

# MIDDLE EAST CONFLICT: IMPLICATIONS FOR ENERGY, INFLATION, AND CRE

MARCH 2026

## Key Takeaways

- Early market signals point to heightened uncertainty rather than fundamental shift in the economic outlook.
- Energy is the key channel through which risks transmit globally.
- Spare oil capacity should help keep oil prices within a manageable range.
- A prolonged disruption to shipping through the Strait of Hormuz remains the primary tail risk, which could stress global supply chains.
- CRE fundamentals have recently proven resilient through geopolitical shocks, and are likely to do so again.

## What happened

On March 1, 2026, the United States and Israel carried out coordinated military strikes targeting Iranian military and nuclear infrastructure. The action has heightened geopolitical tensions in the Middle East and raised concerns about potential disruptions to global energy markets. While the situation remains fluid, financial markets are primarily focused on whether the conflict broadens in ways that disrupt oil supply or key shipping routes in the region, particularly through the Strait of Hormuz, through which 20% of global oil shipments transit.

Iran plays an important role in global energy markets, and any escalation involving Iran naturally raises questions about oil supply, inflation, and broader economic stability. For now, markets appear to be treating the situation as a geopolitical risk event rather than a structural shock to the global economy, with early price action suggesting heightened uncertainty rather than a meaningful reassessment of long-term growth fundamentals.

## Economic Impact

The primary economic transmission channel from this conflict is through energy markets. If the conflict were to disrupt oil production or shipping routes in the region for months rather than weeks, global energy prices would likely spike, potentially

reaccelerating inflation and complicating central bank policy. In the wake of the early strikes, oil prices, as measured by West Texas Intermediate, are up roughly \$4 per barrel (about 6%) in the U.S., which translates into roughly 10cents<sup>1</sup> per gallon at the pump. Absent a sustained supply disruption, current price movements largely reflect higher risk premiums rather than physical shortages.

Importantly, the global oil market entered this conflict in a relatively balanced position. Prior to the airstrikes on Iran, Brent crude was trading near \$70 per barrel. As of March 2, it had risen to \$78. While that represents a notable increase, this price level remains well below levels seen during past geopolitical shocks (for example, Brent exceeded \$100 per barrel following Russia's invasion of Ukraine) and reflects price levels the global economy has historically absorbed without derailing growth.

In addition, global supply capacity provides some buffer, though it is increasingly concentrated. Saudi Arabia and the UAE maintain the majority of the world's remaining spare production capacity, while non-OPEC producers such as the United States, Brazil, and Canada continue to expand output. Iran exports roughly 1.5–2.0 million barrels per day, about 2% of global supply. While any disruption would affect prices in the near term, spare capacity elsewhere in the system could partially offset supply losses, limiting the degree of the disruption.

1 U.S. Energy Information Administration, <https://www.eia.gov/todayinenergy/detail.php?id=18651>.

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More severe outcomes would involve disruptions to shipping through the Strait of Hormuz, a critical corridor through which roughly 20% of global oil shipments pass. A sustained interruption would likely lead to a sharp increase in energy prices and a more significant economic shock. However, such a scenario would almost certainly trigger swift international intervention given the strategic importance of keeping this shipping lane open, making it a lower-probability, but higher impact risk.

More broadly, analysis suggests that even sustained increases in oil prices would be unlikely to generate a U.S. recession or materially change the underlying trajectory of core inflation. While headline inflation would rise mechanically through higher energy prices, the associated drag on real consumer spending and economic growth should remain limited. Consistent with past episodes, central banks tend to look through oil-driven inflation shocks and policymakers are likely to take a similar approach in this case. In the near term, this likely means the Fed will keep a wait-and-see posture as officials assess whether higher energy prices persist or fade as geopolitical developments evolve.

Impacts are also unlikely to be uniform from a regional standpoint; greater macro exposure lies outside the United States, particularly in Europe and parts of Asia that are more dependent on OPEC supplied energy. As a result, global growth implications are likely to be uneven, with greater sensitivity abroad rather than domestically, which emerges as an important consideration for relative growth expectations and capital flows in the immediate and near-term.

So far, financial markets have not exhibited a classic “risk off” response. The U.S. dollar has exhibited mixed movements versus other major currencies, and longer-dated Treasury yields have moved (counter-intuitively) higher, suggesting investors are balancing safe-haven demand against concerns that higher energy prices could slow progress on inflation and change the course of monetary policy and short-end rate cut expectations. This mixed market signal reinforces the view that markets are still assessing duration and scale of this event rather than pricing in a definitive macro-outcome.

As with prior geopolitical disruptions, the duration of the episode matters. Historically, oil price spikes tied to geopolitical events tend to unwind once there is clarity or de-escalation, assuming supply routes remain open.

## Impact on CRE

For commercial real estate, geopolitical shocks typically affect the sector indirectly through financial markets and macroeconomic conditions rather than through direct exposure.

If energy prices remain within a historically manageable range, the impact on CRE fundamentals is likely to be limited. CRE space markets have demonstrated considerable resilience through recent geopolitical disruptions, exhibiting healthy demand over the past year. Any CRE impact would be more indirect, manifesting through interest rate expectations, energy-related operating costs, or development feasibility rather than immediate changes in space demand.

The more meaningful risk channel for CRE would emerge if higher energy prices push inflation higher and delay expected interest rate easing. In that scenario, tighter financial conditions could weigh on investment activity and capital markets in the near term. Absent that outcome, underlying leasing demand and property market fundamentals should remain largely intact.

More broadly, periods of geopolitical uncertainty tend to prompt shifts in capital markets behavior, including wider risk premiums and more selective capital deployment rather than a wholesale pullback from real assets. To date, movements in rates and credit markets suggest caution rather than systemic stress, and financial conditions remain functional. Consistent with this dynamic, public REITs are trading slightly better than other market indexes today, reflecting a modest rotation toward liquid real assets amid heightened uncertainty and suggesting that investors are not assigning outsized implications to CRE fundamentals or income.

Under a more adverse scenario, risks would extend beyond energy markets. For example, a prolonged disruption to shipping through the Strait of Hormuz,

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which is not only an important transit route for oil but also the sole maritime gateway for containerized non-energy goods moving into and out of the Gulf, could introduce broader supply chain stress. In that environment, higher transportation costs and renewed logistics frictions could push near-term input costs higher for goods-producing sectors with potential spillovers to industrial real estate through tenant operating costs, margins and inventory dynamics. For example, shipments diverted from the Strait of Hormuz to alternate routes typically add around two weeks to transit time, raising shipping costs and delaying imports. That said, such effects would likely be concentrated in a downside scenario which involves sustained disruption rather than short-lived volatility, and would represent a secondary risk channel rather than the base case outlook for CRE fundamentals. Importantly, while the Strait of Hormuz is a critical channel for global energy flows, it is not a primary transit route for high-value technology goods or advanced manufacturing inputs; global electronics, semiconductors and related supply chains are more closely tied to Asian trade routes, with shipments to the U.S. typically routed through West Coast ports or the Panama Canal. Therefore, as long as disruptions remain concentrated in energy markets and shipping through Hormuz, the direct implications for U.S. technology-related investment and associated CRE demand should remain limited.

If anything, this episode reinforces an already-established macro theme of higher volatility, greater uncertainty, selectivity, and a premium on durable cash flow and fundamental strength.

## Conclusion

There is no shortage of downside risks when it comes to geopolitics and energy markets. However, the global economy has repeatedly demonstrated resilience in the face of recent major shocks.

While geopolitical tensions have increased, the most likely outcome at this stage is a period of heightened market volatility rather than a structural shift in the global economic outlook. This episode fits within a broader pattern observed across markets in recent months, where risk premiums adjust quickly and visibility remains limited without necessarily signaling a change in the underlying long-term trajectory.

For real estate investors and occupiers, the key variable to watch is whether energy prices rise to levels that materially affect inflation, interest rates, and financial conditions. For now, the balance of evidence suggests this event is more likely to influence the timing and selectivity of investment and capital allocation decisions rather than alter the longer-term trajectory of real estate demand.

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