

Iran War Energy Shock: Macro Outlook & Portfolio Strategy

A professional assessment of the 2026 Iran War's impact on global energy, US macroeconomics, and actionable investment positioning.

BRENT PEAK

\$120+ /bbl

+67% since Feb 27

SUPPLY OFFLINE

10M+ bpd

Largest disruption ever

LNG DAMAGE

3–5 year repair

Ras Laffan, 17% global LNG

S&P 500

–6.8% YTD

Nasdaq near correction

PORTFOLIO STANCE: **Overweight Energy & Defense** | **Remain Constructive on US Equities**

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Sources: Bloomberg, Reuters, AEI, Morgan Stanley, Charles Schwab, Capital Economics, IEA | March 2026

Macro Outlook — Iran War Energy Shock

Assessment: Structural, Multi-Year Supply Disruption

The 2026 Iran War represents the largest oil and gas supply disruption in recorded history. The Strait of Hormuz blockade, destruction of Qatar's Ras Laffan LNG complex, and cascading attacks on Gulf energy infrastructure have collectively removed 10M+ barrels per day from global markets. The IEA has called this 'the greatest global energy security challenge in history.' This is not a transient price shock — it is a structural rewiring of global energy flows with repair timelines measured in years, not months.

\$120+	10M+ bpd	3–5 yrs	+25%
Brent crude peak (\$/bbl)	Gulf production offline	Ras Laffan repair timeline	US Energy sector YTD

Three Pillars of the Shock

- Strait of Hormuz Blockade:** Iran has all but closed the Strait of Hormuz, the world's most critical energy chokepoint carrying ~20% of global seaborne oil and LNG. The world's spare production capacity — concentrated in Gulf states — cannot reach markets while the strait is blocked.
- Physical Infrastructure Destruction:** Fifteen or more major facilities across Qatar, Saudi Arabia, UAE, Kuwait, Bahrain and Iran have been damaged or destroyed. Qatar's Ras Laffan — the world's largest LNG terminal — suffered damage requiring 3–5 years to repair, wiping out 17% of global LNG supply and \$20B in annual revenue.
- Geopolitical Risk Premium — Now Structural:** Even post-ceasefire, energy markets will permanently factor a future Hormuz closure risk into oil prices. Veteran analyst Andy Lipow: 'Even if the conflict ended tomorrow... oil prices would not return to pre-conflict levels of \$67/bbl. The damage is done.'

Key Facilities Damaged — Repair Timeline Summary

Facility	Country	Type	Damage Level	Repair Est.	Output Impact
Ras Laffan LNG	Qatar	LNG Terminal	Critical	3–5 years	17% global LNG
South Pars complex	Iran	Gas Processing	Critical	3–5+ years	80% Iran gas
Shaybah oil field	Saudi Arabia	Oil Production	Severe	6–18 months	~1M bpd risk
Mina al-Ahmadi	Kuwait	Oil Refinery	Severe	6–18 months	Major ME refinery
Bapco refinery	Bahrain	Oil Refinery	Severe	6–12 months	400K bpd
Shah gas field	UAE	Gas Production	Severe	6–24 months	Sour gas hub

Facility	Country	Type	Damage Level	Repair Est.	Output Impact
Habshan facility	UAE	Gas Processing	Moderate	2–6 months	Debris damage
Ruwais refinery	UAE	Refinery	Moderate	1–3 months	837K bpd risk
Ras Tanura	Saudi Arabia	Crude Processing	Minor	Restarted	550K bpd

* All timelines assume cessation of active hostilities. Ongoing conflict resets all repair clocks. LNG equipment global lead times are 2–3 years in peacetime — these estimates are optimistic.

How the Energy Shock Transmits to the US Economy

The United States, as the world's largest oil producer and a net energy exporter, is materially better positioned than Europe and Asia. However, five transmission channels create meaningful domestic headwinds that investors cannot ignore.

1. Consumer Gasoline Shock

US retail gasoline surged 5–10 cents/gallon daily through early March. California exceeded \$5/gallon. In a 2026 midterm election year, pump prices function as a direct political and economic pressure valve. Consumer spending represents ~70% of US GDP — energy costs are an effective tax on household budgets.

2. Inflation Re-Acceleration → Fed Trapped

At \$100/bbl oil, headline CPI is estimated to run 1.25 percentage points above baseline. The Fed, which had been on an easing path, now faces a stagflationary bind: rising prices alongside slowing growth. Rate cut expectations are being pushed out or reversed. Former Fed Chair Yellen warned the oil shock 'makes the Fed's job of containing inflation much more difficult.'

3. Higher Treasury Yields → Equity Valuation Pressure

Pentagon supplemental spending requests of \$200B+ widen the fiscal deficit, pushing long-term Treasury yields higher. AEI economists warn this is 'the last thing the US economy needs' given stretched equity valuations, weak labor markets, and cracks in private credit. Higher 10-year yields compress P/E multiples, particularly for long-duration growth assets (tech, small caps, REITs).

4. AI Boom Headwind — The Underappreciated Risk

AI infrastructure investment accounted for approximately half of US economic growth in recent quarters. Data centers are extraordinarily energy-intensive and are projected to demand 3.5x their current electricity consumption by 2029. Higher energy costs directly increase AI capex and operating costs — this creates an unexpected headwind to the technology sector's primary growth narrative.

5. US Buffer: World's Top Oil Producer

The US is a net energy exporter and the world's largest oil producer. Oil's share of US GDP has fallen by 70% since 1980. Domestic upstream producers benefit directly from higher prices. The US dollar has strengthened as oil is priced in dollars, and major defense contractors (Lockheed, RTX, Northrop) are concentrated in US equity indices — creating a natural sectoral hedge within the S&P; 500.

US Index & Sector Performance Since February 27

Index / Asset	Move Since Feb 27	Key Driver	Outlook
S&P; 500	-6.8% (2026 lows)	Broad risk-off; stretched valuations	Constructive long-term

Index / Asset	Move Since Feb 27	Key Driver	Outlook
Dow Jones	-9.2% (4-wk losing run)	Industrials/cyclicals under pressure	Watch Treasury yields
Nasdaq Composite	-9.7% (near correction)	AI/tech risk-off + energy cost risk	Selective — avoid rate-sensitive
Russell 2000	-10.3% (correction)	Most rate-sensitive; financing costs up	Underweight near-term
VIX (Fear Index)	+11% (elevated)	Uncertainty around escalation path	Expect volatility
US Energy Sector	+25%+ YTD	Direct oil price beneficiary	OVERWEIGHT
Defense (iShares)	+14% YTD	Multi-year spending cycle underway	OVERWEIGHT
US Dollar (DXY)	Strengthened	Oil priced in USD; safe-haven flows	Positive near-term

GDP growth forecast: Capital Economics projects the US to outperform all major economies at +2.25% in 2026. Goldman Sachs warns of \$150/bbl risk if the Strait of Hormuz remains closed — triggering recession probabilities that rise sharply above the \$130/bbl level. AEI notes: 'The facts have changed. Those changes raise the risk of a US economic recession, a rise in inflation, a sharp stock market correction, and credit market strains.'

Portfolio Positioning — March 2026 Outlook

Overall Stance: Constructive on US Equities, Meaningfully Overweight Energy & Defense

The US market is not a sale — it is the best-positioned major equity market in the world given its domestic energy production, dollar strength, and defense sector concentration. We maintain a positive view on US Large Cap equities as an anchor, while sharply increasing exposure to energy (oil & gas) and aerospace/defense, which are structural multi-year beneficiaries of the current environment. We reduce exposure to rate-sensitive and consumer-cyclical names in the near term.

Recommended Asset Allocation — Portfolio Tilt

Asset Class / Sector	Previous Weight	New Weight	Change	Rationale
US Large Cap Equities (Core)	35%	32%	▼ -3pp	Trim on index-level valuation risk; remain core positive
Energy — Oil & Gas (US)	5%	14%	▲ +9pp	Direct beneficiary; upstream producers, E&P; midstream
Aerospace & Defense	5%	10%	▲ +5pp	Multi-year Pentagon + NATO spending cycle underway
Oil Shipping / Tankers	1%	3%	▲ +2pp	Rerouting demand drives ton-mile growth
US Mid Cap Equities	10%	9%	▼ -1pp	Moderate trim; more rate-sensitive than large cap
US Small Cap Equities	8%	4%	▼ -4pp	Underweight — confirmed correction, high rate sensitivity
Technology / AI (Nasdaq)	12%	9%	▼ -3pp	Near-term risk-off + energy cost headwind to AI capex
Fixed Income — Short Duration	8%	10%	▲ +2pp	Reduce duration risk; avoid long-end Treasury exposure
Fixed Income — Long Duration	5%	2%	▼ -3pp	Higher yields / wider deficits — reduce long-bond risk
Consumer Staples	5%	5%	→ 0pp	Stable; maintains defensiveness without energy risk
International Developed (EAFE)	6%	2%	▼ -4pp	Europe most exposed to energy shock; underweight
Emerging Markets	0%	0%	→ 0pp	Avoid; Asia EM most exposed to LNG/energy disruption

Stock-Level Recommendations

Ticker	Company	Sector	Rating	Key Thesis
XOM	ExxonMobil	Integrated Oil	BUY	Upstream/LNG exposure; \$20B buyback; AI data center gas demand
CVX	Chevron	Integrated Oil	BUY	Margin expansion at \$100+ oil; Permian Basin growth
LMT	Lockheed Martin	Defense	BUY	+14.9% YTD; F-35, missile defense; installed base model
RTX	RTX Corp	Defense	BUY	Patriot systems, precision munitions; multi-year orders
NOC	Northrop Grumman	Defense	BUY	Stealth bombers; B-21 program; electronic warfare systems
PLTR	Palantir	Defense Tech	BUY	AI battlefield analytics; software-native defense; recurring revenue
FRO	Frontline	Oil Tankers	BUY	Rerouting around Africa increases ton-miles; day rates surging
NVDA	Nvidia	Technology	HOLD	AI structurally intact; near-term energy cost risk; await dip
UAL	United Airlines	Airlines	AVOID	Fuel cost explosion; Middle East airspace closures
IWM	iShares Russell ETF	Small Cap	UNDERWEIGHT	Rate-sensitive correction; wait for Fed clarity

Scenario Framework — Oil Price & Portfolio Impact

Scenario	Trigger	Brent	S&P; 500	US GDP	Portfolio Action
Base: Ceasefire (3–6 months)	Hormuz reopens; Qatar rebuilds	\$85–95	Recovery +8–12%	+2.25%	Hold energy OW; reduce defense to neutral; add back tech on dip
Protracted War (6–18 months)	Hormuz stays contested	\$100–115	Correction –10 to –15%	+1.5–2.0 %	Maintain current positioning; add short-duration fixed income; trim tech further
Escalation (12–24 months)	Hormuz fully shut; more infra attacks	\$130–160	Bear market –20%+	Recession risk	Max energy/defense; move to cash/short-dur bonds; cut all cyclicals
Black Swan (Beyond Gulf)	Attacks on Western infra; Russia involvement	\$200+	Systemic selloff	Deep recession	Capital preservation mode; energy, defense, USD cash only

Why We Remain Positive on US Equities

Despite the headwinds, we maintain a constructive view on US equities for the following structural reasons:

- The US is the world's largest oil producer and a net energy exporter — rising oil prices create domestic winners, not just losers.
- Major corporate beneficiaries of this war (defense contractors, energy majors, shipping firms) are disproportionately US-listed, creating an index-level natural hedge.
- Historical precedent is encouraging: markets posted double-digit gains three to six months after both Gulf Wars, led by defense.
- The dollar strengthens in this environment (oil is dollar-denominated; safe-haven flows), supporting US asset returns for global investors.
- Capital Economics forecasts the US to outperform all major economies in 2026 at +2.25% GDP growth — compared to Eurozone at 0.5% and China below 3%.
- Morgan Stanley's base case: the key risk is duration. A short war means a rebound. The US economy is structurally better positioned to absorb a prolonged shock than any other major market.

Key Risks to Monitor

Hormuz duration	Each week of full closure deepens structural damage. A 90-day closure would push oil above \$130 and trigger Fed rate hikes.
Fed policy error	If the Fed hikes into a slowing economy to fight oil-driven inflation, recession probabilities rise sharply.

AI capex slowdown	Energy-intensive data centers facing cost pressures could trigger a Nasdaq earnings reset beyond current valuations.
Tariff compounding	AEI notes that Trump tariff policy 'could add to uncertainty and to inflationary pressures' on top of the oil shock.
Credit market stress	Elevated yields combined with years of easy-money lending could trigger dislocations in private credit — a systemic risk.
Escalation beyond Gulf	Any attack on Western energy infrastructure would push prices 'absolutely apocalyptic' per Gulf Oil's Tom Kloza.

Portfolio Summary — March 2026

OVERWEIGHT: US Energy (Oil & Gas) — Increased to 14% from 5%. Upstream producers and LNG exporters are direct beneficiaries of the supply shock. **OVERWEIGHT:** Aerospace & Defense — Increased to 10%. Multi-year Pentagon and NATO spending cycle. **POSITIVE:** US Large Cap Equities — Trimmed slightly but remain core position. US is the best-positioned major market. Defense and energy within the S&P; 500 provide a natural hedge. **REDUCE:** Long-duration bonds, small caps, international developed markets, airlines, consumer discretionary. **MONITOR:** Technology/AI for entry point on energy-cost clarity.

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