

# Conflict in Iran, energy price shocks and the impact on real assets

Volatile energy prices create uncertainty, but real assets should be resilient.

## What happened?

Intensifying conflict involving Iran has disrupted regional energy production and global supply chains. Attacks on energy infrastructure and rising security threats have constrained tanker traffic through the Strait of Hormuz, a critical artery for global oil, liquefied natural gas (LNG) and petrochemical flows.

Major producers implemented precautionary production cuts as storage constraints and logistical bottlenecks emerged. The situation remains fluid, and visibility on the duration of disruptions is limited.

## How have markets reacted so far?

Oil prices have swung sharply (reaching \$120 a barrel before dropping to \$80 in just a 48-hour period), reflecting both physical supply disruptions and a significant increase in geopolitical risk. Natural gas prices, particularly in Europe and Asia, have experienced dislocations following LNG facility shutdowns and tight inventories.

Beyond energy, government bond yields have moved higher alongside oil prices, reflecting renewed inflation concerns and reduced expectations for near-term central bank easing. Historically, energy price shocks tend to pass through quickly to headline inflation and, if sustained, can influence core inflation and rate expectations.

The U.S. dollar has strengthened on safe-haven demand. Stocks most exposed to higher energy prices, notably airlines, have sold off, while regional markets that are more dependent on energy imports, such as Europe and Japan, are under pressure. Yet at the index level resilience persists. The S&P 500 is down just 0.7% YTD through March 10; the FTSE 100 is up 4.8%.

We still expect a solid growth environment in 2026, with greater downside risks outside of the U.S.

## **What is our outlook?**

Higher inflation in the short-run is highly probable, but it should mostly fade when energy prices retreat, though our outlook for 2026 was already for more persistent inflation. We still expect a solid growth environment in 2026, with greater downside risks outside of the U.S., particularly if the conflict doesn't resolve in a reasonable time frame, though we do not believe the Trump administration wants a lengthy conflict. In the meantime, volatility will create both dislocations to manage and mispricing to exploit.

Absent sustained damage to production capacity or prolonged route closures, we expect prices to stabilize as supply responses emerge and demand adjusts. Over time, risk premia should fade, allowing energy prices to realign more closely with underlying supply/demand fundamentals.

The conflict could further lift commodities and resource equities in the near term, but sustained inflation and lower growth risk destabilizing global markets, while they favor more defensive sectors, such as utilities.

## **What are the key risks?**

The primary risk is a sustained restriction of shipping through the Strait of Hormuz, which would likely push oil prices higher and strain global supply chains.

If elevated energy prices persist, the risk of demand destruction increases, particularly in energy importing regions. History suggests that sustained price shocks can slow growth, exacerbate inflation pressures and complicate monetary policy decisions. A recession, while unlikely, would pressure most risk assets.

## **How could this impact the global economy?**

Energy inflation reduces real purchasing power and pressures margins, with more pronounced effects in Europe and parts of Asia, where dependence on imported energy is higher.

The U.S. is more insulated given its status as a net energy producer, but higher gasoline and utility costs can still weigh on consumer confidence and spending. A sustained shock would raise stagflationary risks globally.

Volatile energy prices increase the likelihood that inflation remains elevated, limiting central banks' ability to ease aggressively. While policymakers often look through short-term supply shocks, the risk rises if energy price increases feed into core inflation or inflation expectations.

As a result, bond yields have become more sensitive to moves in oil prices, and financial conditions could tighten further if volatility persists.

## How are our portfolios positioned?

Recent events and volatility create differentiated impacts and opportunities across real assets strategies. Our portfolio positioning continues to balance near-term support from higher energy prices against the longer-term risk that sustained inflation and slower growth could weigh on broader risk assets. We expect to take advantage of mispricing opportunities.

- **Natural resource equities:** Elevated geopolitical risk and higher energy prices have been supportive, particularly for energy-linked equities. Oil producers and companies with direct sensitivity to higher crude and European natural gas prices have benefited, while a more extreme escalation could be a key downside scenario if inflationary pressures were to materially weaken demand.
- **Energy:** Oil exposure has benefited from rising prices, while natural gas markets, especially outside the U.S., have seen sharper dislocations tied to LNG supply risks. Companies with direct exposure to U.S. LNG exports have been relative beneficiaries, reflecting Europe's reliance on imported supply.
- **Metals and mining:** Precious metals have served as a partial hedge against geopolitical uncertainty, though rising yields and a stronger dollar temper near-term performance. Certain industrial metals tied to energy-intensive production (e.g., aluminum) are sensitive to regional supply risks and power costs. Recent geopolitical events—not just the conflict in Iran—underscore minerals' critical importance to political and economic stability.
- **Global listed infrastructure:** The asset class has historically provided defensive characteristics. Fee-based and regulated models (midstream energy, utilities) offer stable cash flows with cost passthrough capabilities. Midstream assets are largely insulated from commodity price volatility via long-term, contracted revenues. By contrast, transportation infrastructure (ports, airports) faces greater risk from trade disruptions and reduced activity.
- **Real estate:** REITs are well positioned for an environment of lower growth and macro uncertainty. Stable business models and limited exposure to global trade flows provide resilience. The primary risk—consistent with broader markets—is prolonged conflict increasing stagflationary concerns that slow growth and delay expected rate cuts.
- **Diversified real assets:** We are overweight both natural resource equities and global listed infrastructure, where robust growth expectations are driving relative value attractiveness. We continue to hold an underweight in commodity futures, primarily on valuation concerns following a period of broad price strength. Stagflationary risks are contributing to a modest underweight in real estate, while a small overweight in the portfolio's short-duration fixed income sleeve reflects our more cautious risk stance.

## Index definitions and important disclosures

*An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations as volatility and other characteristics may differ from a particular investment.*

The S&P 500 Index is an unmanaged index of 500 publicly traded large-capitalization U.S. stocks representing a variety of industries.

The FTSE 100 is a stock index that tracks the 100 largest publicly-traded companies listed on the London Stock Exchange.

**Data quoted represents past performance, which is no guarantee of future results.** There is no guarantee that any historical trend illustrated/referenced above will be repeated in the future, and there is no way to predict precisely when such a trend might begin. There is no guarantee that any market forecast set forth in this commentary will be realized. The views and opinions in the preceding commentary are as of the date of publication and are subject to change.

This material represents an assessment of the market environment at a specific point in time and should not be relied upon as investment advice, does not constitute a recommendation to buy or sell a security or other investment and is not intended to predict or depict performance of any investment. This material is not being provided in a fiduciary capacity and is not intended to recommend any investment policy or investment strategy or take into account the specific objectives or circumstances of any investor. We consider the information in this presentation to be accurate, but we do not represent that it is complete or should be relied upon as the sole source of appropriateness for investment. Please consult with your investment, tax or legal professional regarding your individual circumstances prior to investing. The views and opinions expressed are not necessarily those of any broker/dealer or its affiliates. Nothing discussed or suggested should be construed as permission to supersede or circumvent any broker/dealer policies, procedures, rules or guidelines.

**Risks of investing in real estate securities:** The risks of investing in real estate securities are similar to those associated with direct investments in real estate, including falling property values due to increasing vacancies or declining rents resulting from economic, legal, political or technological developments, lack of liquidity, limited diversification and sensitivity to certain economic factors such as interest rate changes and market recessions.

**Risks of investing in global infrastructure securities:** Investments in global infrastructure securities will likely be more susceptible to adverse economic or regulatory occurrences affecting global infrastructure companies than an investment that is not primarily invested in global infrastructure companies. Infrastructure issuers may be subject to regulation by various governmental authorities and may also be affected by governmental regulation of rates charged to customers, operational or other mishaps, tariffs, and changes in tax laws, regulatory policies, and accounting standards.

**Risks of investing in foreign securities:** Foreign securities involve special risks, including currency fluctuations, lower liquidity, political and economic uncertainties and differences in accounting standards. Some international securities may represent small- and medium-sized companies, which may be more susceptible to price volatility and less liquidity than larger companies.

**Risks of investing in commodities:** An investment in commodity-linked derivative instruments may be subject to greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. Among the risks presented are market risk, credit risk, counterparty risk, leverage risk and liquidity risk. The use of derivatives can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives.

**Futures trading is volatile and highly leveraged, and it may be illiquid.** Investments in commodity futures contracts and options on commodity futures contracts have a high degree of price variability and are subject to rapid and substantial price changes. Such investments could incur significant losses. There can be no assurance that the options strategy will be successful. The use of options on commodity futures contracts is to enhance risk-adjusted total returns. The use of options, however, may not provide any, or only partial, protection for market declines. The return performance of the commodity futures contracts may not parallel the performance of the commodities or indexes that serve as the basis for the options it buys or sells; this basis risk may reduce overall returns.

**Risks of investing in natural resource equities:** The market value of securities of natural resource companies may be affected by numerous factors, including events occurring in nature, inflationary pressures and international politics.

**Cohen & Steers Capital Management, Inc.** (Cohen & Steers) is a U.S. registered investment advisory firm that provides investment management services to corporate retirement, public and union retirement plans, endowments, foundations and mutual funds. **Cohen & Steers UK Limited** is authorized and regulated by the Financial Conduct Authority of the United Kingdom (FRN 458459). **Cohen & Steers Asia Limited** is authorized and registered with the Hong Kong Securities and Futures Commission (ALZ367). **Cohen & Steers Japan Limited** is a registered financial instruments operator (investment advisory and agency business and discretionary investment management business with the Financial Services Agency of Japan and the Kanto Local Finance Bureau No. 3157) and is a member of the Japan Investment Advisers Association. **Cohen & Steers Ireland Limited** is regulated by the Central Bank of Ireland (No.C188319). **Cohen & Steers Singapore Private Limited** is a private company limited by shares in the Republic of Singapore.

**For investors in the Middle East:** This document is for information purposes only. It does not constitute or form part of any marketing initiative, any offer to issue or sell, or any solicitation of any offer to subscribe or purchase, any products, strategies or other services nor shall it or the fact of its distribution form the basis of, or be relied on in connection with, any contract resulting therefrom. In the event the recipient of this document wishes to receive further information with regard to any products, strategies or other services, it shall specifically request the same in writing from us.

Publication Date: **March 2026** Copyright © 2026 Cohen & Steers, Inc. All rights reserved.