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United States and Israeli strikes escalate Iran tensions into a regional crisis

Background

On 28 February, the United States (US) and Israel launched coordinated large-scale strikes on Iranian territory, Washington under *Operation Epic Fury*, Jerusalem under *Operation Roaring Lion*. Targets included remnants of Iran's nuclear infrastructure at Isfahan, Natanz and Fordow, ballistic missile production sites, air defences and senior military figures.

US and Israeli officials confirmed the death of Supreme Leader Ayatollah Ali Khamenei in a strike on his Tehran compound, alongside several senior Islamic Revolutionary Guard Corps (IRGC) commanders. Iran swiftly retaliated, by launching ballistic missiles at Israel and at US-linked bases across Bahrain, Kuwait, Qatar and the United Arab Emirates, with reported explosions in Dubai and Doha. Markets have yet to digest the full implications and trading in the week is likely to resume with a material geopolitical risk premium in play.

This is the second such campaign in eight months. The June 2025 strikes (Operation Rising Lion/Midnight Hammer) were described by President Donald Trump's administration as having "obliterated" Iran's nuclear programme. Yet the International Atomic Energy Agency (IAEA) estimated that roughly 440 kilogrammes of uranium enriched to 60% remained, enough, if further processed, for up to ten nuclear explosive weapons. Much of it was believed to be stored in hardened underground facilities. In late February the IAEA reported a loss of "continuity of knowledge" over certain stockpiles, alongside renewed activity at key sites but with limited inspector access.

The immediate trigger for the renewed conflict was the collapse of indirect talks between the US and Iran in Geneva, mediated by Oman. Washington demanded full dismantlement of enrichment facilities, export of highly enriched uranium stockpiles, permanent zero-enrichment provisions and no sunset clauses. Tehran countered with phased dilution and sanctions relief. Consequently, talks broke down and within days, missiles flew.

Three likely paths from here

We believe that financial markets, at the time of writing (2 March 2026), now confront three broad scenarios, largely differing in duration and scale, while all carry some inflationary implications.

Contained escalation (base case and could extend over a number of weeks)

Under this base case scenario, retaliation remains calibrated. Missile exchanges are likely to continue, but without attacks on critical Gulf energy infrastructure or an extended closure of the Strait of Hormuz (through which a fifth of global oil supply flows). In this scenario, Washington and Jerusalem would declare strategic objectives met and Tehran would manage a transitional leadership arrangement without a regime collapse.

Rystad Energy and the *Centre for Strategic and International Studies* note that the international price of oil would bear the first and clearest imprint of escalation. They estimate that a risk premium of between roughly US$10 and US$20 per barrel would likely temporarily push Brent crude oil prices into the US$80 to US$90 per barrel range.

Iranian exports, between 1.5 million and 2 million barrels per day, could face disruption, though broader Gulf flows would continue, limiting the scale of the shock.

The macroeconomic damage, at least initially, would be contained rather than catastrophic in the base case scenario. Based on prior escalations in the region, *Oxford Economics* estimates that global GDP growth in 2026 could be shaved by around 0.1 to 0.3 percentage points. Inflation, however, would tick higher as energy costs filter through supply chains, adding anywhere between 0.3 and 0.6 percentage points to headline rates.

Financial markets would respond in a broadly familiar fashion, although with a few caveats. The US dollar would likely strengthen only marginally, as investors seek relative safety, but its move could be tempered by the fact that it is no longer behaving as a textbook safe-haven in an environment of fiscal strain and geopolitical entanglement. Equities would likely wobble initially but stop short of outright capitulation. Volatility would spike sharply at first, particularly if markets are priced for a swift de-escalation, before settling at a slightly higher plateau rather than reverting fully to pre-shock calm.

Prolonged regional war (downside scenario and could extend over a number of months)

In this more adverse scenario, Iran would abandon a calibrated retaliation in favour of a broader escalation. That could involve interference with commercial shipping in the Strait of Hormuz, including the deployment of sea mines, fast-boat interceptions of tankers, drone attacks or the temporary seizure of vessels. Given the world's dependence on this key energy trade route, even limited disruption would be enough to jolt energy markets.

A more aggressive posture might extend to direct strikes on Gulf oil infrastructure in Saudi Arabia or the United Arab Emirates, recalling the 2019 attacks on Abqaiq, or to a stepped-up activation of regional proxies across Lebanon, Iraq, Syria and Yemen. Washington would almost certainly respond with further waves of air and missile strikes aimed at degrading Iran's naval, missile and command capabilities.

The conflict would risk becoming iterative with action and counteraction, each framed as deterrence, yet cumulatively raising geopolitical risks.

More severe economic consequences would ensue. War-risk insurance premiums for vessels transiting the Gulf would surge. Some shipping lines would reroute or suspend sailings altogether. Freight rates would climb and delivery times would likely lengthen.

Even without a formal blockade, the mere perception of insecurity in Hormuz would be sufficient to disrupt trade flows and embed a substantial risk premium in global energy prices.

In this scenario the Strait of Hormuz would face sustained disruption, resulting in a bigger reaction in oil prices, with levels around US$100 a barrel not implausible. This could conceivably go higher if oil supply was materially curtailed for more than a few weeks.

Iranian exports would likely fall away entirely under such conditions, either through physical interruption or tighter enforcement and sanctions spillovers.

The severity of the macroeconomic consequences would depend on duration. A short-lived spike might prove manageable. A prolonged outage, however,

could trim something in the order of 0.3 to 0.5 percentage points from global growth notes previous analyses from *Oxford Economics* based on prior escalations, with recession risks rising meaningfully the longer disruption persists.
Inflation would rise in tandem, initially through energy prices but with broader pass-through into transport, food and manufactured goods. A temporary increase of up to one percentage point globally would not be implausible in a sustained shock.

Financial markets would respond in a typical risk-off fashion. Measures of market volatility would spike and settle at a higher level. The dollar would strengthen by more, as investors sought safety. In this environment, gold would become both a hedge against stagflationary conditions (lower growth and higher inflation) and against financial instability, potentially delivering larger gains.

Equities would sell off sharply, particularly in energy-importing economies. Emerging markets reliant on imported fuel, as well as Europe, given its limited energy buffer, would bear the brunt.

Yet a full closure of Hormuz would not be costless for Tehran. Iran's oil remains cheap to produce and central to state revenues. By choking off this main global trade artery, Iran would damage its own fiscal lifeline. Historically, the leadership has tended to threaten such steps more often than it has executed them, but the survival of the regime is at stake.

Regime instability (alternative high-impact scenario)

The removal of the Islamic Republic's ultimate authority creates a vacuum at the very apex of the system. Power now rests uneasily between the clerical establishment, senior figures within the security apparatus (most notably the Islamic Revolutionary Guard Corps) and the political class. Elite fragmentation is possible as succession manoeuvring intensifies. At the same time, public mourning could morph into protest if latent grievances resurface.

A transitional authority may emerge in an effort to project continuity and prevent institutional drift. Alternatively, a harder-line successor, backed by the security establishment, could consolidate control quickly, narrowing the scope for reform and doubling down on confrontation. Much will depend on whether cohesion within the ruling elite holds.

Global oil markets would initially trade on elevated uncertainty. Prices would likely remain volatile as investors attempt to gauge the durability and orientation of any new leadership.

If a successor government sought to reduce tensions externally and stabilise relations with major energy consumers, the geopolitical risk premium embedded in crude oil prices could gradually ease. If, instead, consolidation takes a more militant turn, volatility would persist.

For the global economy, uncertainty would detract from short-term gains. Elevated risk aversion, tighter financial conditions and delayed investment decisions would weigh on activity. Over the medium term, however, outcomes would diverge. A stabilising transition could lower energy risk premia and exert modest disinflationary pressure globally. A destabilising one would do the opposite.

The more troubling risks lie in disorder. A contested succession could strain command-and-control structures, raising concerns about the security of nuclear materials. A weakened central authority could increase proliferation risks or invite deeper external involvement, producing a more volatile outcome.

Monitoring the Middle Eastern flashpoints

Diplomatic channels have not disappeared, but they have narrowed sharply. The removal of Iran's supreme leader shifts decision-making dynamics in Tehran, complicating negotiations and reopening markets into a materially changed geopolitical landscape.

Key points to monitor include traffic and insurance rates through the Strait of Hormuz, statements from emerging Iranian leadership structures, US signals on escalation thresholds, and evidence of proxy activation beyond the current landscape. The conflict represents a material tail risk to the 2026 macroeconomic outlook.

In adverse scenarios, it could push the global economy toward stagflation, combining slower growth with renewed inflation pressure. For now, oil prices remain the primary barometer, with the Strait of Hormuz serving as the pivotal chokepoint.

Meanwhile, in South Africa (SA), we remain exposed to energy markets and capital flow spillovers rather than to the conflict itself. Although the trade deficit is currently narrow and inflation expectations remain relatively well anchored, a sustained rise in international oil prices would erode the external position, lift headline inflation and potentially complicate the easing trajectory of the SA Reserve Bank.

That said, the external account is not entirely defenseless. A rise in geopolitical risk would likely support gold prices, acting as a meaningful offset for a country whose export basket still carries a sizeable precious metals component (gold accounts for 8.5% of SA’s export basket). Stronger gold receipts could help cushion the current account, partially insulating the balance of payments from oil-driven import pressures (oil accounts for c.18% of SA’s imports).

At the same time, renewed global risk aversion could still weigh on the rand and push local government bond yields higher, particularly if capital outflows dominate the positive terms-of-trade impulse from bullion.

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