

MACROCOSM

Quick Note on Developments in Iran

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This won't last long. The biggest risk is a Fed error mistaking an oil shock for inflation.

There's no question about how this ends. Iran will lose. Iran has no friends, and what friends it might have had it just lost by shooting missiles at them. No Arab state has condemned the United States. They've all condemned Iran. China just wants oil to flow through the Straits of Hormuz, more than 80% of which goes to Asia. Russia is just glad for a temporary reprieve from low oil prices.

There's some question about how long it will take. But not much, really. It won't be long. So oil prices won't stay high for long. Indeed even now they're not especially high – as of this writing, spot Brent at \$84 is just \$4 above the upper end of our forecasted range for the year (see [“2026 Oil Outlook”](#) December 11, 2025), which is about its average price across 2023 and 2024. One-year Brent is no higher today than it was last March or last June.

We think the risk of some cascading catastrophe here is near zero. Two weeks from now President Donald J. Trump will have moved us to a whole different news cycle. You haven't been thinking about tariffs and the Supreme Court since Saturday, have you? As of this writing, US stocks are lower, having come through yesterday unchanged on the day. But look at the chart. It's all contained in the context of the high-level plateau of the last several weeks.

Will Iran be a better place when this is done? Who knows. Hard to see how it could be worse. That's not important to markets.

The most important thing we see for markets is the clinically insane worry that higher oil prices will be “inflationary” – which has already altered the money-market curve to price out a whole Fed rate cut for 2026.

The Treasury curve is clear on this – of the 16 bp back-up in the 10-year, only 6 bp is explained by the TIPS inflation premium. The risk is that the Fed will make a pro-cyclical move that would tighten policy in the face of an oil shock that is, in fact, recessionary – and therefore deflationary. Or fail to make the appropriate counter-cyclical move. *Supply shocks are by definition not inflationary, people!*

If we're right that this won't last long, then this won't matter.

Update to strategic view

US MACRO, OIL, US STOCKS, FEDERAL RESERVE, US BONDS:

Iran will lose. Iran has no friends, and has indeed made new enemies in the region. China just wants oil. Russia just enjoys higher oil prices. Timing is uncertain, but this won't take long. Brent is only trading slightly above our \$80 price target anyway. There is near-zero risk of cascading catastrophe, with stocks contained in their recent high-level plateau. The biggest risk is the false belief that an oil shock will cause inflation – which has already taken one Fed rate cut out of the money-market curve. This would be a pro-cyclical policy error, because supply shocks are recessionary and therefore deflationary. But this won't last long, so the Fed likely won't have time to make that error.

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