

## U.S. STRIKES ON IRAN: NAVIGATING MARKET IMPLICATIONS

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The recent U.S. airstrikes on Iranian nuclear sites represent a serious escalation in the Middle East conflict. While the event introduces heightened geopolitical risk, early signals suggest both the U.S. and Iran are seeking to avoid a broader war. Financial markets have so far reacted in a measured fashion—oil prices have moved higher, and safe-haven assets including the US dollar have seen some buying, but broadly markets remain stable.

The U.S. has described the strikes as a limited and targeted action aimed at disabling Iran’s nuclear capabilities, not the beginning of a wider campaign. Iran is expected to respond, likely through asymmetric or proxy attacks calibrated to avoid provoking a major U.S. military escalation.

One of the most closely watched flashpoints is the Strait of Hormuz—a narrow maritime corridor along Iran’s southern coastline that serves as a critical artery for global energy. Nearly 20% of the world’s daily oil supply flows through the strait, along with a significant share of liquefied natural gas (LNG) exports, especially from Qatar to Asia and Europe. A major disruption would have global repercussions. That said, the U.S. has significantly increased its military presence in the region, deploying additional naval and air assets near the strait to deter escalation. This buildup lowers the likelihood of a direct Iranian attempt to block the waterway, though increased harassment of commercial shipping is possible.

In response to the strikes, Russia and China have condemned the U.S. action but have notably stopped short of offering Iran direct support.

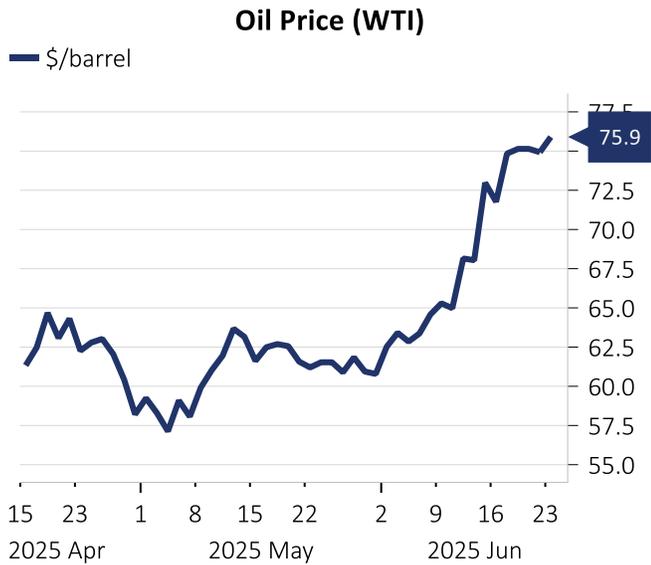
Meanwhile, security measures are being tightened across the U.S. as a precaution, and travel disruptions are emerging as international airlines reroute flights to avoid Iranian airspace and surrounding conflict zones.

From a market perspective, the focus remains on potential energy supply disruptions, global risk sentiment, and the prospect of further escalation. The consequences of sustained higher energy prices would be considerable, potentially straining consumers and weighing on global growth. Over the short-term market volatility is to be expected, and a slightly more cautious posture in portfolios is warranted. That said, the situation could ultimately prove less disruptive than many fear.

On the economic front, higher oil prices raise near-term inflation and reduce real incomes, weighing modestly on consumption. The peak impact on inflation has typically taken 3-6 months to materialize in prior oil shocks. Given that energy represents a smaller share of overall consumption today than in previous decades, higher oil prices are also less likely to significantly reduce consumption in other areas. A \$10/bbl increase could trim U.S. growth by 0.1% after accounting for offsetting energy investment. For Canada, as a net oil exporter, the effect is more neutral to slightly positive due to investment gains and terms-of-trade support.

Looking further ahead, a resolution that curbs Iran’s nuclear ambitions and reduces the threat of wider regional conflict could mark a turning point. If successful, it could lower the long-standing risk premium embedded in energy markets and bring greater stability to a historically volatile region. While that path remains uncertain, it offers a scenario in which current tensions ultimately give way to a more constructive backdrop for both geopolitical risk and global markets.

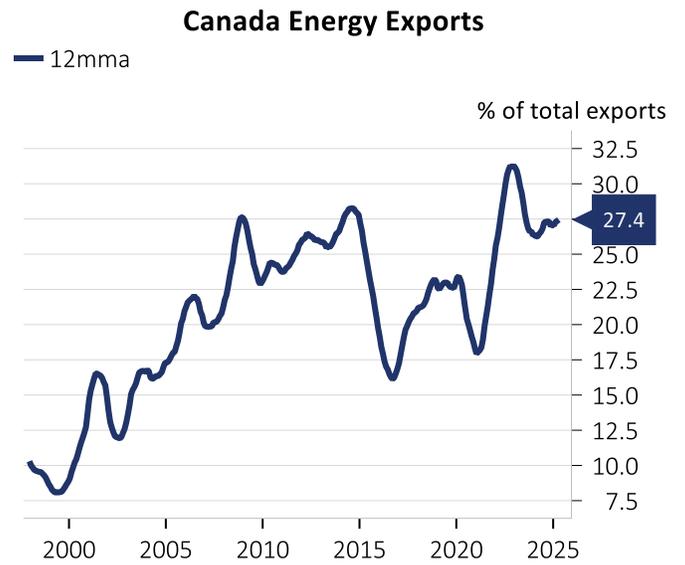
Exhibit 1:



Source: Bloomberg Finance LP, Macrobond  
As of June 22, 2025



Exhibit 2:



Source: Statistics Canada, Macrobond  
As of June 5, 2025





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#### GLOSSARY:

**Correlation:** A statistical measure of how two securities move in relation to one another. Positive correlation indicates similar movements, up or down, while negative correlation indicates opposite movements (when one rises, the other falls).

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