



War In Iran

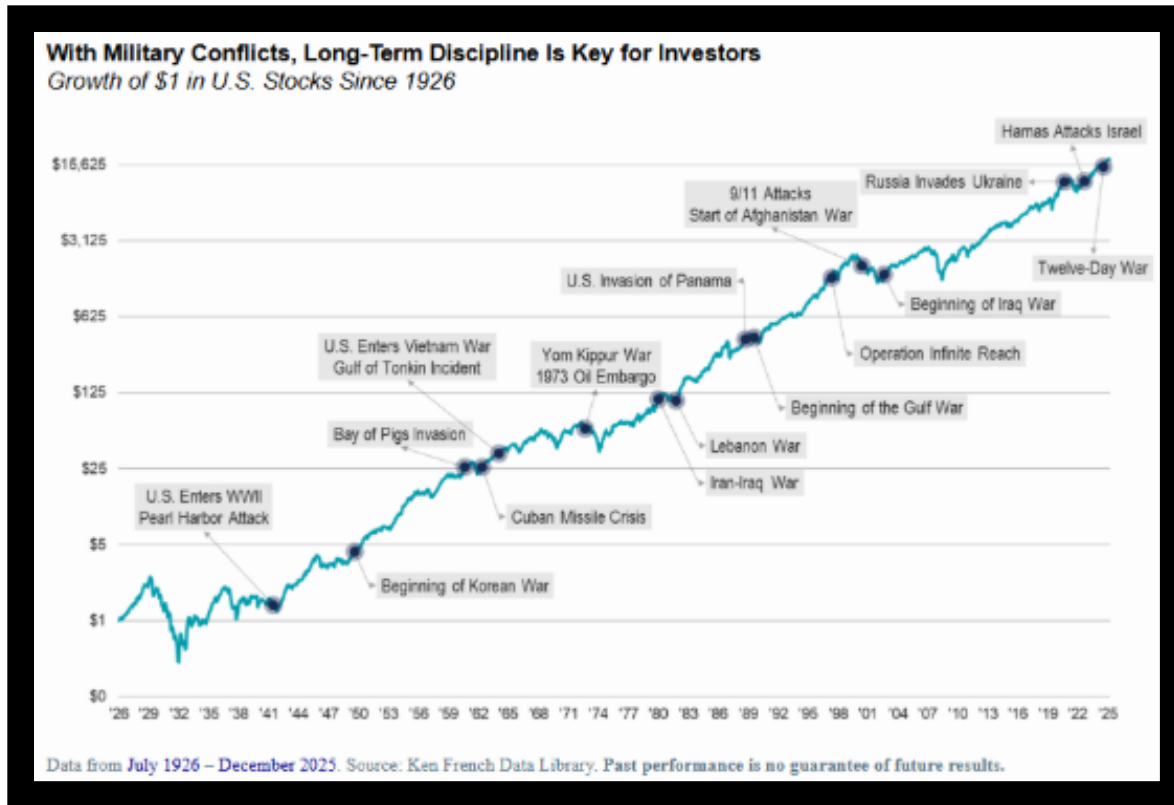
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The Department of Defense was renamed the Department of War on September 5 of last year, and it has been living up to its new name, most recently with military action in Iran. As missiles and drones fly all over the Middle East, analysts are assessing how the war will impact the American economy.

The immediate focus is on oil prices, which immediately rose from \$70 a barrel to \$80. Iran is the fourth-largest producer of oil within the OPEC bloc, sending just under 3.5 million barrels a day into the global economy. Most of that goes to China, however, as the U.S. is largely energy independent. More problematic, the conflict in Iran has closed the Strait of Hormuz, which is a chokepoint between the Persian Gulf and pretty much everywhere else. That means countries like Saudi Arabia are also cut off, reducing the supply by an additional 15 million barrels a day.

Reduced supply will lead to higher prices; some analysts are already predicting oil prices to reach \$100 a barrel, which would raise production costs and immediately add 0.6 percentage points to global inflation. You can expect to see this at the pump in the next week or two.

A bigger impact is uncertainty. Chances are, you're feeling it now. Where is this going? How is it going to end? The Middle East has traditionally been a tinderbox always ready to erupt into regional conflict, and the recent military actions are like tossing in a match. Corporate decision-makers and the markets both dislike uncertainty, particularly when it may involve cyberattacks, terrorism and proxy forces launching unpredictable attacks wherever they can.



Add to that the unpredictability of U.S. policy under President Trump, who has now taken aggressive action against Venezuela and Iran without clear provocation, and who has previously launched strikes in Somalia, against Yemen, and threatened military action in Cuba and Greenland. The best-case scenario making the rounds among economists is that the Iranian offensive will be short-lived and lead to lasting peace. The markets would likely shrug off that scenario. But with the newly named Department of War flexing its muscles around the world, the markets may be in for a bumpy ride.

Sources:

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