US-Iran conflict: Roadmap and market implications

March 2, 2026

Andrija Vesic, Senior Research Analyst CEEMEA
Daniel Greenspan, Senior Analyst and Portfolio Manager
Leo Han, Senior Equity Analyst
Eric Morin, Global Head of Research
Mark Obrai, Director, Thought Leadership and Publications
Michael Sager, MD and CIO, Multi Asset and Currency Management

Key takeaways

- Periods of heightened volatility reinforce the importance of disciplined portfolio construction and a focus on long-term investment objectives.
- **Oil prices:** The emerging conflict in Iran has triggered a sharp spike in oil prices due to immediate risks to the Strait of Hormuz, a critical global oil chokepoint.
- **Risk assets:** An initial sell-off in risk assets has occurred--but historically similar geopolitical drawdowns have proven temporary and created buying opportunities.
- **Safe havens:** Gold, US Treasuries, the US dollar, and the Swiss Franc are likely to rally as investors seek safety, with the magnitude of the move likely to depend on the extent of oil supply disruptions and resulting energy price pressures.
- **Energy sector:** Canadian equities, with significant energy exposure, are benefiting; global energy markets are experiencing heightened volatility. Exposure to gold provides an additional hedge during periods of geopolitical stress.
- **Defence spending:** Geopolitical tensions reinforce a generational upswing in global defence investment, with Canada, US, China, Europe, and Japan committing to structurally higher investment levels.

On February 28, the US and Israel launched joint military strikes against Iran, escalating tensions in the region and raising significant uncertainty for global markets. Our primary concern is the humanitarian risk to civilians, and we hope that all parties exercise restraint to ensure any conflict remains limited in scope and duration.

Conflict roadmap

We identify three roadmap scenarios for the US-Israeli military campaign against Iran:

(i) **Contained conflict and regime paralysis**: Air-dominant US/Israeli campaign significantly paralyzes Iranian regime and its military capabilities. This entails (i) limited energy supply disruptions, (ii) Strait of Hormuz remains open but with limited traffic and (iii) waning Iranian retaliation. After an initial move higher to ~$80 per barrel (bbl), oil prices drift back toward $70-$75/bbl as tensions ease. Limited sustained consequences under this scenario for global growth and inflation.

(ii) **Rapid, contained campaign and de-escalation**: Faced with existential threat of collapse, a new Iranian leadership bends to US demands on its nuclear and ballistic missile programs. This rapid de-escalation leads to oil prices declining back to the $65-70 bbl range in place immediately prior to this weekend's events.

(iii) **Prolonged, multi-front regional war:** Supreme Leader Khamenei and key members of the Iranian regime killed in this weekend's air strikes are replaced by like-minded hardliners. The new regime escalates the conflict beyond Iran borders with use of Yemenis and Iraqi proxies targeting regional oil infrastructure and shipping chokepoints, including the Strait of Hormuz (a key oil supply route). This would lead to greater military response by US-Israeli militaries. Ultimately, oil prices in such a scenario could spike above $100/bbl, with potentially significant negative economic consequences. Elevated prices would likely prompt incremental OPEC supply increases, as producers seek to maximize revenues while limiting demand destruction.

Our base case remains a contained conflict (Scenario 1 above), reflecting mutual incentives to limit escalation. The Iranian regime is in a precarious fiscal and political position and is unlikely to stabilize without a negotiated deal with the US, particularly given Tehran's reliance on oil export revenues to support state finances. Conversely, the US's primary objective appears to be neutralizing Iran's nuclear and ballistic missile programs, despite President Trump's weekend comments regarding the desirability of regime change in Iran. Importantly, the US also has limited incentive to pursue a prolonged regional conflict given fiscal constraints and the upcoming midterm elections. The lack of historical precedent in which an air campaign alone leads directly to regime change is noteworthy in this regard. We would expect negotiations between US and Iran to resume, as revamped leadership in Tehran emerges.

The US administration is looking to avoid any disruption to Persian Gulf oil supplies ahead of the midterm elections, particularly given the focus on consumer affordability as a key campaign issue. Similarly, Iran is unlikely to attempt to block oil supplies from the Strait of Hormuz, which facilitates the transit of approximately 20 million barrels per day—about one-third of global seaborne oil exports. Any such action would likely trigger additional US actions and further weaken Iranian military capabilities, heightening the vulnerability of the regime.

Market implications

The conflict implies a significant increase in uncertainty and market volatility. The persistence of this increase, as well as its impact on markets and the global economy, will be determined by the roadmap. Our current expectation is consistent with minimal sustained negative impacts beyond the initial reaction. If correct, this means that initial sell-offs in risky assets could present buying opportunities once uncertainty recedes over the coming days.

We continue to recommend remaining focused on long-term goals, avoiding any temptation to try and time market participation, and staying invested in line with our recommendations in the latest edition of Perspectives. Geopolitical uncertainty reinforces our overweight recommendation on Canadian stocks, given their direct exposure to gold and the high index weight of the energy sector. We expect government bond yields to remain rangebound over the next 12 months, although heightened uncertainty will likely temporarily lead to lower yields in the near term. Further out, the skew of risks will likely reverse due to a constructive macro environment, robust global demand for military investment, ongoing fiscal stimulus across several economies, and long-term challenges facing US Treasuries related to institutional, fiscal, and inflationary pressures.

Canadian market implications

The Canadian market stands out in the current environment, particularly because of its significant exposure to the energy sector and notable exposure to gold producers. With energy accounting for approximately a mid-teens share of the S&P/TSX Composite Index, Canadian equities are well positioned to benefit from the spike in oil prices resulting from heightened geopolitical tensions and supply disruptions in the Middle East. Historically, the Canadian dollar has also tended to move in tandem with oil prices, although this relationship has become less pronounced in recent years.

Broad-based Canadian equity funds, balanced funds, and global tactical balanced strategies provide meaningful exposure to the energy sector. Sector-specific funds or strategies provide more focused exposure to resource equities. Notably, some funds—such as the CIBC Multi-Asset Absolute Return Strategy—offer the flexibility to take direct positions in oil and gold, allowing investors to tailor their exposure and better manage risk.

Given these unique characteristics, Canadian-focused investments are in a strong position to navigate the economic uncertainty and market volatility arising from the geopolitical events impacting global oil markets. For guidance on adjusting portfolio allocations or managing risk, it is advisable to consult with a CIBC representative who can help tailor investment strategies to individual circumstances.

Defence spending outlook

Recent events underscore the structural shift towards higher global defence spending, as outlined in our Global Defence Outlook.

- Canada is accelerating its defence revitalization, targeting 5% of GDP by 2035, with substantial near-term increases. Opportunities abound in aerospace, shipbuilding, Arctic surveillance, and space-related sectors.
- The US, despite fiscal constraints and policy uncertainty, has signaled a boost in military spending for 2027 of about 1% of GDP. Next-generation technology platforms like Anduril, SpaceX, and Palantir may capture incremental contracts.
- Europe and Japan are ramping up spending, with Europe focusing on resilience and ammunition inventory, and Japan on missile batteries and combat facilities.
- Key companies positioned to benefit include CAE Inc., Bombardier, MDA Space, Rheinmetall, Airbus, Dassault, and Thales.

For tailored advice and additional insights, please contact your CIBC representative.