Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

MACROCOSM

Another Quick Note on Developments in Iran

Monday, March 9, 2026

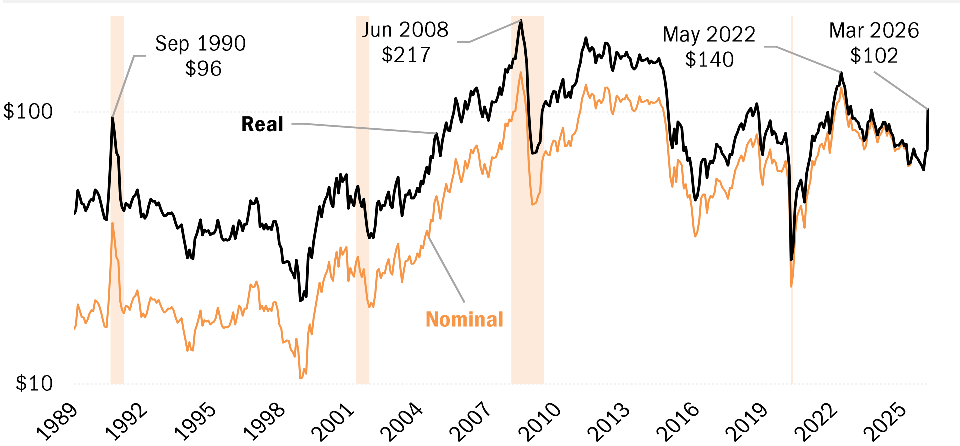
Donald Luskin

The last oil shock that caused a recession was in the First Gulf War. This isn't even close.

Overnight Brent crude front month futures traded as high as $119.50 as Iran selected the son of the former Supreme Leader to be the new Supreme leader. The narrative is that this shows Iran's determination and defiance. Well, we suppose it does, but should anybody be surprised? And *isn't the real question whether Iran's defiance at this point even matters ?*

- But oil shocks matter. Or at least sometimes they do. Actually, mostly they don't.
- Arguably the last oil shock that caused a recession all by itself was the one associated with the First Gulf War in 1990 and 1992 (please see the chart below).

Brend crude (log scale) Recession



Source: TrendMacro calculations

- *Then crude prices almost tripled, at a time when it took more than half a barrel of oil to produce a unit of US GDP. This time, as of this writing, the oil price has not even doubled, and it now takes a quarter of a barrel of oil to produce a unit of GDP. At the same time, US oil consumption now is more domestically sourced*.
- *Things are not quite as precarious as you may think*.
- Yes, of course, there are other dimensions of the potential problem – critical is how long any given oil shock lasts. The First Gulf War was a prolonged boots-on-the-grounds exercise that didn't even get

Update to strategic view

OIL, US MACRO: Brent futures traded at almost $120 last night on a narrative that Iran's new Supreme Leader is a hard-liner who will be determined and defiant. No surprise there. At $102 as of this writing, Brent has risen about 70%. The last time an oil shock caused a recession, in the First Gulf War of 1990-1991, Brent rose more than 150%. Then the US was more than twice as dependent on oil to produce a unit of GDP than it is now, and much less oil was domestically sourced. We don't see this shock as lasting. 12-month Brent futures, as of this writing, at $72 (not even at the $80 upper range of our price forecast for the year), are pointing to a relaxation of tensions. US insurance and escorts may open the Strait of Hormuz sooner rather than later. And Iran's ability to destroy oil infrastructure in the region is limited, subject to a complex analysis with unknowable variables about the relative decay-rates of offensive and defensive capabilities. But as we learned from the 2019 Iran-funded Houthi attack on Saudi facilities, which took out 5% of global oil supply, damage can be quickly repaired.

started for many months from the onset of the crisis. This time, it's a pro-active war from the US standpoint, and it would seem it is being fought pretty much boots-free. *Markets are betting it won't last long*. As of this writing, with front-month Brent at $102, the 12-month contract is only at $73. Even at the worst of last night's panic, when the front month was at $119.50, the 12-month contract was $77.62 – which isn't even up to the top of the range of our price forecast for the year (see "2026 Oil Outlook" December 11, 2025 and "Quick Note on Developments in Iran" March 3, 2026).

- The critical issue for world oil markets is, obviously, Iran's ability to keep the Straits of Hormuz closed to shipping. 20% of the world's oil supply passes through the 24-mile wide chokepoint, 84% of which goes to Asia. *So right off we know that China isn't going to lift a finger to keep Iran in this game – they want the oil.*
- The US has offered to insure transit through the Strait, and is organizing to offer military escorts to commercial ships.
- Iran can, theoretically, damage oil producing and processing facilities throughout the Middle East. *But that which is damaged can be repaired*. The 2019 drone and missile attack on Saudi Arabia's Abqaiq and Khurais facilities by Houthis (funded and supplied by Iran) took out 5% of the world's oil supply – but it was back online in weeks.
- *The critical unknown variable in this risk, though, is the balance of power between Iran's offensive capability and the rest of the world's defensive capability*. Countermeasures against missiles and drones are expensive, and when exhausted cannot be instantly resupplied. But Iran can run out of missiles and drones, too, and the command-and-control structures required to launch them effectively. *With Iran politically isolated from its neighbors in the region and its superpower patrons Russia and China, it's on its own for these resources. The US and Israel are trying to destroy those resources and the infrastructure that might regenerate them.*
- The game theory here is complicated. *Think of it as a battle between the relative decay-rates of weaponry*. We can't know for sure, but *assume Iran has the worse decay-rate. What is Iran's best play?*
- On the one hand, since Iran's relative position will only get weaker, one strategy would be a form of "use it or lose it" in which Iran launches everything right away, hoping to exhaust defensive resources – this, for a while, leveling the playing field. But of what use to Iran is a level playing field if it is out of weapons? Conversely, of what use to Iran is holding some weapons in reserve if the defenders use the gift of time to restock? *It feels to us like Iran doesn't have a good play, unless we are fundamentally wrong in our assumption that it has the worse decay-rate. The "use it or lose it" strategy feels to us like the least bad choice – so in an utter absence of sufficient information to really know, we're going to assume that's what's going on, and that we won't see many more attacks.*

Contact TrendMacro

On the web at
trendmacro.com

Donald Luskin
Dallas TX
214 550 2020
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625

tdemas@trendmacro.com
Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

[About us]

AI podcast version

Click here to listen to an informal podcast version of this report made entirely by artificial intelligence.

Remember – AI can be funky. This is still experimental. Check it out and let us know what you think.

Bottom line

Brent futures traded at almost $120 last night on a narrative that Iran's new Supreme Leader is a hard-liner who will be determined and defiant. No surprise there. At $102 as of this writing, Brent has risen about 70%. The last time an oil shock caused a recession, in the First Gulf War of 1990-1991, Brent rose more than 150%. Then the US was more than twice as dependent on oil to produce a unit of GDP than it is now, and much less oil was domestically sourced. We don't see this shock as lasting. 12-month Brent futures, as of this writing, at $72 (not even at the $80 upper range of our price forecast for the year), are pointing to a relaxation of tensions. US insurance and escorts may open the Strait of Hormuz sooner rather than later. And Iran's ability to destroy oil infrastructure in the region is limited, subject to a complex analysis with unknowable variables about the relative decay-rates of offensive and defensive capabilities. But as we learned from the 2019 Iran-funded Houthi attack on Saudi facilities, which took out 5% of global oil supply, damage can be quickly repaired.