

Shock Waves

The Iran Conflict and its Cascading Impact on Global Trade, Energy, and Supply Chains

SPRING 2026

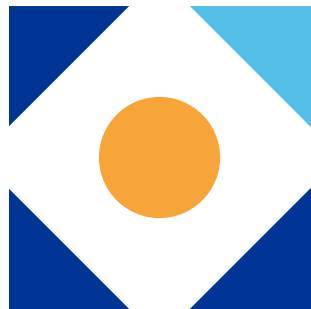




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SECTION I: SUPPLY CHAIN EFFECTS

THE RECENT CONFLICT BETWEEN THE UNITED STATES, ISRAEL, AND IRAN, BEGINNING WITH THE FEBRUARY 28TH ATTACK BY THE U.S., HAS DISRUPTED GLOBAL SUPPLY CHAINS THROUGH THE CLOSURE OF THE STRAIT OF HORMUZ AND RENEWED VIOLENCE ACROSS THE GULF AND RED SEA CORRIDORS.

A fifth of the world's oil supply is now inaccessible, and cargo ships are being forced onto longer alternative routes—adding costs and transit times that ripple across the broader supply chain.¹ While the United States is unlikely to feel the direct impact of these route closures, it will experience meaningful secondary effects through rising energy prices, tighter global shipping capacity, and its heavy reliance on imports from Asia. And even if the conflict were resolved tomorrow, the supply chain

damage may prove lasting: companies cannot simply return to their old routes overnight, and many are already beginning to fundamentally rethink a globalized, just-in-time supply chain model that leaves very little margin for error. That rethinking is driving a structural shift toward shorter, more resilient supply chains—with direct implications for domestic manufacturing, warehousing demand, and the industrial real estate landscape.

Global Supply Chains – The Destabilizing Effect of the Recent Conflict with Iran

On February 28th, a joint U.S.-Israel attack on Iran resulted in the killing of Supreme Leader Ayatollah Ali Khamenei, marking a major escalation in Middle East regional tensions and conflict. On March 2nd, a senior adviser to Iran’s Islamic Revolutionary Guard Corps (IRGC) declared that any vessel attempting to pass through the Strait of Hormuz would be attacked.² On March 11th, a Thai cargo ship attempted to pass through the Strait and was struck by two projectiles, an attack for which Iran’s Revolutionary Guard claimed responsibility. Three other ships were also damaged, and later that day explosive-laden Iranian boats appear to have attacked two fuel tankers.³ In a statement attributed to Iran’s new supreme leader Mojtaba Khamenei on March 12th, he vowed to continue to block the Strait.⁴ Iran has continuously employed a range of tactics to target vessels in the Strait, including unmanned explosive-laden boats disguised as fishing vessels along with drone and missile strikes.^{5,6} Despite President Trump’s assurances, experts say that only a ceasefire will make the Strait of Hormuz safe to transit again, given the severity of the threat environment and Iran’s stated intent to use attacks on shipping in the Strait as a tactic in the conflict.⁷

The Strait of Hormuz is the only maritime exit from the Persian Gulf. On a normal day, approximately 20% of global oil and 11% of worldwide global trade passes through the strait.⁸ In the week after the conflict began, shipping activity through the strait was significantly diminished; from March 1-6, just 78 total vessels passed through the waterway, 10% of the previous week’s volume.⁹ As of March 6th, 130 container ships carrying around 450,000 TEUs were trapped inside the strait, representing roughly 1.4% of the global container fleet.¹⁰ The blockage creates two compounding problems: it threatens energy supplies by cutting off a key flow of oil and refined products, while also sidelining ships and containers, tightening global shipping capacity and amplifying delays across international trade.

In addition to the closure of the Strait of Hormuz, Iran-backed Houthi rebels in Yemen have threatened passage through the Bab al-Mandeb Strait, a passage needed to enter the Red Sea. The Red Sea is a critical passage for container ships and bulk carriers traveling from Asia to Europe, as well as oil tankers and liquefied natural gas

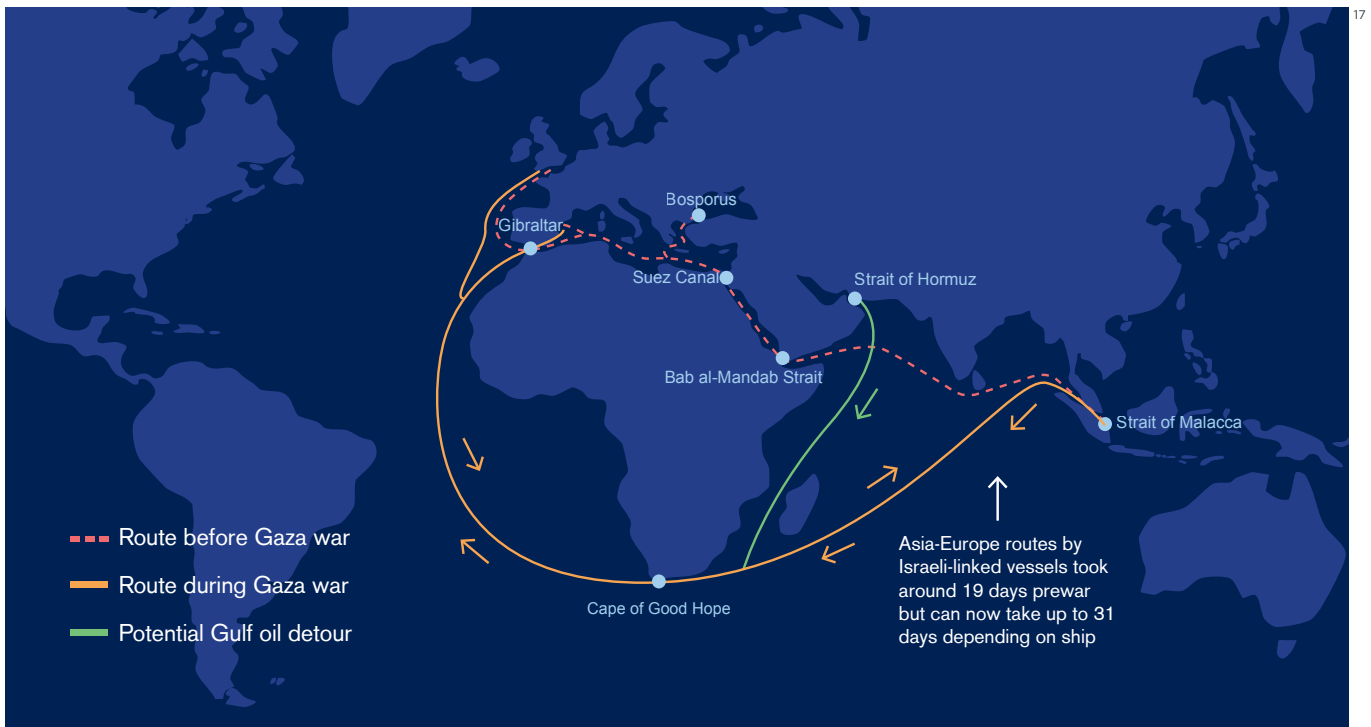
carriers carrying energy exports from the Gulf to Europe. Globally, 12-15% of total trade volume passes through the Red Sea, including 40% of Asia-Europe trade and over 95% of ships travelling between the two regions.¹¹ For these journeys, the primary alternative is to reroute around the Cape of Good Hope at the southern tip of Africa. This detour significantly increases both cost and transit time. Rerouting via the Cape of Good Hope adds approximately \$1 million in fuel costs per vessel.¹² To offset these expenses, freight carriers have implemented a range of surcharges—including Emergency Conflict Surcharges, War Risk Surcharges, and Bunker Adjustment Factor clauses—resulting in additional fees of roughly \$2,000-\$4,000 per container.¹³ Insurance costs have also surged. Premiums for ships operating in the Middle East have seen substantial increases; ships operating in the Persian Gulf have seen increases of 400% without even crossing the Strait of Hormuz.¹⁴ In addition to higher costs, the alternative route adds approximately 3,000-3,500 nautical miles to voyages and extends transit times by roughly 10 to 14 days.¹⁵ Longer routes and immobilized vessels can create cascading disruptions throughout global supply chains:

“

The supply chain is kind of like a long train with many cars and each car represents, let's say, a port in the world. Well, if one car gets derailed, it can very often have a domino effect to many other cars behind it or in front of it. So although we only have a small number of ports affected by this military action, it can really have a big effect on the total supply chain.

— Michael Goldman

General Manager, North America, CARU Containers¹⁶



United States Supply Chains – Limited Direct Exposure, Broader Indirect Risk

The United States’ direct supply chain exposure to the conflict is limited. Just 2.5% of crude oil transported through the Strait of Hormuz in Q1 2025 was bound for the United States.¹⁸ In 2025, less than 2% of the United States total imported goods were from the Middle East and North Africa.^{19,20} U.S. exposure to the Middle East is relatively low, even in fuel-intensive sectors like fertilizer where Gulf producers dominate. Additionally, unlike Europe, the U.S. does not depend on Red Sea shipping lanes for imports from Asia and will therefore face limited direct impact.

However, U.S. consumers will experience secondary effects through broader supply chain disruptions and rising energy costs. Oil prices reacted immediately after the United States attacked Iran on February 28th, rising by roughly 8–9%. Gasoline prices increased by more than \$0.10 in a single day,²¹ and by March 20th, oil prices had risen 40% above their pre-conflict levels.²² Although the average American household spends just 3% of income on gasoline, increased energy prices can ripple through the economy through higher cost of goods.²³

Fuel accounts for roughly 45–50% of operating costs for ocean freight²⁴ and approximately 25–30% of operating costs for trucking fleets in the United States.²⁵ With transportation costs representing roughly 6–8% of the total cost for consumer-packaged goods²⁶—and an even greater share for e-commerce goods—global energy price increases will impact U.S. supply chains and likely result in higher prices for consumers.

The United States is also highly dependent on imports from Asia, which relies heavily on Middle Eastern energy supplies—80% of crude oil that travels through the Strait of Hormuz is bound for Asia. Imports from Asia accounted for approximately 40% of U.S. goods imports in 2024,²⁷ including 13% from China.²⁸ As a result, disruptions to energy supplies or shipping capacity affecting Asian manufacturing economies will indirectly affect U.S. import activity.

The United States supply chain will feel the impact as ships and containers delayed or taken out of commission by the conflict—whether stuck in the Strait of Hormuz or rerouted along longer paths—become unavailable for other trade routes, tightening global shipping capacity in ways that ripple well beyond the immediate region.



Ships often travel long routes with multiple stops—the *Maersk Sebarok*, for example, runs between the U.S. East and Gulf Coast and India, with stops in Saudi Arabia and Port Tangier, passing through the Red Sea along the way.²⁹ When that route is disrupted, the ripple effects are significant: Niels Rasmussen, Chief Shipping Analyst at industry trade group BIMCO, estimates that global ship demand runs about 10% higher when the Red Sea is blocked, simply because vessels must travel so much farther to reach their destinations.³⁰

As of March 11, 2026, there are no clear signs that U.S. ports are experiencing immediate operational disruptions. Import expectations for the Port of Los Angeles are lower for the two weeks beginning March 15, 2026, but it remains unclear whether this decline is directly attributable to the conflict.³¹ Industry analysts note it is still too early for U.S. ports to register direct impacts from the conflict.³²

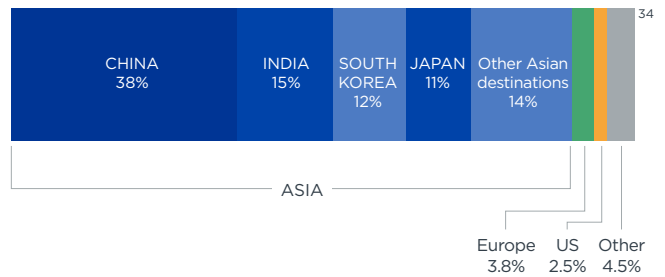
2024, GLOBAL DEPENDENCY ON GULF FERTILISER EXPORTS BY REGIONS

	Asia	Americas	Oceania	Africa	Europe
Urea	35%	27%	15%	11%	11%
Sulphur	53%	7%	1%	39%	1%
DAP MAP	51%	38%	5%	4%	2%
Ammonia	64%	1%	0%	20%	15%

STRAIT OF HORMUZ - RISK OF SUPPLY DISRUPTION

The majority of oil shipped through the Strait of Hormuz in the first quarter of 2025 went to Asian markets, according to US EIA estimates.

Share of Crude Oil and Condensate Transported through The Strait Of Hormuz, by Destination - 1Q 2025



China - Heavy Dependence, Direct Vulnerability

China is significantly more exposed to disruptions stemming from the closure of the Strait of Hormuz and instability in the Middle East, with China importing up to 40% of its oil and 30% of liquified natural gas through the Strait of Hormuz. Despite China’s political alignment with Iran, ship-tracking data shows that Chinese tanker and container vessels have largely ceased transiting the Strait since the conflict began. As of March 6th, 55 Chinese-flagged ships remained trapped in the Persian Gulf.³⁵ Ship-tracking data suggests Iran did manage to move 11.7 million barrels of crude oil through the Strait of Hormuz from Feb. 28th to March 10th, all of which were headed to China;³⁶ however, this is less than 15% of the ~8 million barrels each day that typically go through the Strait toward China.^{37,38}

China has taken steps to cushion itself from this type of short-term supply shock. The country has stockpiled significant quantities of crude oil over the past year, and on March 5th, Beijing instructed domestic oil refiners to halt fuel exports in order to preserve domestic supplies. However, if the conflict continues for weeks or months—as President Trump has suggested it could—and shipping through the Strait of Hormuz remains blocked, China may begin applying stronger diplomatic pressure on the parties involved in an effort to bring hostilities to an end.³⁹ China also ships over 13% of its exports to Europe, a route that is impacted by violence in the Red Sea.⁴⁰ Ultimately, China finds itself caught in a challenging scenario—dependent on the Strait of Hormuz to power its economy and on the Red Sea to reach its largest export market—with no clear path to relief short of the conflict’s end.

Long-Term Supply Chain Shifts - Increased Resilience to Combat Heightened Uncertainty

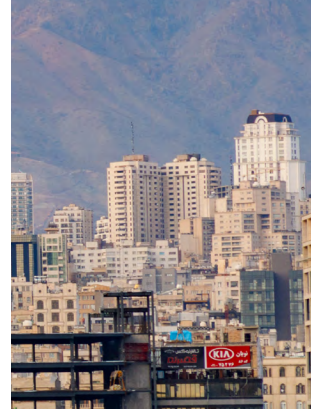
Even if military operations in Iran conclude within weeks, the operational effects will persist far longer. Shipping carriers are slow to reinstate suspended routes; a sustained period of security stability is required



before insurers restore coverage and companies regain confidence. But the disruption goes beyond closed shipping lanes—the scale and intensity of this conflict will force companies to fundamentally reassess whether these routes can ever be reliably counted on, reshaping how they think about sourcing goods from overseas.

A recent precedent illustrates this dynamic. Nearly two years after Houthi attacks on shipping began in response to Israel’s 2023 invasion of Gaza, some shipping companies have still not fully resumed operations through the Suez Canal. On March 2nd, Hapag-Lloyd—the world’s fifth-largest liner operator—announced that it had paused its plans to return to the Suez Canal. CEO Rolf Habben Jansen stated: “If you would have asked me 60 days ago, we thought that we were closer to a return. Now it looks again, of course, that it could be significantly longer.” Carriers such as Maersk and France’s CMA CGM had previously begun sending limited services through the canal under protection from European Union naval forces. Both companies have now suspended those services again due to heightened risks to vessels.⁴¹ If companies were still unable to fully return to the Suez Canal nearly two years after the initial disruption, the timeline for restoring confidence in the Strait of Hormuz—where the scale of conflict and the stakes involved are significantly greater—could be longer still.





SECTION II: HISTORICAL BACKDROP

The conflict in Iran is triggering what history would recognize as a classic oil shock. Five decades of energy supply disruptions—from the 1973 Arab oil embargo to the Russia-Ukraine war—offer a map for what the coming months, and potentially years, may bring. The patterns are consistent: even modest supply losses can trigger outsized price increases, driven less by the physical loss of barrels than by market psychology and the absence of spare capacity. Higher oil prices act as

an involuntary tax on economic activity, fueling inflation, slowing trade, and raising the specter of stagflation. Modern economies have grown more resilient to energy shocks through better monetary policy, lower oil intensity, and more diversified supply—but history shows that a disruption broad enough in scale and scope can still rattle even the most sophisticated economies, and that every major shock ultimately reshapes the energy landscape in ways that outlast the crisis itself.

Event	Period	Gross Loss (MM b/d)	Price Increase	Duration	US/Global GDP Impact
Arab Oil Embargo	1973-74	4.5	+302%	5 months	-3.2%
Iranian Revolution	1979-80	4.8	+165%	18 months	-2.8%
Gulf War	1990-91	4.3	+112%	9 months	-1.1%
Arab Spring / Libya	2011	1.5	+30%	9 months	-0.3%
Russia-Ukraine War	2022-pres	3.0	+62%	24+ months	-0.5-1.0% (Europe worse)



The 1973-1974 Arab Oil Embargo – the First Oil Shock and the Birth of Energy Geopolitics

The modern era of oil price volatility traces its origins to a single autumn afternoon in October 1973, when the intersection of Middle East war, Cold War rivalry, and American energy dependence converged to produce a shock from which the global economy would not fully recover for a decade. When Arab oil-producing nations cut exports to the United States in retaliation for its support of Israel in the Yom Kippur War, oil prices nearly quadrupled—from roughly \$3 per barrel to nearly \$12—despite only a 9% net reduction in global supply.⁴² The outsized price response reflected how little cushion the market had: U.S. spare production capacity had been exhausted, and import dependence had been growing for years. In 1950, oil imports accounted for less than half a million barrels per day, or roughly 8% of domestic petroleum demand; by 1973, that share had risen to 19% of U.S. petroleum consumption.⁴³

The economic fallout was severe—GDP fell 3.2%,⁴⁴ unemployment peaked at 9%,⁴⁵ and inflation hit 11% in 1974,⁴⁶ while the S&P 500 fell about 2% per year when adjusted for inflation following decade.⁴⁷ The automotive industry offers the most vivid illustration of sectoral rotation. The American automobile industry, which specialized in producing heavy “gas guzzler” vehicles, experienced an immediate shift on the part of consumers to the lighter and more fuel-efficient vehicles produced by the Japanese and West German automobile industries.⁴⁸ The shock also left a lasting institutional imprint, leading to the creation of the International Energy Agency and the U.S. Strategic Petroleum Reserve, and marking the end of nearly three decades of cheap, stable energy that had underpinned postwar economic growth.⁴⁹

The 1979 Iranian Revolution – Panic, Psychology, and the Second Oil Shock

The Iranian Revolution of 1978-1979 produced the second major oil shock of the decade—and like the Arab Oil Embargo, its economic damage far exceeded what the physical supply numbers alone would have predicted. Originating not from a deliberate embargo but from the collapse of a government, the revolution illustrates how rapid political disorder can translate into global economic disruption—and how the psychological response of markets can amplify a physical supply disruption beyond its underlying magnitude.

Strikes began in Iran’s oil fields in the autumn of 1978, and by January 1979, Iranian oil production fell by nearly 5 million barrels per day.⁵⁰ Other producers partially compensated, leaving a net global shortfall of only about 4 to 5%. Yet prices more than doubled to nearly \$40 per barrel, driven largely by panic buying as markets feared the revolution would spread across the region.⁵¹ U.S. price controls on gasoline made things worse by preventing rising prices from dampening demand, producing the long gas lines that became the defining image of the crisis. Inflation, already climbing, spiraled further—ultimately forcing newly appointed Fed Chair Paul Volcker to raise interest rates above 20%. The move broke inflation, but the resulting “Volcker Shock” triggered the worst recession since the Great Depression.⁵² The shock also accelerated lasting structural shifts: Japanese automakers overtook Detroit in production for the first time,⁵³ and U.S. oil consumption per dollar of GDP fell nearly 37% between 1973 and 1993 as efficiency improvements permanently reduced the economy’s dependence on oil.⁵⁴



The 1990–1991 Gulf War – Market Speed, Strategic Reserves, and the Limits of the “Oil Weapon”

The Iraqi invasion of Kuwait on August 2, 1990 removed, in a single stroke, two of the world’s major oil producers from global markets, representing a peak supply loss of approximately 4.3 million barrels per day of combined Iraqi and Kuwaiti crude oil.⁵⁵ This sent oil prices from \$17 to \$36 per barrel in a matter of weeks and threatened to hand Saddam Hussein control over nearly half of the world’s proven oil reserves if he then moved to Saudi Arabia, which was a fear at the time.^{56,57} Yet unlike the shocks of the 1970s, this one was contained relatively quickly—and the difference came down to institutional preparation. Saudi Arabia deployed spare capacity that simply hadn’t existed during the earlier crises, the U.S. and its allies released strategic reserves in a coordinated IEA response, and the prospect of military intervention kept markets from spiraling into panic.⁵⁸ The S&P 500 fell roughly 16% at the shock’s peak but recovered quickly, and within nine months the price increase had fully subsided.⁵⁹

The Gulf War shock is therefore best understood as a demonstration of how institutional preparation, spare capacity, and credible geopolitical commitment can compress both the duration and the severity of an energy disruption. The same physical supply loss that might have produced a multi-year crisis in 1973 was resolved, with comparatively limited economic damage, in under a year.

The 2011 Arab Spring – Contagion Fear, Libyan Supply Loss, and the Resilience of Institutional Responses

The Arab Spring of 2010–2011 introduced a variant of oil market disruption that had not been seen since the 1970s: the rapid, politically driven destabilization of multiple oil-exporting states in a single geographic region, with attendant fears of cascading contagion. However, the oil shock driven more by fear than by actual supply loss—at least initially. As popular uprisings swept through Tunisia, Egypt, Libya, and beyond, Brent crude climbed from roughly \$95 in early January 2011 to \$120 per barrel by mid-February, even before a single barrel had been physically disrupted.⁶⁰ What drove the initial price increase was contagion psychology: the fear that instability in minor producing countries like Tunisia and Egypt would spread to the major Gulf producers. The real supply impact was concentrated almost entirely in Libya, whose civil war knocked out 1.5 million barrels per day of high-quality light sweet crude particularly valued by European refineries.⁶¹ Yet despite the regional drama—the Middle East held 61% of proven world oil reserves—the macroeconomic damage was remarkably contained. Saudi Arabia quickly deployed spare capacity, the IEA coordinated a strategic reserve release, and decades of efficiency gains had reduced the global economy’s sensitivity to oil price swings.⁶² The net effect on GDP growth was estimated at just 0.3 to 0.5%, a fraction of the damage inflicted by the 1970s shocks, and prices had stabilized to around \$100 per barrel by the end of the summer.^{63,64} The Arab Spring thus illustrated both how powerfully contagion psychology can move oil markets—and how much more resilient the global economy had become at absorbing shocks compared to a generation earlier.

The 2022 Russia-Ukraine War – the First Truly Global Energy Crisis of the 21st Century

Russia's full-scale invasion of Ukraine in February 2022 triggered what the IEA called the first truly global energy crisis of the 21st century—and it differed from every preceding shock in a critical way: energy was not an incidental casualty of conflict but a deliberate weapon. At the onset of the conflict, Russia accounted for roughly 12% of global oil production and supplied over 40% of Europe's natural gas, and when that supply was cut off—both through Russian action and Western sanctions—the consequences were immediate and sweeping.⁶⁵ Brent crude peaked at nearly \$140 per barrel in March 2022,⁶⁶ Eurozone energy inflation hit 44% year-over-year,⁶⁷ and European households faced the steepest real income declines since the 1970s.⁶⁸ The IEA deployed the largest strategic reserve release in its history, but the macroeconomic damage was still severe—the OECD estimated a 2.5% increase in global inflation and more than 1% erosion in world economic growth. Trade flows reorganized with remarkable speed, with

India and China absorbing roughly 75% of Russian crude exports within two years.⁶⁹ But the most consequential legacy of the 2022 shock may be structural: it directly catalyzed the EU's REPowerEU plan, the U.S. Inflation Reduction Act, and Japan's green transformation program, which aimed to accelerate renewable energy investment and reduce fossil fuel dependence. As a result, IEA projections now show peak demand for oil, gas, and coal within this decade. This makes 2022 the first shock in this survey whose long-run response moves toward eliminating, rather than merely delaying, the underlying vulnerability.⁷⁰

Common Themes, Recurring Dynamics, and Structural Lessons for Today

The Iran conflict remains in its early stages, yet the patterns emerging thus far closely mirror those observed in prior episodes. Across five past disruptions—an embargo, revolution, war, political uprising, and sanctions—the same dynamics repeatedly appear, offering a useful framework for anticipating what comes next.



Oil Price Volatility and the Psychology of Scarcity:

Every episode in this survey demonstrates that oil price volatility is driven not merely by the arithmetic of barrels removed from the market but by the interaction of physical supply loss with market psychology and spare capacity. Because oil supply and demand are highly inelastic, even marginal disruptions can produce non-linear price increases: in 1973, a 9% supply loss produced a 300% price increase; in 1979, a 4% loss more than doubled prices; in 2011, the loss of just 1.8% of world supply drove a 30% increase fueled largely by contagion fear. The critical variable counteracting this market behavior is always the market's available buffer—spare production capacity, strategic reserves, and the credibility of compensating supply responses.

Inflation Pressures and the Central Bank Dilemma:

Oil price shocks are powerful inflationary accelerants, working through both higher energy costs and wage-price spirals. The Fed's response has evolved over time: the Burns-era accommodations of the 1970s allowed inflation expectations to become unanchored, requiring the brutal Volcker correction of 1981–1982, while the more credible Fed of 1990 held steady through the Gulf War price increases without triggering a spiral. The 2022 episode demonstrated that even in a less oil-dependent economy, a shock spanning the full energy mix—oil, gas, coal, and electricity—can threaten central bank credibility in ways that narrower disruptions like 1990 and 2011 did not.

Equity Market Reactions and Sectoral Divergence:

Energy shocks produce predictable sectoral divergences—transportation, airlines, manufacturing, and consumer discretionary face direct cost pressure, while energy producers benefit from higher revenues. The 2022 episode illustrated this clearly, with the energy sector delivering exceptional returns while the broader S&P 500 fell roughly 18%.

During the 1973–1982 stagflation period, gold and real estate preserved purchasing power while stocks and bonds did not—a pattern that tends to repeat whenever energy shocks are sustained and broad-based.

Trade, Growth, and the Stagflation Risk:

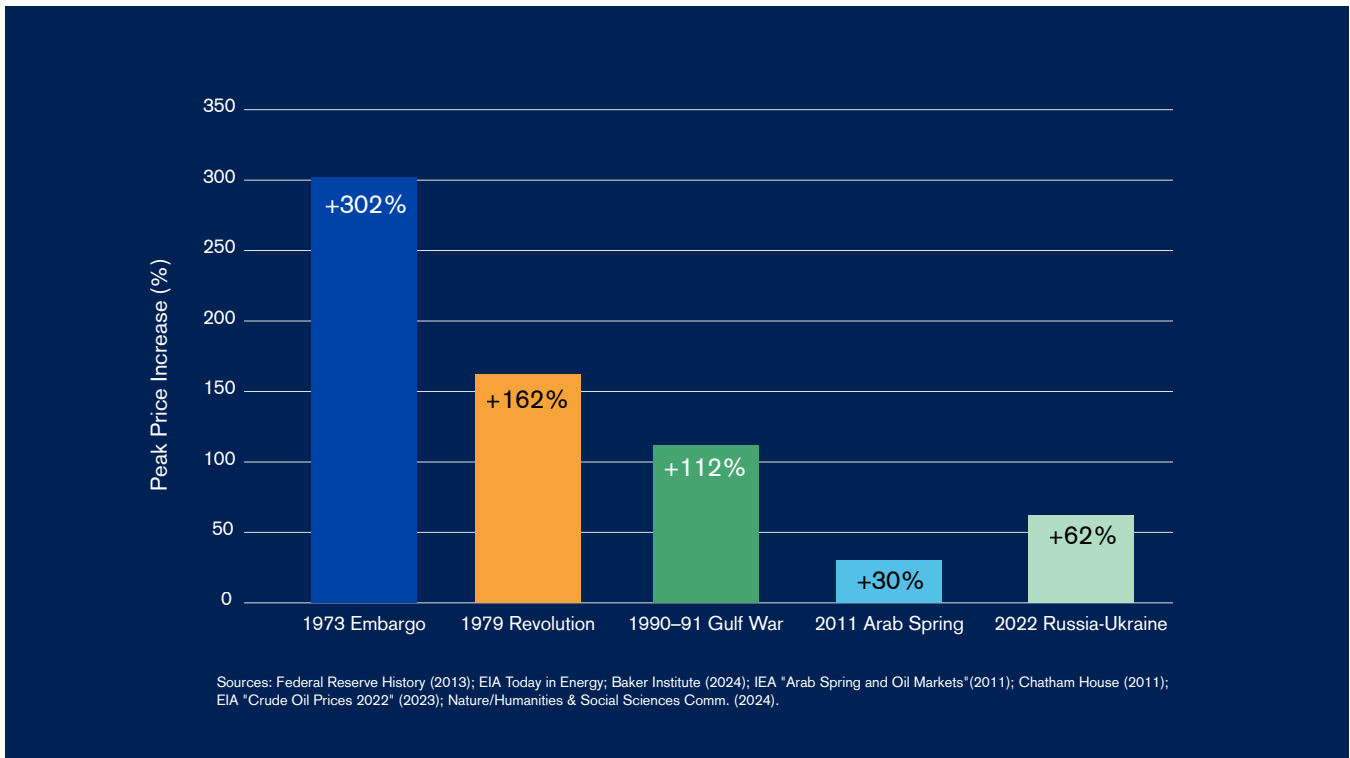
Higher oil prices function as an involuntary tax on economic activity—transferring income from consuming households and businesses to producing entities. Because higher energy costs translate almost mechanically into inflation, counter-inflationary tightening, and recession, every sustained episode of high oil prices in this survey is associated with slower trade and growth. When inflation and recession arrive simultaneously, the result is stagflation—a condition in which policy tools designed to address one problem actively worsen the other. The 1970s demonstrated how severe this can become when unanchored expectations and policy errors amplify a supply shock, while the 2011 Arab Spring showed how much more resilient modern economies had become. But the 2022 Russia-Ukraine shock revealed the limits of that resilience: when a disruption spans the full energy spectrum and arrives amid already-elevated inflation, even a diversified modern economy can find itself caught in the same trap.



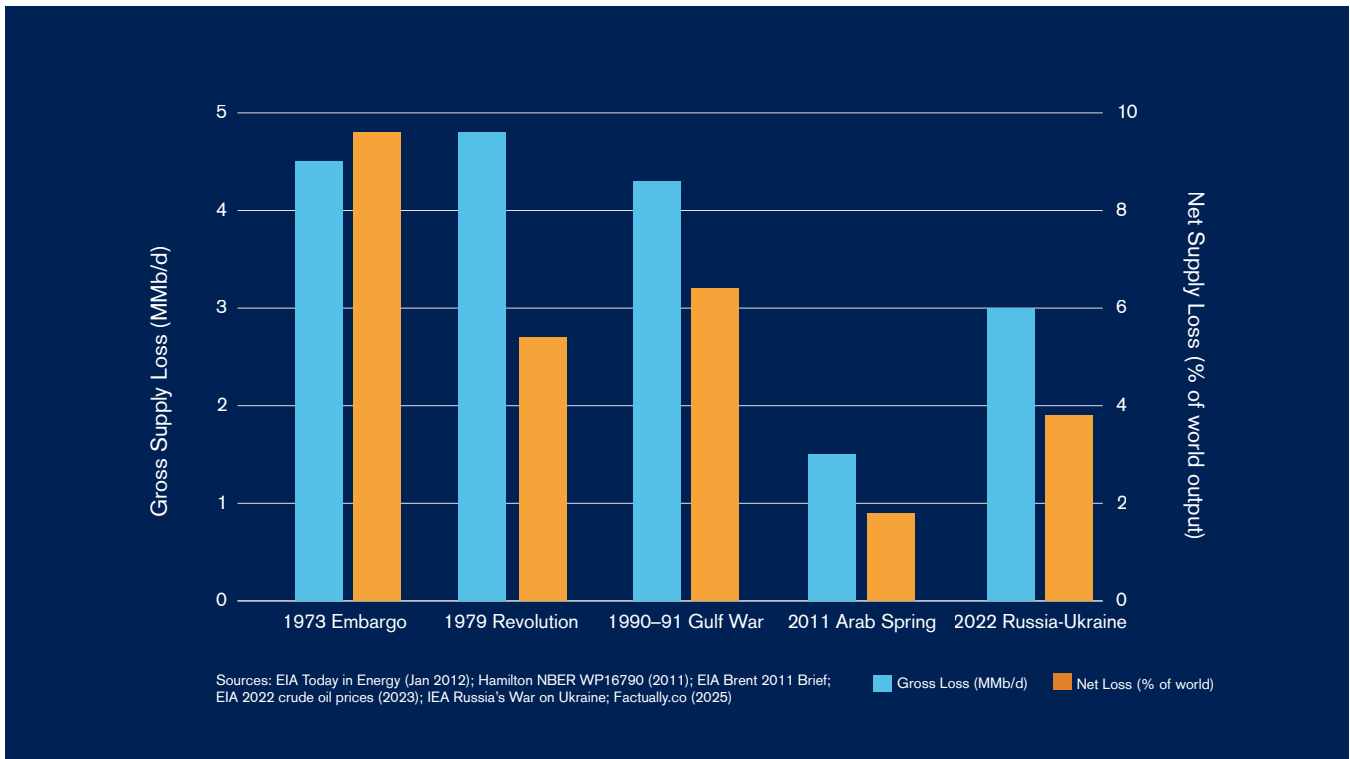
Energy Market Realignment and the Long-Run Response to Disruption:

Perhaps the most consistent and consequential pattern across the full history of oil shocks is the way in which price disruptions trigger structural realignment responses that ultimately undermine the conditions that made the disruption possible. The two crises of the 1970s produced the North Sea, Alaskan, and Mexican supply responses that transformed the global oil map. The 2011 Arab Spring reinforced the case for unconventional U.S. production, which by 2014 had made America the world's largest oil producer.⁷¹ The Russia-Ukraine shock—the most structurally consequential of the five episodes—has produced the most transformative realignment response: an acceleration of renewable energy investment and energy security diversification. Each disruption has, in this pattern, generated structural responses that progressively reduced the economy's vulnerability to subsequent shocks—though the 2022 shock's responses may ultimately reshape the composition of the energy system rather than simply reconstitute a new equilibrium within the existing fossil fuel order.

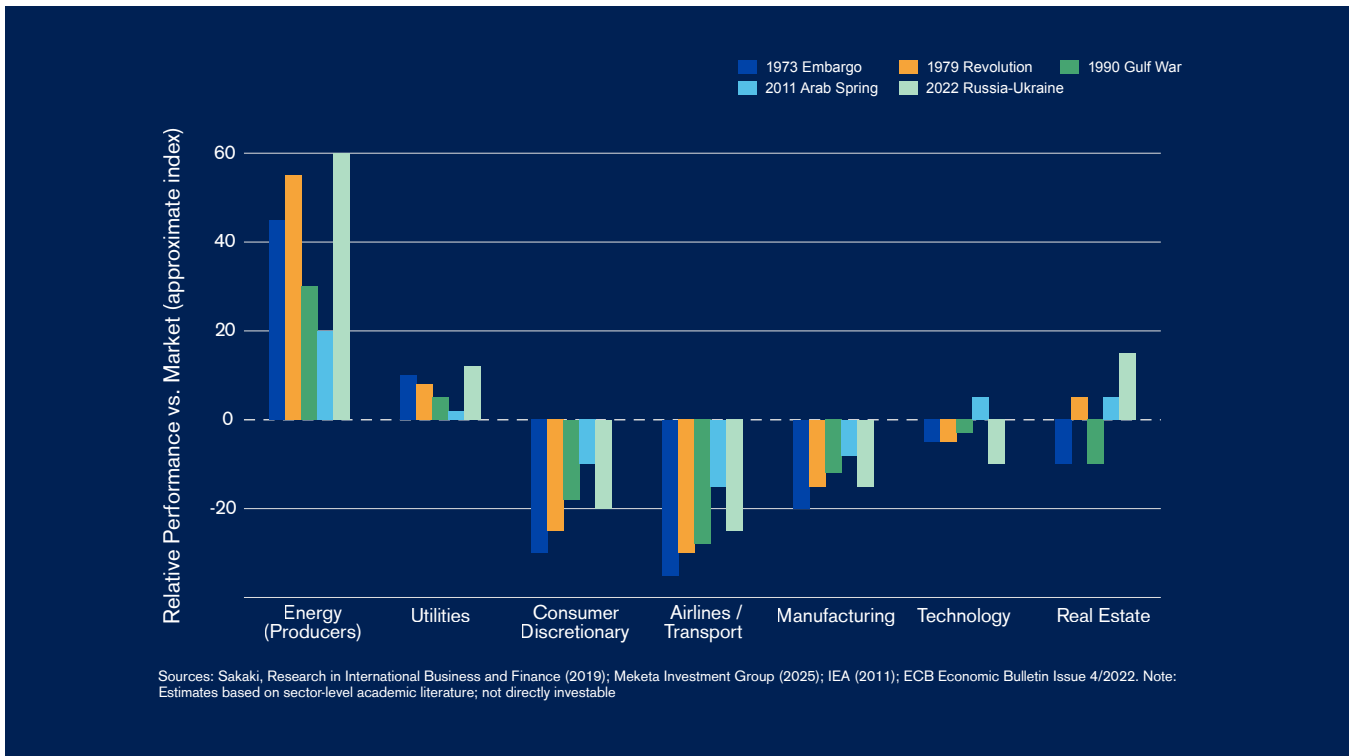
PEAK OIL PRICE INCREASE (%) ACROSS FIVE MAJOR SUPPLY DISRUPTIONS

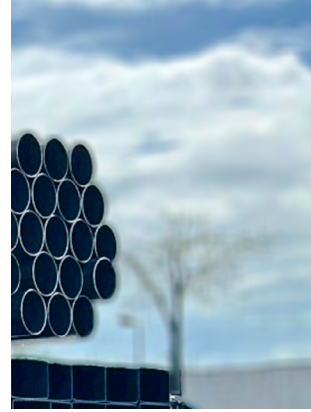


GROSS SUPPLY DISRUPTION (MMb/d) VS NET SUPPLY LOSS (% OF WORLD OUTPUT)



ESTIMATED RELATIVE EQUITY SECTOR PERFORMANCE DURING OIL SHOCKS (POSITIVE = OUTPERFORM; NEGATIVE = UNDERPERFORM)





SECTION III: INDUSTRIES IMPACTED

The supply chain disruptions and energy price increases now unfolding are rippling into specific industrial sectors—from agriculture and building materials to retail, travel, and manufacturing. These inflationary pressures could prove persistent: damaged oil and gas infrastructure may constrain energy supply for months or longer, even if the war were to come to a quick end, while disrupted shipping corridors are forcing firms to rethink how and where they source goods.⁷² For consumers, the effects are compounding—higher fuel costs, rising grocery prices, and shrinking discretionary budgets are reshaping spending patterns across the economy.

At the same time, the conflict is reinforcing structural trends already underway. The drawdown of U.S. munitions stockpiles—driven by the Iranian conflict alongside continued support for Ukraine and Israel—is expected to unlock significant new defense spending. And with globally extended supply chains once again proving fragile, the economic case for domestic manufacturing, supplier diversification, and nearshoring is strengthening.

Trade and Logistics - Procurement Diversification Accelerates

The Iran conflict has produced sharp increases in freight rates, insurance premiums, and transit times across the world's most heavily trafficked shipping corridors. These cost pressures are accelerating a strategic shift already underway in global procurement: firms that once optimized supply chains primarily for cost are now prioritizing stability, proximity, and redundancy. Since violence in the Red Sea began in 2023, spot

freight rates from China to North Europe and the Mediterranean remain 48% and 79% above pre-crisis levels, respectively.⁷³ Rather than continue to absorb these compounding risks, many firms are beginning to diversify their supplier base toward regions with more predictable logistics networks—sourcing closer to end markets where possible, qualifying secondary and tertiary suppliers outside of geopolitically exposed corridors, and carrying larger inventory buffers to insulate against future disruptions. The practical effect is a shift toward shorter, more redundant supply chains—a trend with significant implications for domestic industrial capacity and warehousing demand.





Manufacturing – Onshoring Gains Urgency

The Iran conflict is accelerating the case for domestic manufacturing. With globally extended supply chains once again proving fragile, manufacturers are moving to reduce their dependence on overseas suppliers whose goods must transit geopolitically volatile chokepoints. According to Gartner, nearly two-thirds of companies expect to lose revenue during a supply chain disruption of this kind, with supply chain cost-to-serve surging an average of 40% in the aftermath.⁷⁴ Experts are suggesting that manufacturers not only diversify their supplier base, but that they actively expand domestic manufacturing to mitigate risks and increase control.⁷⁵ If the conflict persists, the economic incentive to bring manufacturing activity back onshore—and closer to both domestic suppliers and domestic consumers—will only intensify.

U.S. Defense Industry

U.S. missile and munitions stockpiles have been underinvested in over the past decade and have declined significantly in recent years. This reduction has been driven in part by U.S. military support for the wars in Ukraine and Israel, as well as recent strikes on Iran. Notably, the U.S. FY2025 budget funded the procurement of only 18 Tomahawk missiles yet estimates suggest that more than 160 Tomahawks were used on the opening day of attacks on Iran.^{76,77} Additionally, due to the heavy reliance on Patriot and THAAD interceptors

to protect allies in the Gulf, these stockpiles have also been significantly diminished. This mismatch between peacetime procurement rates and wartime consumption has prompted the White House to push major defense contractors to significantly increase weapons production.⁷⁸

A critical example is the artillery weapons and munitions the U.S. provided to Ukraine in its defense against Russia. As these weapons and munitions were transferred to Ukraine, U.S. stockpiles were depleted, prompting efforts to expand domestic production. As part of this effort, the U.S. government contracted with General Dynamics to increase output. In response, General Dynamics opened a 440,000-square-foot manufacturing facility employing over 450 people in Mesquite, Texas—approximately ten miles from downtown Dallas—to produce 155mm artillery components.⁷⁹ Looking ahead, the Pentagon is expected to request \$50 billion in additional funding to expand U.S. munitions production capacity and replenish depleted stockpiles.⁸⁰

The U.S. government has made the onshoring of defense-critical manufacturing a strategic priority, an initiative which the Iran conflict is likely to accelerate. In 2022, Congress passed the CHIPS and Science Act, establishing federal funding to rebuild domestic semiconductor production capacity essential to national defense.⁸¹ That effort gained further momentum in 2025, when TSMC announced a \$165 billion investment to build six semiconductor fabrication plants in Phoenix, Arizona—the largest single foreign direct investment in U.S. history.⁸² The conflict has underscored not only the importance of semiconductor manufacturing capacity, but also the significant energy requirements that underpin it. South Korea serves as a cautionary example: with approximately 70% of its crude oil imports sourced from the Middle East, its semiconductor industry faces heightened risk amid the current conflict.⁸³

As the United States sustains military commitments across multiple theaters and navigates an increasingly fluid geopolitical landscape, the case for domestic production of defense-critical inputs will only intensify. This spending—alongside the expected ramp in munitions production—will translate directly into job growth and industrial demand as defense contractors scale production capacity and warehousing needs to meet both wartime consumption rates as well as peacetime readiness requirements.



Agriculture – Rising Input Costs

Global food production depends on ammonia and nitrogen fertilizers—and fertilizer production, in turn, depends on natural gas. That dependency has concentrated a significant share of global production capacity in the Persian Gulf, which accounts for approximately 30% of global ammonia exports and nearly 49% of nitrogen exports.⁸⁴

As the conflict disrupts energy markets and shipping routes across the region, fertilizer prices have risen roughly 26%—a cost increase the U.S. will absorb even for fertilizer it does not import from the Gulf. The timing is particularly punishing for American farmers, who are preparing for the spring planting season when fertilizer demand is at its peak.⁸⁵

Unlike many consumer industries where higher input costs can be passed on to customers, farmers often have limited near-term pricing power. While crop futures markets, federal crop insurance, and government support programs provide some buffer, much of the increase in fertilizer costs will likely be absorbed by farmers in the current planting cycle, as they remain subject to commodity market pricing when they ultimately sell their crops.

Building Materials – Increased Prices

Building materials face cost pressures on two fronts: rising transportation costs and higher production costs driven by energy requirements. Aluminum and steel in particular are expected to see price increases in the medium term, as goods hitting the market today were largely produced before the current energy cost environment took hold. The mitigating factor for steel is that prices remain near five-year lows, providing a cushion that should limit the impact of near-term cost increases relative to other materials.⁸⁶

Retail Sector – Rising Costs, Shifting Spend

Rising energy and shipping costs are poised to raise consumer prices across a broad range of goods, though the severity will vary sharply by category. Grocery prices are expected to be hit first and hardest: food supply chains are less flexible than those for other consumer goods, and rising energy, freight, and raw material costs are compounding at every stage. For example, in the confectionery industry, where ingredients such as sugar, cocoa, specialty fats, and packaging materials all depend on global freight routes passing through the now-disrupted Strait of Hormuz, manufacturers are already warning of shortages and price increases.⁸⁷

For consumers, these higher costs function as a compounding tax: rising gasoline prices reduce household budgets directly, and the pass-through of higher energy and shipping costs into grocery and everyday goods prices squeezes what remains. The National Retail Federation's chief economist, Mark Mathews, has noted that if consumers are spending even \$10 more per week at the pump, the offsetting cuts come from discretionary categories—dining out, entertainment, and travel.⁸⁸ Wolfe Research analysts echoed this, writing that retailers with a heavier discretionary mix, such as Five Below and Target, face particular headwinds as consumers trade down.⁸⁹ In other words, demand for essential goods—food, household basics, fuel—is likely to prove relatively inelastic, with consumers absorbing higher prices because they have no alternative, while discretionary and luxury spending is likely to contract as households redirect limited income toward necessities.

Travel and Leisure – Severe Disruption to Global Aviation

The conflict has delivered one of the most severe shocks to global travel since the COVID-19 pandemic. From February 28th through March 11th, more than 46,000 flights in and out of the Middle East were canceled, disrupting operations at Dubai International, the world's busiest international airport, as well as major hubs in Doha and Abu Dhabi. The World Travel & Tourism Council estimates the conflict is costing the travel and tourism sector at least \$600 million per day.⁹⁰

The damage extends well beyond the Middle East, with fuel costs and airspace closures creating ripple effects across global aviation. Jet fuel surged from \$2.11 per gallon at the start of 2026 to \$3.40 by March 10—a jump of over 60%.⁹¹ Emirates, Qatar Airways, and Etihad jointly account for roughly one-third of passenger traffic between Europe and Asia, meaning airspace and operational disruptions in the Gulf reverberate across intercontinental routes worldwide.⁹²

Impact on Longpoint Tenant Base – Mixed Results Across Sector and Market

These sector-level pressures apply across Longpoint's tenant base. Food and cold storage tenants face compounding cost pressures from rising fertilizer prices upstream and surging energy costs for temperature-controlled operations, even as consumer demand for essentials remains firm. Manufacturers and distributors of retail products and automotive tenants are exposed to higher material and transportation costs, with both types of tenants facing the additional headwind of weakening discretionary spending as households redirect budgets toward necessities. For 3PL tenants, the picture is more nuanced: while operating costs are rising, the broader shift toward supply chain diversification, nearshoring, and larger inventory buffers is driving increased demand for domestic warehousing—a trend that could represent a structural tailwind for logistics real estate if sustained.

From a location perspective, the economic effects of the conflict are not evenly distributed across the United States. Agricultural regions in the Midwest and Great Plains face acute near-term pressure from surging fertilizer and diesel costs ahead of spring planting, and major port-adjacent logistics hubs are absorbing sharp increases in shipping and fuel costs. Longpoint has limited direct exposure to these areas. Where Longpoint is invested, the picture is more nuanced. In California, gas prices have already surged past \$5 per gallon⁹³—and above \$6.50 in San Francisco⁹⁴—compounding affordability pressures and raising operating costs for tenants dependent on energy and transportation. On the other hand, Longpoint's exposure to defense-adjacent industrial corridors, such as Texas and Virginia, positions parts of the portfolio to benefit from the expected ramp in domestic munitions production.

As the conflict evolves, Longpoint will continue to closely monitor its tenant base by industry and market and the broader industrial sectors in which they operate to assess emerging risks and opportunities across the portfolio.





SUMMARY

THE IRAN CONFLICT IS THE LATEST—AND AMONG THE MOST SEVERE—IN A SERIES OF DISRUPTIONS THAT HAVE MADE UNCERTAINTY A DEFINING FEATURE OF THE GLOBAL ECONOMIC LANDSCAPE. THE SIMULTANEOUS CLOSURE OF THE STRAIT OF HORMUZ AND VIOLENCE IN THE RED SEA HAVE DISRUPTED ENERGY SUPPLIES, CONSTRAINED GLOBAL SHIPPING CAPACITY, AND EXPOSED THE FRAGILITY OF SUPPLY CHAINS THAT WERE OPTIMIZED FOR COST RATHER THAN RESILIENCE.

The patterns now emerging—price spikes driven by psychology as much as physical scarcity, inflationary pass-through into the broader economy, and sectoral divergence between energy producers and energy consumers—are consistent with every major oil shock of the past fifty years. And while modern economies have become more resilient over time, history is equally clear that a shock broad enough in scale can still destabilize even the most sophisticated supply chains, leaving marks that long outlast the conflict that caused them.

The conflict shows few signs of a swift resolution, and businesses reliant on global supply chains should prepare for continued disruption. Taken together, these forces are accelerating a fundamental rethinking of whether sprawling, just-in-time supply chains—optimized for cost but with no margin for disruption—remain viable. Increasingly, businesses are arriving at the same answer: they are shifting toward supply chains that prioritize resilience, flexibility, and proximity—building diversified supplier networks, carrying larger inventory buffers, and investing in logistics infrastructure closer to both the end consumer and domestic manufacturing centers.

For real estate, this structural shift has clear and actionable implications. Larger inventory buffers require more warehouse space. Onshoring and nearshoring of manufacturing create new demand for industrial facilities close to domestic labor markets. Increasing transportation costs, coupled with the premium on delivery speed—reinforced by the e-commerce acceleration that preceded this crisis—favors well-located infill warehouse space positioned close to population centers and the factories and distribution networks that supply them. These dynamics are reinforcing a trend already well underway, and the data increasingly supports the outperformance of smaller-format infill warehouses: in Q3 2025, industrial vacancy rates increased with each step up in building size from 25K to 1.2M square feet, reflecting stronger demand for smaller product. Infill markets are expected to outperform bulk markets by 16 percentage points in rent growth over the next three years. And in population centers such as Palm Beach, Orlando, Salt Lake City, and Phoenix, buildings below 100K square feet carry vacancy rates more than 700 basis points below those for buildings above 100K square feet. The Iran conflict did not create these trends, but it is accelerating them in ways that are likely to persist well beyond the current crisis.



Longer term, these structural trends will further intensify the move to keep production and inventory close to consumers. In an increasingly unstable world, globally extended supply chains are exposed to risks that are not new but are now prevalent enough to fundamentally change the calculus: for many companies, the cost savings of offshore production no longer outweigh the operational risk of routing goods through geopolitically volatile corridors. As that calculus shifts, demand will continue to grow for warehouse and manufacturing space positioned close to U.S. population centers—precisely the type of well-located, infill industrial real estate where supply is most constrained.

Each of these sectoral dynamics—defense production expansion, agricultural input stockpiling, retail inventory build-outs, and the broader reshoring trend—in addition to the elevated risks of long-distance global shipping, translates into incremental demand for industrial and logistics real estate. The case for resilient, strategically located industrial space has rarely been stronger.



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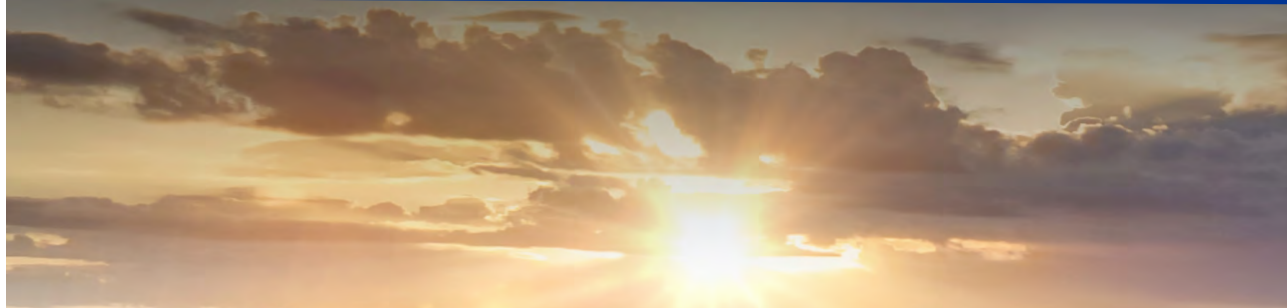
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