

April 20, 2026

## The Iran conflict: immediate shock, lasting consequences

By Angelo Katsoras

Both sides appear to have strong incentives to accept a ceasefire, as the costs of continued warfare and blockades become increasingly difficult to sustain. In the United States, rising inflation, especially in energy prices, is creating political pressure ahead of the November midterm elections, not to mention that missile stockpiles are fast being depleted. In Iran, pressure is no doubt building to de-escalate to avoid a deeper economic crisis.

However, the wide gap between the parties on major issues — including nuclear enrichment, Lebanon, sanctions, and freedom of passage through the Strait of Hormuz — highlights the fragility of any truce.

That said, pressure from the United States and its allies, as well as major Asian economies such as China and India, could still result in a more durable ceasefire and the gradual reopening of the Strait of Hormuz. Many of these countries rely heavily on this shipping route for imports that are vital to global manufacturing supply chains, including crude oil, liquefied natural gas, liquefied petroleum gas, fertiliser, helium, sulphur and aluminum. China, in particular, has significant influence, having played a central role in supporting Iran in recent years by purchasing the vast majority of its oil exports. However, the risk remains that even a limited outbreak of hostilities could close the strait again.

Even in the best-case scenario, where the ceasefire holds and the strait remains open, heightened security fears and high insurance rates could depress shipping traffic through this waterway for a long period of time. The Red Sea is a useful point of comparison: although Houthi attacks have subsided for now, many vessels continue to avoid the route, instead taking the longer journey around the Horn of Africa. During the first week of 2026, Suez Canal transits were still around 60% lower than during the same week in 2023.<sup>1</sup>

Consequently, the United States will probably need to maintain a substantial military presence in the region to protect shipping through the Strait of Hormuz and support its Gulf allies.

### Gulf States

The Gulf states have drawn important lessons from this conflict:

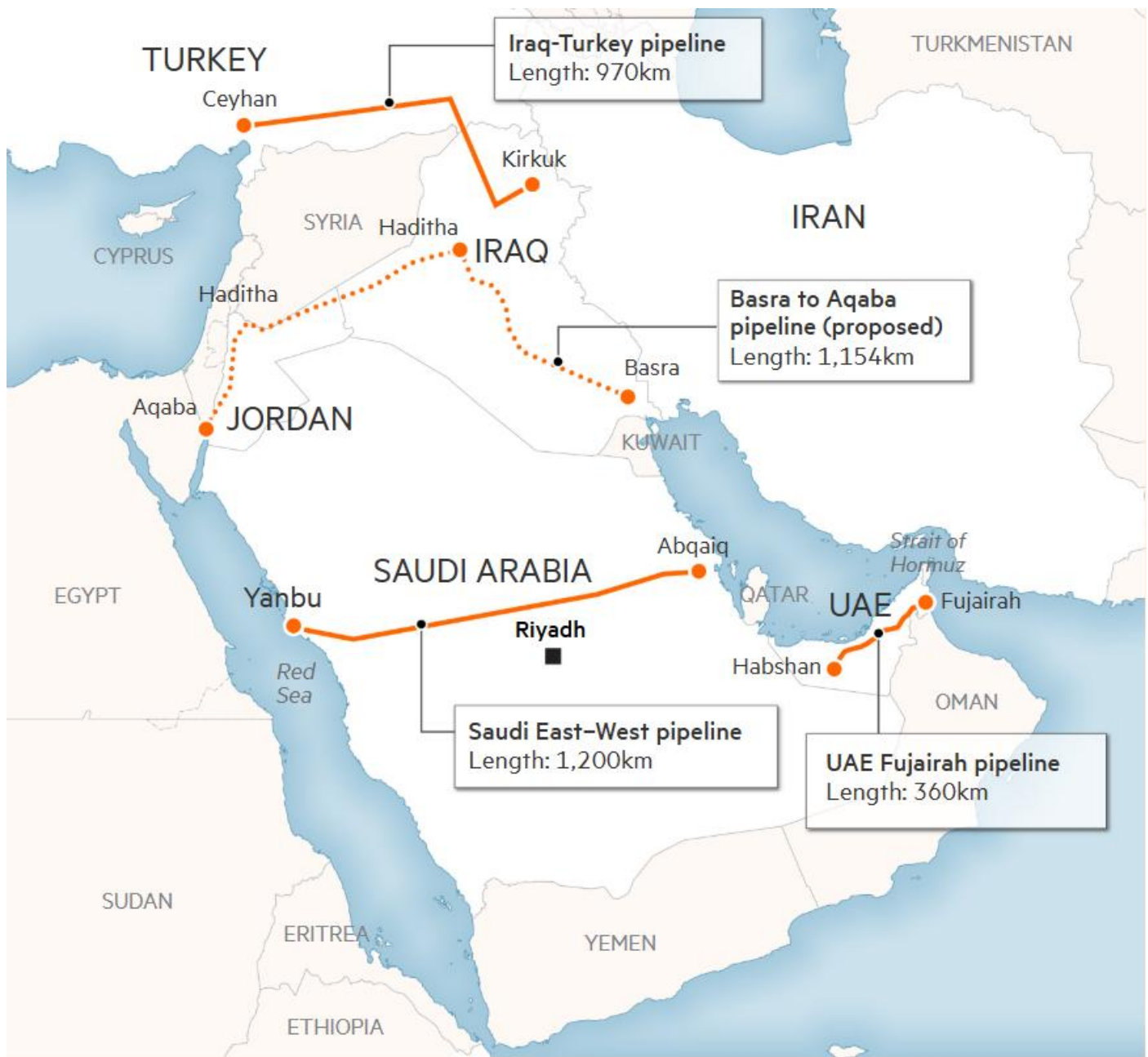
- After spending tens of billions of dollars on expensive weapons systems, they realise that they need more cost-effective ways to counter drones and missiles. This is likely to result in increased funding for lower-cost defensive interception systems. Ukrainian companies, in particular, will benefit thanks to their growing expertise in this area.
- Large sums of capital from sovereign wealth funds will likely be redirected toward rebuilding infrastructure and strengthening domestic resilience, potentially diverting investment away from international markets. Since 2001, the six members of the Gulf Cooperation Council have invested more than \$430 billion, with roughly 75% of that total directed to foreign markets.<sup>2</sup>
- The threat of sustained Iranian interference in the Strait of Hormuz is prompting the Gulf States to draw up plans to expand their pipeline capacity in order to bypass this chokepoint. Indeed, the current conflict has highlighted the strategic importance of Saudi Arabia's 1,200 km East-West pipeline. Built in the 1980s amid fears that the Iran-Iraq war would close the strait, it can transport seven million barrels of oil per day to the Red Sea port of Yanbu. <sup>3</sup> Without this pipeline, the Kingdom's production drop from 10.1 million barrels per day in February to 7.8 million in March would have been much worse.<sup>4</sup> However, the pipeline, Red Sea port and ships remain vulnerable to drone and missile attacks from both Iran and the Houthis.

<sup>1</sup> "Suez traffic still 60% down 100 days after last Houthi attack," Splash247.com, January 8, 2026

<sup>2</sup> "War will drain the Gulf's \$6trn treasure chest," The Economist, April 15, 2026

<sup>3</sup> "Gulf states consider new pipelines to avoid Strait of Hormuz," Financial Times, April 2, 2026

<sup>4</sup> "Middle East oil production plunges due to Iran war, OPEC data shows," CNBC, April 13, 2026



“Gulf states consider new pipelines to avoid Strait of Hormuz,” Financial Times, April 2, 2026

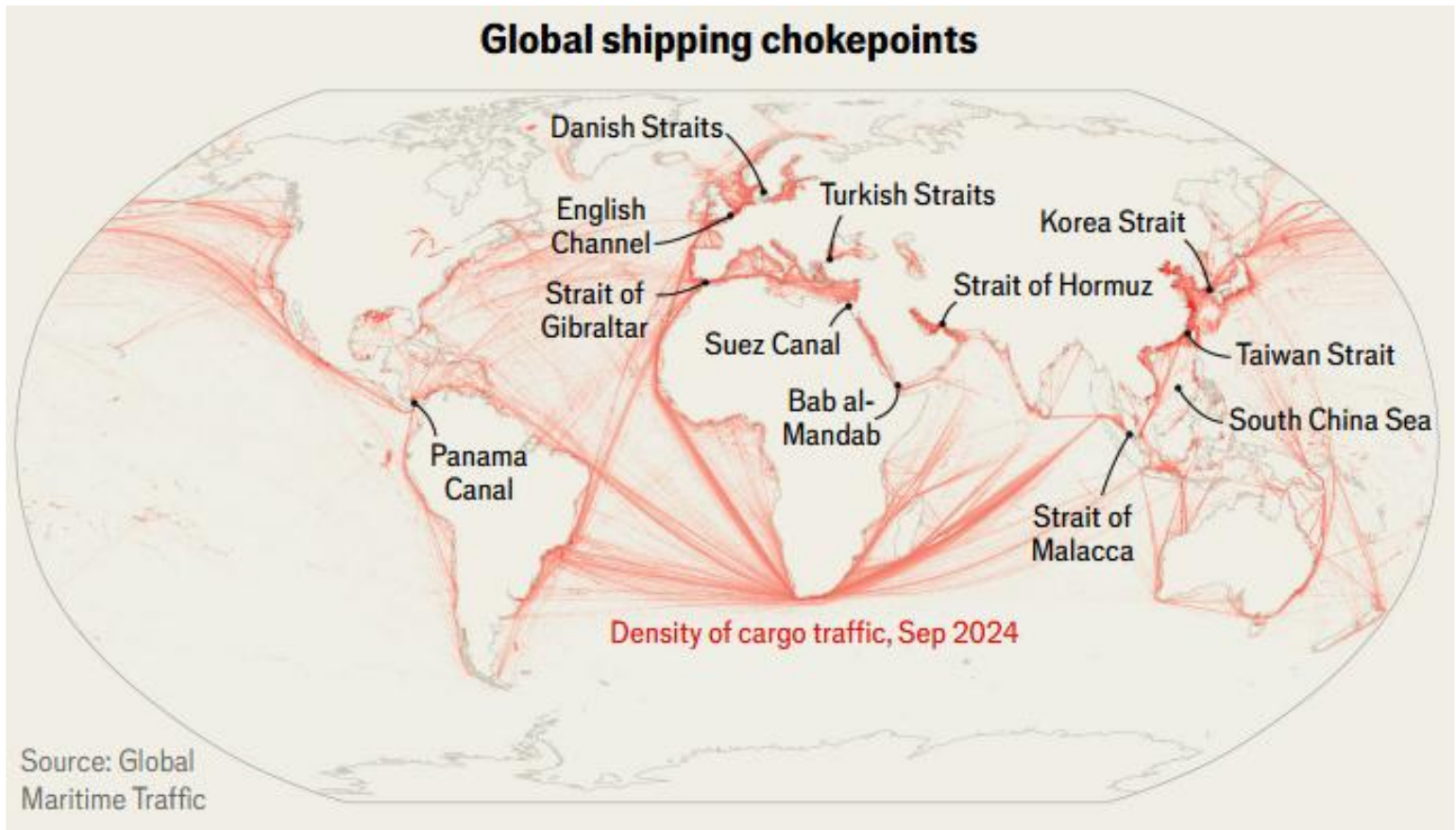
## Lasting consequences on supply chains

For decades, the focus of supply chain design was efficiency. Companies reduced costs by concentrating production in an ever-decreasing number of locations. In the semiconductor industry, for instance, the number of companies capable of producing state-of-the-art chips plummeted from over 25 in 2000 to merely three today.<sup>5</sup> The most advanced chip-making equipment is supplied by a single Dutch company, ASML, while the refining and processing of rare earths remains overwhelmingly concentrated in China.

The conflict in Iran has reinforced trends that were already being accelerated by great-power rivalry, protectionism and the war in Ukraine. These include reshoring and regionalisation of supply chains, a greater emphasis on backup infrastructure, and the strategic stockpiling of essential goods such as oil and gas, critical minerals, and medicines. It is also likely to intensify concerns about geopolitical flashpoints near key maritime supply chain chokepoints and the risks they pose to global trade and supply chains. This matters because about 85% of the world’s exports by volume are still carried by ships.<sup>6</sup> While these measures may improve supply security, they also significantly increase costs.

<sup>5</sup> “Chipmaking is being redesigned. Effects will be far-reaching,” The Economist, January 23, 2021

<sup>6</sup> “Hormuz is not the only weak spot for global trade,” The Economist, March 26, 2026



Source: "Hormuz is not the only weak spot for global trade," *The Economist*, March 26, 2026

It is also important to note that repairing the damage to infrastructure in the Gulf region will take time. For example, Al Taweelah, an aluminum smelter in the United Arab Emirates, produced nearly 10% of the global supply until recently. However, an Iranian strike forced the plant to shut down, and the metal has since solidified in the smelting pots. The owners estimate that it could take up to a year to restart production.<sup>7</sup>

## Conclusion

The latest events in the Strait of Hormuz highlight how war and protectionism are reshaping global trade and investment. As a result, regionalisation, diversification, stockpiling and redundancy are becoming defining features of supply chains. This shift prioritises security and resilience over efficiency, increasing costs and adding political complexity for firms.

This shift is granting governments a greater say in capital allocation, as efficiency and comparative advantage are becoming less important than national security concerns. In this higher-cost environment, investors will need to consider the pricing power of companies. If this power is limited, then the next factor to consider is their ability to secure subsidies or obtain tariff protection.

However, these developments are unfolding at a time when many Western countries are already heavily in debt and struggling to rebuild their defence capabilities without provoking political backlash by cutting social programs. Consequently, higher defence spending, industrial policy and reshoring are likely to increase the cost of capital and widen the term premium on government debt.

<sup>7</sup> "The third Gulf war will scar energy markets for a long time yet," *The Economist*, April 8, 2026



## Economics and Strategy

### Subscribe to our publications:

[NBC.EconomicsStrategy@nbc.ca](mailto:NBC.EconomicsStrategy@nbc.ca)

### To contact us:

514-879-2529

#### Stéfane Marion

Chief Economist and Strategist

[stefane.marion@nbc.ca](mailto:stefane.marion@nbc.ca)

#### Matthieu Arseneau

Deputy Chief Economist

[matthieu.arseneau@nbc.ca](mailto:matthieu.arseneau@nbc.ca)

#### Jocelyn Paquet

Senior Economist

[jocelyn.paquet@nbc.ca](mailto:jocelyn.paquet@nbc.ca)

#### Kyle Dahms

Senior Economist

[kyle.dahms@nbc.ca](mailto:kyle.dahms@nbc.ca)

#### Alexandra Ducharme

Senior Economist

[alexandra.ducharme@nbc.ca](mailto:alexandra.ducharme@nbc.ca)

#### Daren King, CFA

Senior Economist

[daren.king@nbc.ca](mailto:daren.king@nbc.ca)

#### Warren Lovely

Chief Rates and Public Sector Strategist

[warren.lovely@nbc.ca](mailto:warren.lovely@nbc.ca)

#### Taylor Schleich

Rates Strategist

[taylor.schleich@nbc.ca](mailto:taylor.schleich@nbc.ca)

#### Ethan Currie

Strategist

[ethan.currie@nbc.ca](mailto:ethan.currie@nbc.ca)

#### Angelo Katsoras

Geopolitical Analyst

[angelo.katsoras@nbc.ca](mailto:angelo.katsoras@nbc.ca)

#### Nathalie Girard

Senior Coordinator

[n.girard@nbc.ca](mailto:n.girard@nbc.ca)

#### Giuseppe Saltarelli

Desktop Publisher

[giuseppe.saltarelli@nbc.ca](mailto:giuseppe.saltarelli@nbc.ca)

**General:** This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of CIRO), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

**Canadian Residents:** NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.

**UK Residents:** This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

**EU Residents:** With respect to the distribution of this report in the member states of the European Union ("EU") and the European Economic Area ("EEA") by NBC Paris, the contents of this report are for information purposes only and do not constitute investment advice, investment research, financial analysis or other forms of general recommendation relating to transactions in financial instruments within the meaning of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MiFID 2"). This report is intended only for professional investors and eligible counterparties within the meaning of MiFID 2 and its contents have not been reviewed or approved by any EU/EEA authority. NBC Paris is an investment firm authorised by the French Prudential Control and Resolution Authority ("ACPR") to provide investment services in France and has passported its investment services throughout the EU/EEA under the freedom to provide services and has its registered office at 8 avenue Percier, 75008 Paris, France. "NBC Financial Markets, a subsidiary of National Bank of Canada" is a trade name used by NBC Paris S.A.

NBF is not authorised to provide investment services in the EU/EEA.

**U.S. Residents:** With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only. This report is not subject to U.S. independence and disclosure standards applicable to research reports.

**HK Residents:** With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

**Copyright:** This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.