

# Geopolitics: Iran, Oil and the Outlook for Equities

Research & Insights

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Ausbil is closely assessing the key implications around the strike on Iran, including impacts on oil markets, global economic growth, and the broader outlook for equities. In periods of heightened geopolitical uncertainty, the value of an active investment manager—one that integrates both top down macroeconomic insights and bottom up fundamental analysis—becomes even more critical in navigating complex shocks such as disruptions in energy supply. Given the fluid and unpredictable nature of the situation, Ausbil will continue to monitor developments and may update our assessment as material information becomes available.

10 minute read

## Key points

- The US military action in Iran has destabilised some 20% of the world's oil production (though Iran only accounts for some 3-4%), primarily through disruption of supplies in the Strait of Hormuz.
- President Trump declared that the US Navy will escort tankers in the Strait of Hormuz if necessary, and the US will provide insurance for maritime trade in the Gulf, a major step in resumed oil shipments and a lower oil price.
- The oil price initially rose to US\$119/bbl with the strike, up almost double from levels of US\$67 just before the strike, however, the price fell back to around US\$88/bbl on 9 March, but it is likely to remain volatile.
- The US action alongside Israel in bombarding Iran, although extensive, is likely to be of a relatively short duration.
- At this stage, Ausbil is projecting that the current oil-driven energy shock will be relatively short given Trump's underwriting of the passage of oil, and the geopolitics of self-interest for the US and surrounding Gulf States in stabilising the flow of oil.
- Our outlook for Australian and US economic growth remains unchanged in terms of 2026 and 2027, and with some exceptions in oil-exposed sectors, the outlook for Australian earnings growth remains in the mid double digits for FY26 and FY27.



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**Q: What happened in Iran and with the oil price?**

**A:** On Saturday, 28 February 2026, after some pre-warning in the form of evacuation of diplomats and US nationals from Iran and US and Israel bombarded Iran, killing a cadre of leaders, including their leader, Ayatollah Ali Khamenei. Since then, the world has been on tenterhooks as Iran retaliates. Oil has spiked to intraday levels not seen since the Russian Invasion of Ukraine in 2022 (Figure 1), causing investors globally to roll into risk-free assets until it becomes clearer what the aftermath will be from this action.

**Figure 1: The oil price has been through a lot**



Source: Ausbil, Bloomberg as at 10 March 2026. Base price, not adjusted for inflation. Indicates highs and lows by crisis.

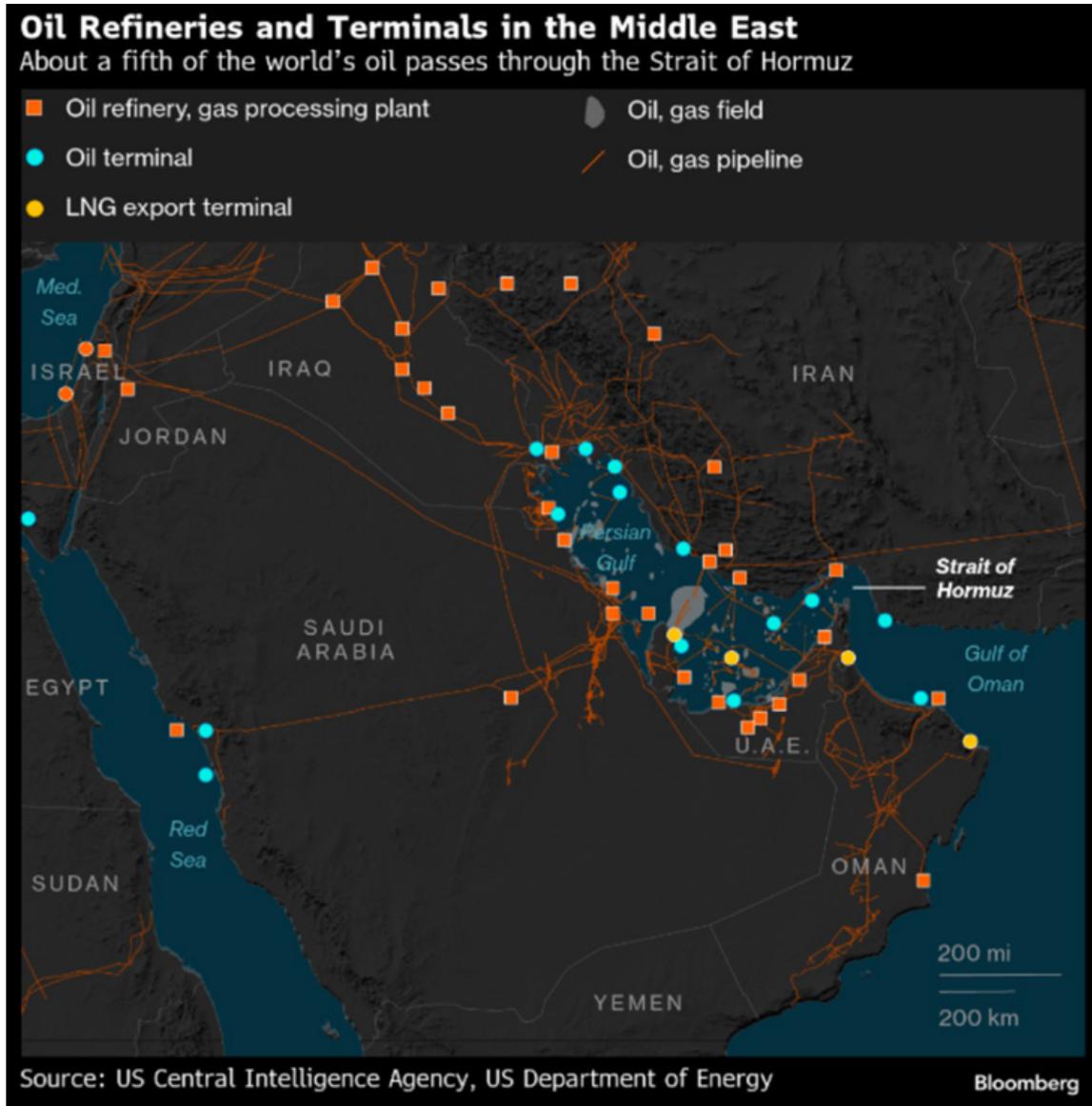
**Q: Why does the oil price matter?**

**A:** Oil, being a major economic input for transport, is a key resource for fuelling economic growth and activity. Iran, which accounts for around 3.3 million barrels of oil per day or around 3-4% of global oil supply, has had its exports halted by military action. This is not an issue in itself, however, the knock-on impact on oil from disrupted transportation through the Strait of Hormuz, the northern shoreline being Iran, threatens some 20-25% of seaborne oil, a potential major shock to global consumption and activity. Additional risk also lies in Iran's disruption of nearby Gulf State oil producers (United Arab Emirates, Saudi Arabia, Qatar, Kuwait, Oman and Bahrain) who account for around 30% of global oil production (including much of the volume passing through the Strait of Hormuz), and shipping and transportation infrastructure in the region.

**About Ausbil Investment Management**

Ausbil is a leading Australian based investment manager. Established in April 1997, Ausbil's core business is the management of Australian and global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil is owned by its employees and New York Life Investment Management a wholly-owned subsidiary of New York Life Insurance Company. As at 28 February 2026, Ausbil manage over \$21.4 billion in funds under management.

Figure 2: The Strait of Hormuz is a concentration of oil producing nations and infrastructure



In terms of inventories, as at the end of 2025, global observed oil inventories stood at around 8.2 billion barrels. This volume is theoretically sufficient to cover a total halt in Hormuz shipments for over 400 days (approximately 13 months), not accounting for where these inventories are held. A one-month closure would draw an estimated 400 million barrels from global inventories, rapidly erasing current surpluses.

## Q: What are the actual risks as you see them, and their mitigants?

**A:** In theory, if the disruption is just to Iran's supply, then the impact on the oil price is unlikely to be major. However, disruption of the Strait of Hormuz and Gulf State producers is a material risk, one that has roiled markets and initially drove the oil price towards US\$120/bbl. The cost of insurance on major seaborne oil vessels is rising rapidly, and insurance availability has been declining. Supertanker rates to haul oil from the Middle East to China soared to US\$424,000 a day recently — the highest on record.

However, this risk has been significantly underwritten by President Trump, who officially declared that (emphases are his):

“Effective IMMEDIATELY, I have ordered the United States Development Finance Corporation (DFC) to provide, at a very reasonable price, political risk insurance and guarantees for the Financial Security of ALL Maritime Trade, especially Energy, traveling through the Gulf. This will be available to all Shipping Lines. If necessary, the United States Navy will begin escorting tankers through the Strait of Hormuz, as soon as possible. No matter what, the United States will ensure the Free Flow of Energy to the World.” (President Trump, announcement 4 March 2026).

Also helping on the supply side are a number of initiatives, including the G7 considering releasing strategic oil reserves of potentially 300-400 million barrels-to counter the Iran war's oil price spike and help stabilise the global energy market.

The key economic risks come through energy prices and supply, which are immediately felt as inflation by both consumers and businesses. A short, sharp shock can be viewed by central banks and policymakers as a one-off and may not alter the path of interest rates. A prolonged disruption could ripple through the global economy via supply chain disruptions pushing up shipping rates and second-round impacts on consumer prices, ultimately impacting monetary policy (an initial concern across markets).

Mitigating these initial concerns is the fact that the US action alongside Israel in bombarding Iran is intended to be short and sharp, to take out the existing Iranian regime, and to disarm Iran of its growing nuclear threat. Both these objectives have been partially achieved. US President Trump has signalled that the conflict could last for several weeks and will continue until the objectives have been achieved.

Financial markets are also expecting that the conflict will disrupt global oil and gas supplies for a short period. A preliminary estimate sees the impact to be less than 1 million barrels per day under a short-lived assumption. There is a higher risk premium embedded in oil prices that will remain for some time.

## Q: What is the potential impact on economic growth from higher oil prices?

**A:** Over the years, with various shocks and events, as illustrated in Figure 1, have shown that a sustained twelve-month change in the oil price of \$US10 per barrel tends to see inflation increase by 0.15% (as measured by personal consumption expenditure), and a commensurate decline in real GDP of around 0.10%. In an environment of elevated oil prices, the US dollar tends to benefit (rise) as a safe haven currency, and as the US is also a net energy exporter, including oil and natural gas. Energy-exporting countries, including Australia, tend to benefit, but net energy importers tend to underperform.

Consumers are likely to feel the pinch from higher oil prices directly at the petrol bowser, and then indirectly through secondary inflation in goods, services and food inflation from higher transport costs.

Oil is a classic supply shock, a distinction that matters for monetary policy. As Professor Jeremy Siegel explains (9 March 2026), a supply-driven rise in energy prices is not something the Federal Reserve should respond to by tightening policy. When oil prices rise because of geopolitical disruption, the shock already slows economic activity by itself. Raising rates in response would simply compound the negative effects. From a macroeconomic perspective, higher oil prices represent a relative price change. If the money supply is held steady, higher energy prices should be offset by lower prices elsewhere in the economy. The strong US dollar reinforces that adjustment by reducing the cost of imports. As the dollar rises, imported goods and services become cheaper, helping offset part of the inflationary impulse coming from energy. The larger story we need to keep in mind is the 'productivity miracle' that has been occurring. According to Siegel, the US real economy does not look weak at all. Rather, we are seeing stable, even rising GDP growth at the same time payroll growth has stalled. Siegel says that combination points to one explanation that investors should not ignore: a sharp rise in productivity. The obvious candidate driving that shift is the rapid adoption of artificial intelligence and automation technologies across industries. Some temporary factors may also be distorting the data. January was one of the coldest months in decades for the northern hemisphere, which likely disrupted hiring in several industries. There were also sector-specific disruptions, including strikes in parts of the healthcare sector in California. But even adjusting for those factors, the larger narrative still points toward productivity improvements rather than a collapse in demand, which would be an incorrect assessment of the impact of a higher oil price.

In summary, the impact of changes in the oil price can be negative for economic growth, but equally, as these shocks pass, which tends to be faster than usually expected at the time, then the impact of the lower oil price has a positive impact. Investors and consumers alike need to take care to filter the noise and chaos from headlines in the news from reality – in this case, the supply shocks experienced during COVID are a multiple of the potential impact, in our current assessment, of this concentrated military action in the Middle East.

## Q: Does the recent rise in oil prices change your outlook for the economy?

**A:** With the increase in the oil price, we expect to see incrementally higher inflation, which may put some drag on GDP, and central banks may need to act to adjust for this. At the outset, we note that our expectations are currently for the conflict to be short-lived and the implications temporary in nature.

Back in 2022, with the invasion of Ukraine, the macro backdrop was vastly different. Back then, economies were re-opening after the COVID pandemic and consumers had sizeable excess savings and pent-up demand. The surge in aggregate demand, against a backdrop of impaired or broken supply chains, pushed prices higher across most goods and services. Companies were in a strong position to pass-on their cost increases to the consumer.

Today, in the short term, higher energy prices (felt immediately through petrol prices) will lift inflation and weigh on growth. In the US, domestic natural gas prices are insulated from global markets, and the US is a net exporter of oil, helping to offset the impact of higher oil prices. There is downside risk to the US economy should oil prices rise and remain above US\$100/bbl for a sustained period of time.

It all depends on the likely impact on inflation expectations. If expectations increase, the Fed would be more likely to tighten policy and raise rates. Higher oil prices will compound the impacts of higher tariffs and restrictive immigration policy on the economy and heighten affordability concerns. The Federal Reserve needs to choose between responding to weaker growth by lowering rates or to higher inflation by raising rates.

In Europe, European gas futures spiked almost 100% following the attack on Iran, reviving 2022 crisis fears, though with storage at 30%. Europe is exposed, given its depleted storage after a cold northern winter, and is reliant on spot LNG imports from key global suppliers from the Gulf States like Qatar. Higher gas prices will increase heating and electricity costs. Upward pressure on inflation and reduction in GDP growth will see governments respond with cost of living and business input cost subsidies. On 3 March 2026, European Central Bank Chief Economist Lane warned of amplified impacts if financial markets reprice risks, potentially sabotaging the Euro bloc's fragile revival after below-potential growth. According to Goldman Sachs (1 March 2026), modelling of a Strait of Hormuz disruption that predicts oil at \$130/barrel lifts inflation by 0.8% and cuts growth by 0.6%. European natural gas prices could more than double on a short disruption scenario. On a longer closure scenario, they may exceed €100/MWh. Current inflation is below the European Central Bank's 2.0% target. Europe's export-led growth model is facing intense competition from China, US tariffs and non-tariff barriers, and currency strength in the Euro, but the ECB has more room to move positively on inflation with rate cuts than do the US or Australia.

In Australia, inflation pass-through from higher oil prices will be immediate, reflected in consumer price inflation directly via petrol and transport costs, and indirectly via energy-intensive products. There will also be an impact on rising long bond yields and commodity prices, business and consumer confidence and global growth.

The Reserve Bank of Australia should look through transitory supply shocks to headline inflation other than their impact on ongoing inflation expectations. Higher fuel and shipping costs present another upside risk to inflation. This was echoed by Governor Bullock expressing concern that a supply shock would "add to inflation pressures" and have "potential implications for inflation expectations." At the same time, she flagged that "a prolonged impact on energy markets could have adverse effects on global economic activity and result in downward pressure on inflation." However, in a Q&A Bullock commented that "this one might be a little bit harder [to look through] because ... we already have elevated inflation, and there is a risk that expectations might become a little bit unanchored." Bullock has emphasised that the March policy meeting is live and that she would discourage people from thinking the central bank only acts on a quarterly basis. Bullock said, with inflation at 3.8%, the board will actively debate whether it needs to act more quickly.

Fortunately, Australia is a net energy exporter (gas and coal), mitigating some of the impact of higher prices on our economic growth. The higher energy prices will boost our terms of trade from additional revenue for the Commonwealth through company profits and increased royalty payments to State governments. If LNG prices remain at elevated levels (North Asian LNG prices are up more than 70%), there will be a boost to Australia's terms of trade and national income.

**Q: What is your outlook for earnings growth? How do you see equities in 2026 and beyond?**

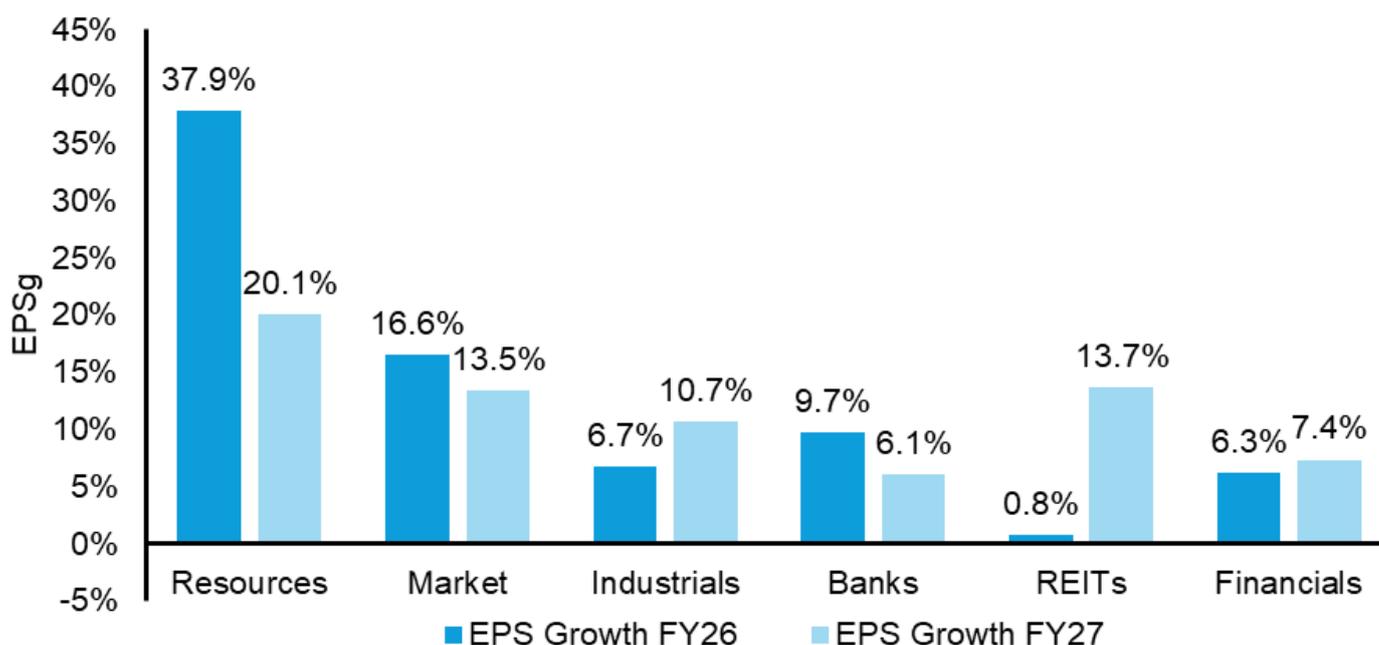
**A:** Despite the current risks in the Middle East, and an elevated oil price, Ausbil believes the outlook for earnings growth is positive looking forward. Global and Australian markets ended with significant returns after a solid 2025 despite a complete rewriting of world trade relations. In early 2026, positive market sentiment persisted, supported by an optimistic outlook for economic growth in both Australia and the US. Australia printed another solid inflation number that confirmed Ausbil's view that rates have entered a tightening cycle of three increases in 2026, with the first-rate hike of 25 basis points occurring on 3 February. Even with a rate rise of 75 basis points (equivalent to three increases), rates would remain around their equilibrium level, which remains supportive of healthy business financing and positive capital allocation.

Looking ahead to 2026, with Australian, US and global economic growth expected to improve, and with a return to more steady trade relations, we see more opportunity in equities, and strong, more broad-based earnings growth ahead of consensus. At the start of calendar 2026, on the back of a significant rerating in commodity prices in Q4 2025, and an even more promising outlook for growth, consensus has increased their FY26 EPSg to +11.6%, with Ausbil more positive again with an EPSg expectation of +16.6% for FY26 (both for the S&P/ASX 200), largely on a better outlook for resources and key cyclicals than the market. In FY27, we are again forecasting earnings to be ahead of the market, driven by resources, recovery in financials and strong growth in industrials.

With stronger than expected economic growth forecast for 2026, markets are more constructive on the outlook for earnings. Positive sentiment, and a strong outlook for both the US and Australian economies has rolled over into 2026, with markets significantly rerating their earnings growth outlook for FY26. The major change in earnings growth and estimates has come from a stronger outlook for commodities, with a rotation into resources stocks and other cyclicals that are gaining momentum in the last quarter of 2025 (Figure 3).

**Figure 3: Resources likely to lead earnings over next two years in Ausbil's view**

**EPSg Outlook (Ausbil) FY26 an FY27**

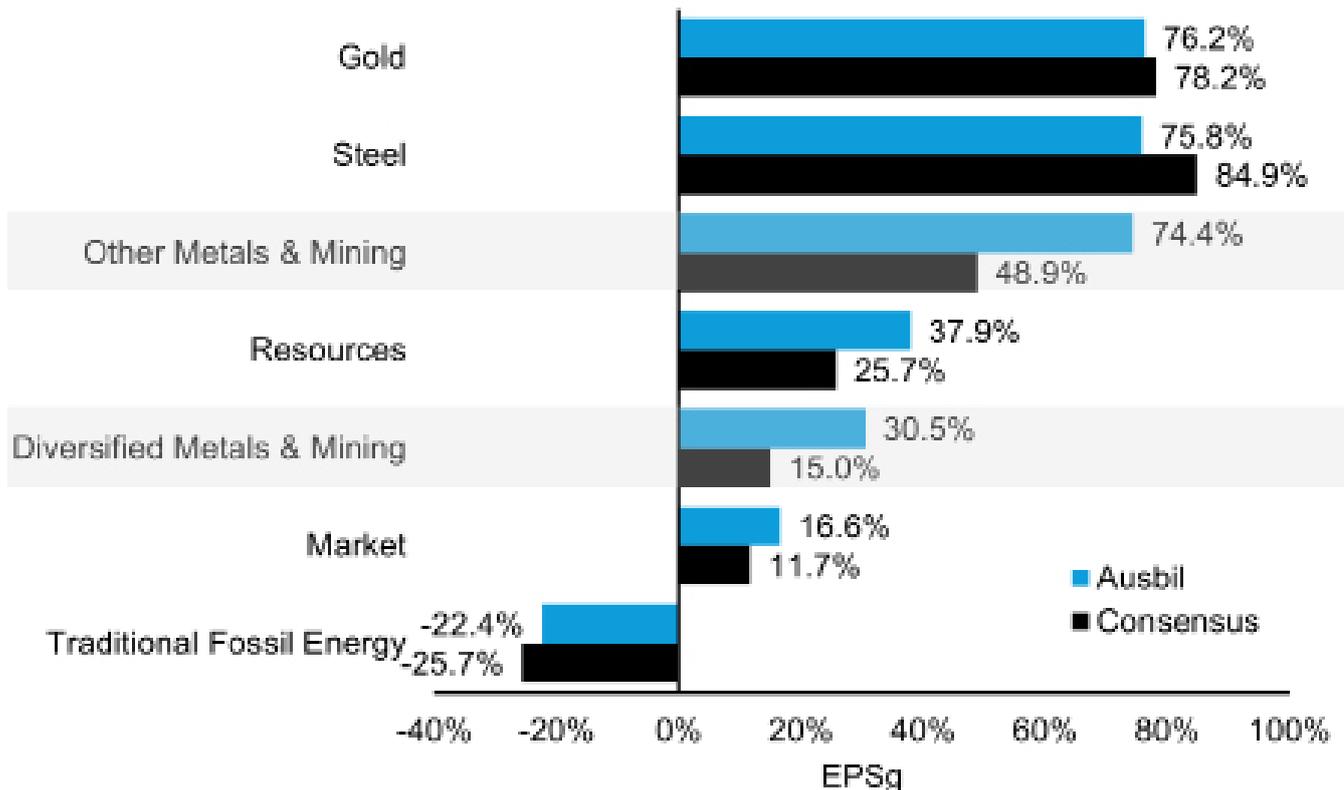


Sources: Ausbil forecasts as at 9 March 2026.

Looking at the materials sector (Figure 4), other than the energy sectors Traditional Fossil Energy earnings are highly dependent on the length of time the current conflict endures), all other major sectors are expected to deliver above market earnings growth in FY26.

**Figure 4: Now in a positive up cycle supported by tariff outcomes, stimulus and economic growth**

**Resources, Energy and the Market: Ausbil v Consensus FY26**



Sources: Ausbil forecasts v FactSet for consensus as at 9 March 2026.

From our perspective, we are excited about the potential for earnings growth in 2026, in Australia, and globally, because, like 2025, the market has been too bearish on the economy and too negative on the potential for trade issues to resolve. Our more positive view played out in 2025, and we believe it will continue to strengthen into 2026. Despite a lot of noise around AI disruption, we are looking more at the potential for earnings growth in a lower rate environment, with tailwinds from US stimulus, the commercialisation of AI across all types of businesses that is cutting costs and increasing efficiency with real upside in earnings growth, and a new trade environment, all in the context of a steadily rising GDP. We think that in this environment, earnings growth will outperform the lower expectations of consensus.

Ausbil is seeing opportunities in equities that are beneficiaries of a stronger US economy, and a solid local economy buoyed by resources and other cyclicals. Underpinning our outlook for equities are a number of structural drivers that are offering opportunities. These include an increased commitment to military spending globally; increased investment in information infrastructure to accommodate the growth in AI; ongoing investment to secure independent energy; and the increase in demand for electricity over carbon-based energy, driving the electrification of everything and expansion of electrical grids and storage.

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