MARKET SIGHT*LINES*

Unpacking Motivations: Four Scenarios to an End to the War With Iran

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A week ago, we shared an overview of the **2026 U.S./Israel-Iran War**. While we continue to acknowledge the human cost of war, we must also look further to continue to assess the economic and market implications going forward. Day-to-day focus is naturally tactical, unpacking military moves and market reactions. But our focus is now quickly turning to some strategic questions: How quickly does this conflict move to an off-ramp? What factors are driving this timing? And what are the near-, medium-, and long-term implications for the global economy and markets? In this Sight|Lines, we seek to answer these questions by sharing four possible scenarios for an end to this war.

THE TAKEAWAY: THE PATH TO PEACE DEPENDS ON FOUR PARTIES – THE U.S., ISRAEL, IRAN'S REGIME, AND THE IRANIAN PEOPLE

The motivations and goals of four distinct parties will define the timing and shape of an off-ramp. In summary:

- Our four scenarios seek to answer the important strategic questions around the form, timing, and impacts of moving to an off-ramp to an end to the U.S./Israel-Iran war.
- The U.S. looks to be motivated by "Munitions, Markets, and Midterms" to move toward an off-ramp, but Israel's motivations to topple the regime and permanently weaken Iran push against a quick end.
- Iran's regime has survived so far and appears resolute to retaliate forcefully before agreeing to an off-ramp, with the will of the people a remote factor in a possible regime change.
- The framework is a two-by-two grid, with each dimension shaped by the motivations of the U.S., Israel, and Iran.
- *Scenario 1 – Managed Off-Ramp:* All parties want to pursue peace, and a face-saving stand-down emerges over weeks, allowing shipping to normalize, oil prices to recede, and markets to calm … at least some.
- *Scenario 2 – Shadow War:* While the U.S. and Israel declare victory and stand down aggressive offensive operations, Iran continues to fight, leading to intermittent exchanges that go on for months, impacting markets.
- *Scenario 3 – Severe Tail:* The conflict continues for months, with no side seeking peace, impairing the global flow of oil, causing inflation to spike and market volatility to continue against a backdrop of potential deflation.
- *Scenario 4 – Regime Change:* Over months, the Iranian regime is weakened and offers to start peace negotiations, but Israel convinces the U.S. to continue the fight in order to topple the regime, with the remote chance the Iranian people organize an uprising to help from within the country.

IN-DEPTH: THE PATH TO PEACE DEPENDS ON FOUR DISTINCT PARTIES WITH DIFFERING MOTIVATIONS – THE U.S., ISRAEL, IRAN'S REGIME, AND THE PEOPLE OF IRAN

The motivations and goals of four distinct parties, often with differing views, will define the timing and shape of an off-ramp to an end to this war. Going deeper:

- Our four scenarios seek to answer three important strategic questions about when the war will end, and their impact:
  - How quickly does this conflict move to an off-ramp?
  - What factors are driving this timing?
  - And what are the near-, medium-, and long-term implications for the global economy and markets?
- We must be mindful that the U.S. and Israel can have contrasting goals that will influence off-ramp decisions:
  - The U.S. appears increasingly motivated by a depletion of munitions, impacts on markets, and positioning for midterms.
  - Israel's pursuit of regional hegemony – through regime change and a weakened Iran – may push against a quick end.
- Iran's regime has survived so far and appears resolute to retaliate forcefully:
  - Officials have rejected calls for peace negotiations, and there have been no signs of an uprising from the Iranian people.
- The framework is a two-by-two grid, with each dimension shaped by the motivations of the U.S., Israel, and Iran.
- *Scenario 1 – Managed Off-Ramp* takes weeks; then energy prices fall and markets calm:
  - The U.S. is motivated by "Munitions, Markets, and Midterms," and Israel agrees.
  - Perhaps the result of a significant weakening in its military, the regime reluctantly agrees to enter peace negotiations.
- *Scenario 2 – Shadow War* can happen quickly, but markets remain shaken by intermittent exchanges that go on for months:
  - Motivated by "Munitions, Markets, and Midterms," the U.S. declares victory and ceases offensive operations.
  - Peace negotiations begin but no deal is formally struck, and Iran launches intermittent attacks in the region.
- *Scenario 3 – Severe Tail* anticipates the war continuing for many months, with inflation rising and bouts of market volatility:
  - Iran continues attacks that keep the U.S. from stepping back, with the Strait of Hormuz a key battleground.
  - Unfortunately, as defensive systems are destroyed or depleted, Iran's attacks cause significant destruction.
- *Scenario 4 – Regime Change* would likely take many months and translate to higher inflation and volatile markets:
  - In this scenario, the regime is weakened and pursues peace to survive and fight another day.
  - But Israel sees the opportunity for regime change and convinces the U.S. to continue the fight.
  - There's a remote chance that, with a weakened regime, the Iranian people rise up and help install a new government.

WHAT WE THINK

War is horrible, and the cost of human lives and destruction must stay front of mind. But, as investors, we are also called to try to understand the impact of war on the economy and markets. With the current conflict, the focus is appropriately on the global oil supply and the movement of that supply, which has been greatly impacted by this war. Prices will rise in March and April, setting up for an increase in inflation and a softening of economic growth. But the real question is: How long will this go on? A relatively quick end – over weeks – could bring prices back down when the production and movement of oil get back toward normal.

When we share scenarios, we are asked our view on which one we think will happen. In this case, we apply a 50% probability to Scenario 1, a 25% probability to Scenario 2, a 15% probability to Scenario 3, and a 10% probability to Scenario 4.

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