

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

AS OF MARCH 10, 2026

## Key Takeaways

- The conflict has expanded across the Gulf region, pushing oil prices sharply higher.
- Energy markets are the main transmission channel to the global economy.
- Brent crude prices have whipsawed, starting around \$60 per barrel, briefly rising above \$120, and now fluctuating near \$80 (as of 3/10), as markets continuously reassess supply risks.
- The primary downside risk is a sustained disruption to shipping through the Strait of Hormuz, which carries roughly 20% of global crude supply.
- The situation remains fluid, though recent reporting suggests potential near-term de-escalation, which has already eased oil prices off their highs.
- CRE fundamentals have historically held up through geopolitical shocks, though sustained higher energy prices could affect inflation and interest rate expectations in the near term.

## What happened

On March 1, 2026, the United States and Israel carried out coordinated military strikes targeting Iranian military and nuclear infrastructure. The conflict has heightened geopolitical tensions across the Middle East and disrupted global energy markets.

Since then, the conflict has broadened across parts of the Gulf region. Energy infrastructure has been targeted, including Saudi Arabia's largest refinery, and facilities in Bahrain have also reportedly been hit. Shipping through the Strait of Hormuz, a critical corridor for global oil markets, has been disrupted. Air freight routes have also been impacted.

Roughly 20% of global crude shipments pass through the Strait, making it one of the world's most important energy chokepoints. Oil markets reacted quickly. Brent crude, which was trading near \$60 per barrel earlier this year, surged to almost \$120 as the conflict escalated, and is now fluctuating around \$80 as markets reassess the likelihood and duration of potential supply disruptions.

However, if shipping disruptions persist, energy production could also be affected. When producers cannot export oil, storage fills quickly, forcing temporary production cuts. Early indications

suggest that some producers in the region, including Iraq and Kuwait, may already be approaching storage limits.

For now, markets appear to be pricing a geopolitical risk premium rather than a permanent loss of supply.

## Economic Impact

The economic transmission channel runs primarily through energy prices.

Higher oil prices act as a tax on consumers and businesses by raising transportation, production, and heating costs. Historically, oil price spikes have preceded 10 of the past 12 U.S. recessions, though they typically contribute to downturns only when combined with tighter financial conditions.

If current price levels persist, the impact on consumers could be meaningful. As of March 10, the average cost for a gallon of gasoline in the U.S. was \$3.53, up from \$2.92 a month earlier. According to Moody's Analytics, every \$1 increase in oil prices costs U.S. consumers roughly \$3 billion annually. A sustained \$30 increase would translate into roughly \$90 billion in lost purchasing power. Cost increases are highly visible at the pump and on energy bills, potentially resulting in lower consumer sentiment, the longer prices remain elevated.

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But the price spike did not arrive in a vacuum. According to the Tax Foundation, American households are expected to receive an additional \$100 billion in tax refunds in 2026 compared to last year, essentially offsetting the financial drag from elevated energy prices. In other words, this is a negative for consumers but not a catastrophic blow. The global economy avoided recession in 2022 when oil prices traded at similar levels after Russia invaded Ukraine.

The U.S. is less exposed to energy shocks than in past decades. Domestic production now stands near 20 million barrels per day, roughly matching consumption. Higher prices still hurt consumers, but they also support domestic energy producers, partially offsetting the shock over time. Higher global energy prices may also increase demand for U.S. LNG exports as countries look for alternative supply.

Exposure is greater in Europe and parts of Asia, where economies remain far more dependent on imported energy via the Gulf. Natural gas prices in Europe have already moved sharply higher. Rising energy costs could weigh more heavily on growth in those regions.

Higher oil prices also feed into inflation. Historically, a \$10 increase in oil raises PCE inflation by roughly 0.1 to 0.15 percentage points over the following year. A sustained \$30 increase would push inflation roughly 0.5 percentage points higher, slowing progress toward central bank targets. If inflation expectations rise, policymakers may keep rates higher for longer. That would push bond yields higher, raise borrowing costs, and delay anticipated interest rate cuts.

The uncertain geopolitical and economic outcomes of this conflict also show up in financial markets. The VIX index, which measures equity price volatility, reached its highest level since Liberation Day last April. Treasury yields have moved marginally higher as investors price in the potential inflationary impacts.

## Scenario Outlook

### Baseline Scenario

Our baseline assumes tensions remain elevated but the disruption to shipping through the Strait of Hormuz proves temporary. Under this scenario, shipping resumes within several weeks and oil prices remain elevated in the near term before gradually easing.

In this case, oil prices would likely average around \$90 per barrel during the first half of the year, before trending back toward \$70 later in the year as supply flows normalize.

### Upside Scenario

In a more favorable outcome, geopolitical tensions ease quickly and leaders move toward de-escalation. Markets would likely remove much of the current risk premium and oil prices would retreat sooner.

### Downside Scenario

The primary downside risk is a sustained disruption to shipping through the Strait of Hormuz, leaving a significant share of global supply offline.

Under that scenario, oil prices could remain above \$100 per barrel for several quarters. Higher energy prices would accelerate inflation, force central banks to keep policy tighter, and raise bond yields. Financial conditions would tighten and consumer spending would weaken.

A prolonged disruption could slow global growth substantially and sharply increase the probability of a global recession with more severe contractions in Asia and EMEA.

## 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.

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If energy prices stabilize within a historically manageable range, the impact on CRE fundamentals is likely to remain limited. Space markets have demonstrated considerable resilience through recent geopolitical disruptions, and leasing demand has remained relatively healthy.

The primary transmission channel for CRE would be through interest rates and financial conditions. If higher energy prices push inflation higher and delay anticipated interest rate cuts, tighter financing conditions could weigh on capital markets activity in the near term.

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. Historically, real estate has often remained relatively resilient during periods of geopolitical volatility, particularly when income streams remain stable.

In addition, higher energy prices could increase operating costs and development expenses in some sectors. However, unless supply disruptions become prolonged or severe, the direct impact on real estate demand is likely to remain limited.

## Conclusion

Geopolitical tensions always carry downside risks, particularly when energy markets are involved. But the global economy has repeatedly shown resilience through similar shocks.

At this stage, the most likely outcome is higher volatility rather than a structural shift in the economic outlook.

For real estate investors and occupiers, the key variable to watch is whether energy prices move high enough to materially affect inflation, interest rates, and financial conditions. For now, the evidence suggests this episode is more likely to influence financial conditions and the timing of investment decisions than to alter the longer-term trajectory of real estate demand or space utilization.

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