economic growth, potentially contributing to a stagflationary environment. However, we place a somewhat lower probability on that outcome because any meaningful impairment would also affect Iran. (However, the likelihood could increase in line with any sense of Iran being 'cornered.')
- Escalation.** The scope of the conflict has so far remained relatively contained and could remain so. If, however, Iran's retaliation were to include the aforementioned energy complex, the use of proxies to expand the geographic scope of the conflict and/or hamper traffic through the Suez Canal, a broader and potentially more destructive regional spillover could occur, affecting not only energy prices but also global supply chains.

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