HILBERRY GROUP
WEALTH MANAGEMENT

March 27, 2026

The Iran effect

"God created war so that Americans would learn geography" – Paul Rodriguez

In our Feb 20, 2026 edition, with the Trump Administration threatening Iran, we pointed to potential outcomes of such a conflict. From that edition, we're reposting a Bloomberg matrix of potential outcomes of an attack on Iran.

Synopsis of Middle East Scenarios
Scenario descriptions, assumptions and stakes

Scenario (Probability)	Example Events	Impact on Oil Prices	Impact on the Global Economy
No impact on oil prices (Medium)	Conflict in Gaza, Houthi attacks in the Red Sea, developments in Lebanon and Syria, domestic instability in non-oil-producing regions	N/A	N/A beyond potential shipping disruptions caused by Houthi attacks
Temporary oil price spikes (Medium)	Israel-Iran conflict that doesn't target energy facilities, assassination or deposing of Iran's supreme leader, limited strikes on regional oil facilities that are quickly repaired	Temporary spikes	Limited
Large, lasting spikes in oil prices (Low)	Israeli strikes on Iranian oil facilities, Iran retaliates by attacking Gulf oil fields and/or closes the Strait of Hormuz, Iranian or Israeli strikes on Iraqi energy infrastructure, major domestic instability in oil-producing regions	Prices could spike as much as 80%	Slower global growth, higher inflation, pressure to adopt more hawkish monetary policy

Source: Bloomberg Economics — Bloomberg

Note the 3rd entry – deemed 'Probability Low' That low likelihood ranking probably assumed rational thinking from all parties involved. Wrong! With the conflict now entering the 5th week, oil prices have spiked sharply. Supply is the problem.

The 1970's Arab Oil Embargo saw a sharp rise in energy costs, driving inflation into double digits. Reacting to rampant inflation, Cost Of Living Allowance (COLA) clauses became common in employee contracts, leading to an inflation feed-back loop. As energy costs rose, inflation increased, COLA clauses bumped up employee pay, further increasing costs. The rise in costs destroyed economic demand leading to four recessions. After 'wage and price controls' failed, central governments had no immediate answer. [The 1977 US Federal Reserve Reform Act]() added controlling inflation to the Fed's mandate. Paul Volker was appointed Fed Reserve Chairman in 1979. He went about attacking inflation with a vengeance. Under Volker the Fed Funds rate hit 20% in 1980. Prime was over 21%. [Two back-to-back 'double dip' recessions occurred in 1981-82]() . Those four recessions in 11 years can all be traced back to sharply rising energy costs. Graduating from high school in 1975, I came of age during this period. Being a newly minted job seeker in 1976 was no fun. The cost of messing with energy is a deeply engrained memory.

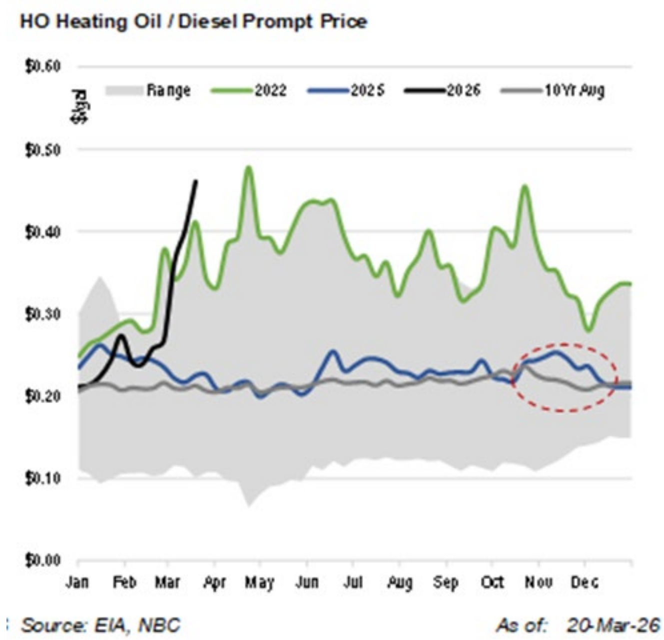
Motorists jockey for position at an L.A. gas station in February 1974. (Cal Montney / Los Angeles Times / UCLA Library)

Are we facing a similar decade? In last week's commentary we pointed to NBF's review of oil prices and inflation ([Market View - Crude Language: Investor discretion is advised]()).

Unlike the 1970's, the integration of energy supplies between US, Canada and Mexico, (before Donald Trump arrived) has North America as energy supply self-sufficient. We are unlikely to see block-long lineups at gas stations. Energy self-sufficient is not energy price independent. Canada produces much more energy that it consumes. The US excess production above its current consumption is regularly touted by Donald Trump but this could prove illusory as shale oil formations draw down. Energy prices are global. Higher energy costs probably won't have the full 1970's effect but it will still hurt consumers, who vote accordingly. There is a strong political motivation to wind this thing down.

Despite much bellowing, snorting, and pawing the ground for their home audiences, both sides need a way out. 57% of Iran's export revenues (and probably an even higher proportion of the corrupt IRGC's incomes) come via energy sales. 65% of oil sales go directly to the government budget. 90% of those exports flow from Kharg Island. Iran REALLY wants this conflict to end. This is also an existential risk for Mr. Donald Trump. US voters will toss politicians over high fuel costs. It's already a problem. It may get a lot worse.

US HO Heating oil/Diesel futures price

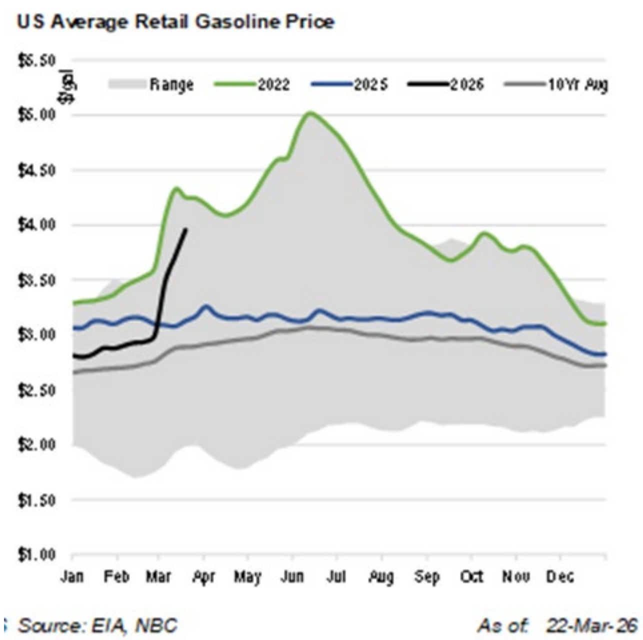


In January, 2026, prior to Mr. Trump's decision to attack Iran, the average New York Harbor Ultra-Low Sulfur Diesel (HO ULSD: price before at-the-pump taxes and retail mark-up) January 2026 contract price was $2.11 per gallon. January 2026 the average US on-highway retail diesel price was approximately $3.52 per gallon – reflecting a $1.41 spread to HO-ULSD.

The current HO ULSD April 2026 contract is $4.08. This week's US on-highway retail diesel prices averaged $5.38 per gallon (well above the 10-year average EIA). Current retail prices are $1.30 over the HO ULSD contract price. Retailers haven't fully passed on the higher wholesale prices…yet.

The HO ULSD December 2026 contract is $3.02. The futures market is pricing for a quick end to the Iran conflict but a lingering effect on diesel prices. Assuming an approximate $1.40 retail spread, the current December 2026 futures price implies $4.42 on-highway retail diesel prices / +25.5% from January 2026 prior to the Iran conflict and up 23% from October, 2024 pre-Trump election Nov 5, 2024. An end to hostilities may not mean an end to the 'Iran effect'. We suspect US diesel prices could be higher than $4.50 in the 4th quarter. Gasoline price are likely to be stick too…just in time for the US Congressional mid-term elections.

US average retail price per US Gallon: Approaching $4.00



Futures price source: CME Group as of March 26, 2026 mid-session

High fuel prices could hand both houses of Congress to the Democrats, raising the spectre of Presidential impeachment. Donald Trump's huffing and puffing belies his need for a way out. Our bet is some kind of climb down happens. Markets are betting the same. In passing we wouldn't be surprised to see bus tire tracks on the current Secretary of War.

Or...maybe they'll all completely lose it; Iran hits more tankers. Trump bombs Iran's gas fields, and occupies Kharg Islan, Iran digs in and continues to attack their neighbors, who join the fray. Oil prices go to $200. We have a 1970's style stagflation/with associated market crash. We don't see this, but we're aware of the potential. We've hedged our optimism the adults will arrive by focusing on Canada (see below).

'Why wars are easy to start and hard to end' Foreign Policy – Aug 29, 20222

(requires free subscription to access)

Written in late summer 2022, this article should have been required reading in Washington.

Why wars are easy to start and hard to end' - Foreign Policy

Economics and Strategy – Mar 24, 2026

Monthly Equity Monitor - March 2026: Oil shock redux?

Highlights

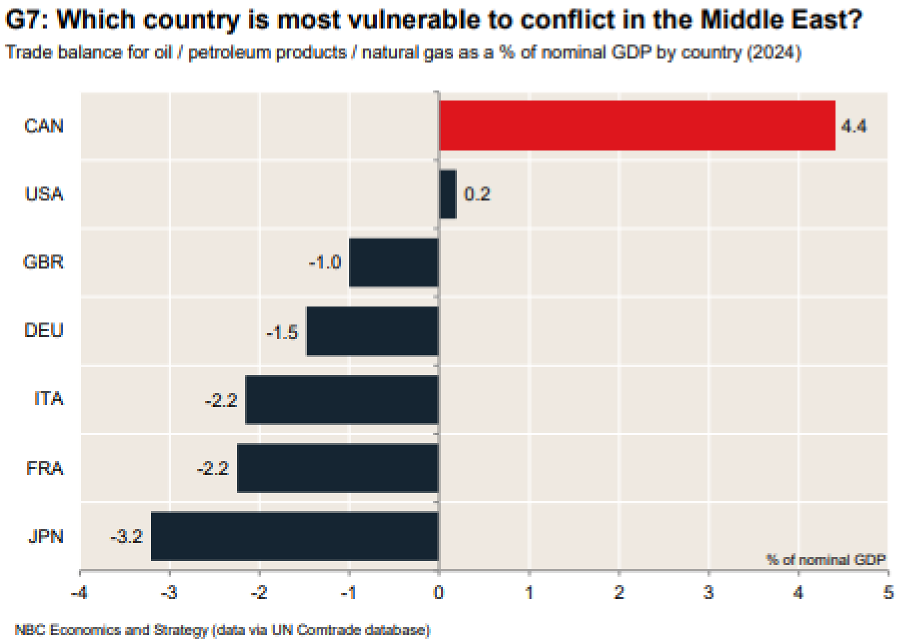
- *Almost four years after the February 24, 2022 oil shock triggered by Russia's invasion of Ukraine, the world economy was hit by a new supply disruption on February 28, 2026, when the United States and Israel launched strikes on Iran. While this conflict differs in important ways from the Russo-Ukrainian war, the surge in oil prices is already reviving unwelcome memories of the 2022 bear market for equity investors.*
- *The S&P 500 is down 5.0% year-to-date, a decline broadly similar to that seen in early 2022. The sectoral backdrop appears more fragile this time, however, with a larger number of sectors already in correction territory, including Financials (-11.0%) and Consumer Discretionary (-10.6%). Even the all-important Technology sector is down 8.5%, despite the 10-year Treasury yield having risen only 23 basis points so far this year.*
- *The S&P/TSX is proving more resilient, with the composite down just 1.2% year to date as of March 20. That outperformance echoes the pattern seen in 2022, when the TSX fell 8.7% over twelve months versus 19.4% for the S&P 500, largely owing to its heavier commodity exposure and lighter technology weighting. In 2026, that same composition is once again working in Canada's favour. On the energy side, valuations in the S&P/TSX Energy sector have climbed to 24 times forward earnings, well above the roughly 10-times average seen in 2022-2023. Canadian energy stocks are now trading at roughly a 20% premium to their U.S. counterparts for the first time in over a decade*
- *We are recalibrating our asset mix this month by fully unwinding last month's risk addition, moving the exposure added to Europe and emerging markets back into cash. The escalation in the Iran war has materially increased downside risks to global growth and, in the IEA's words, is creating the largest supply disruption in the history of the global oil market. History offers little comfort here: major oil shocks have typically coincided with S&P 500 bear markets, even if oil alone was not the sole cause.*

Monthly Equity Monitor - March 2026: Oil shock redux?

Monthly Economic Monitor Economics and Strategy

Canada: Yet another layer of uncertainty – March 24, 2026

Our Economics team sees a mixed bag over the next year. They conflicting forces leading to 'meh' We advise holding this chart in mind (see original on page 1 in the link below)".



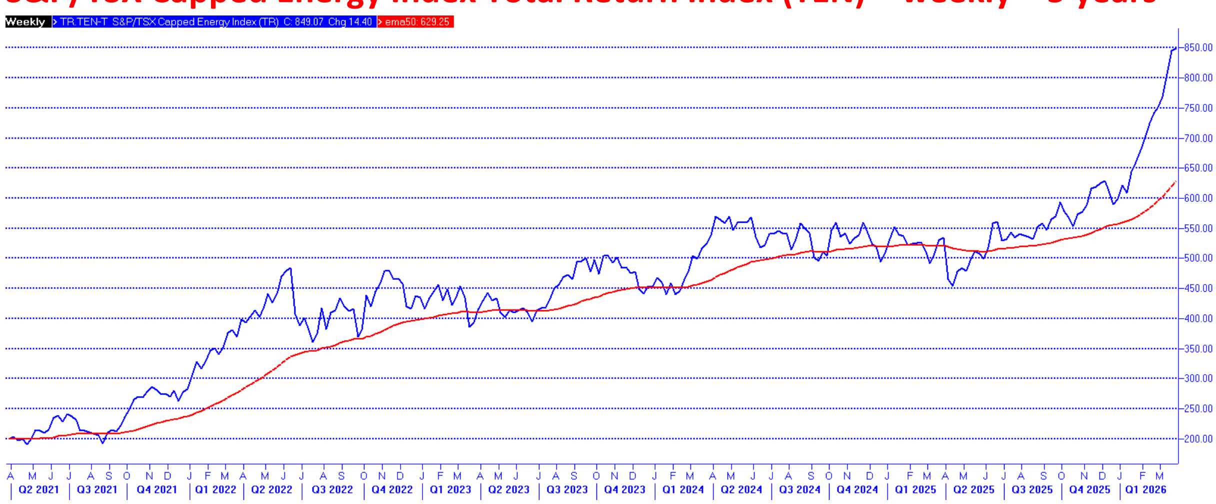
[Monthly Economic Monitor - Canada (March 2026): Yet another layer of uncertainty]

Hiring or firing? It depends what survey you ask

[Market View - Hiring or firing? It depends what survey you ask]

We've been pounding the energy drum for years. Investors finally appear to agree.

S&P/TSX Capped Energy Index Total Return Index (TEN) – weekly – 5 years



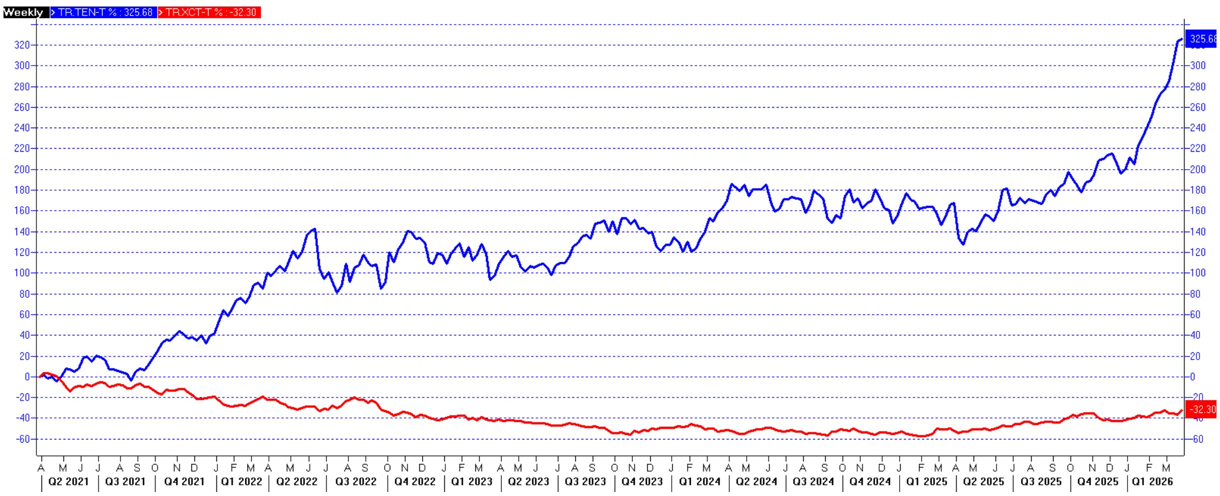
Source: LSEG, NBF, Hilberry March 24, 2026

March 26, 2021 the TEN index closed at 199.46. March 24, 20264, 2026 close 849.07. The index has climbed over 4-fold in the past 5 years. Investors have closed the past decade's Canadian energy valuation gap.

We had to ask.

Given the past decade Canadian Federal and Provincial Govt focus on Green-tech/ESG themed investments, how did that work out for investors?

5 years % Return: TSX Capped Energy (TEN +325%) vs TSX Renewable Energy (XCT -32.3%)

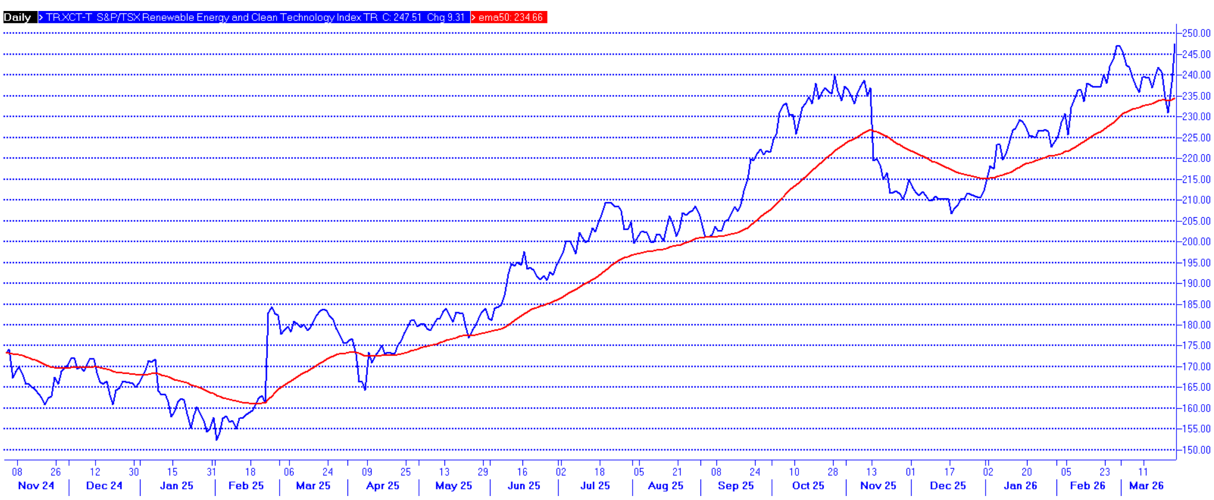


Source: LSEG, NBF, Hilberry March 24, 2026

Ouch!

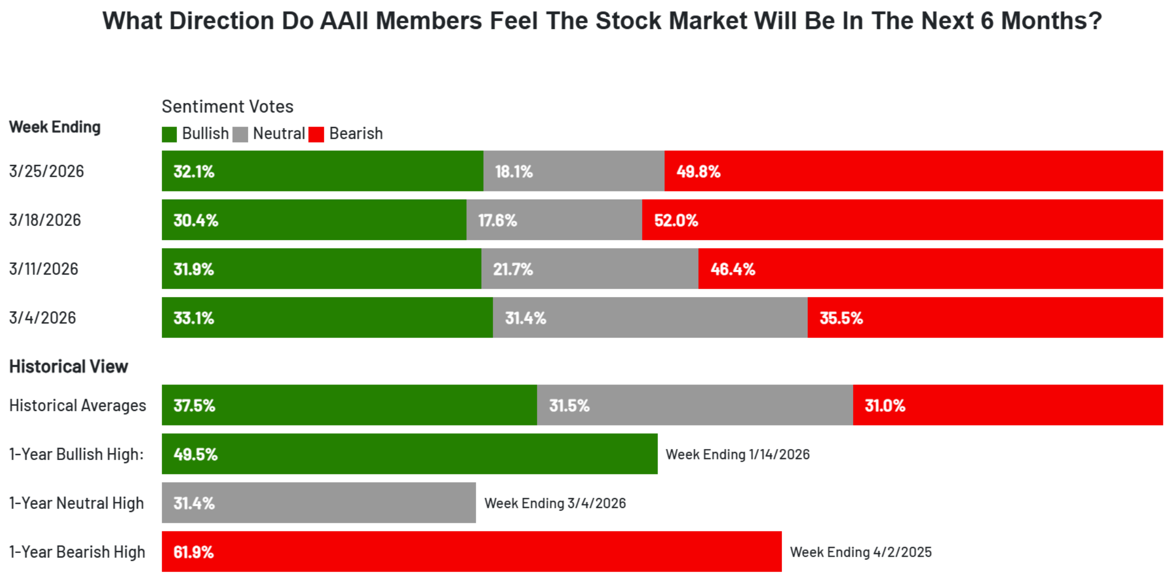
The long walk in the desert might be over the Green Technology investors. The XCT index has climbed steadily since (despite?) the election of Donald Trump. We're paying attention.

S&P/TSX Renewable Energy and Clean Technology Total Return (XCT.TR 247.51) daily Nov 4, 2024



Source: LSEG, NBF, Hilberry March 24, 2026

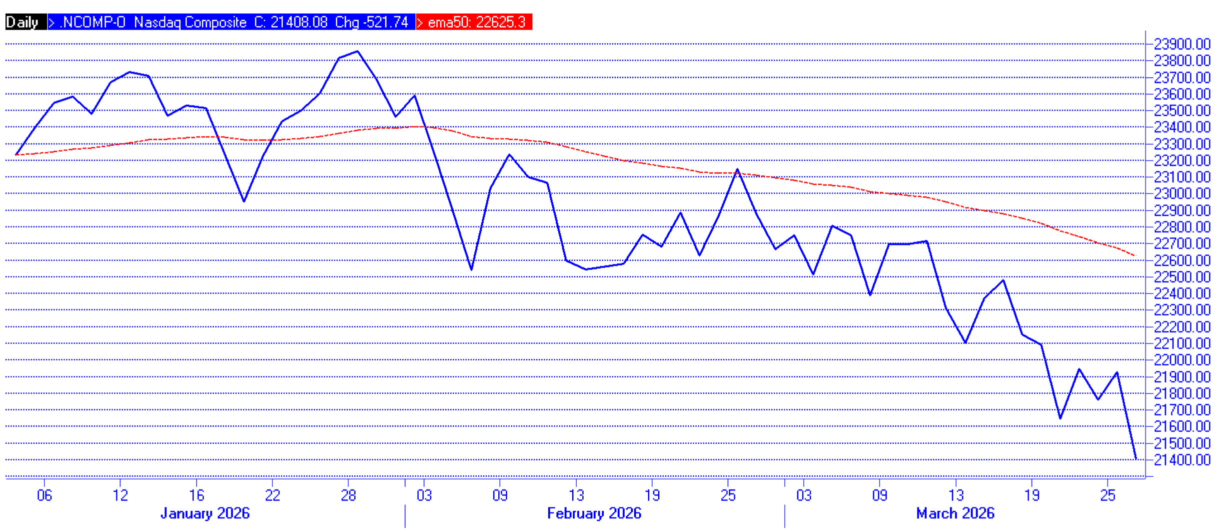
What do retail investors think?



Source: AAII Sentiment Survey, Wed March 25, 2026

AAII Bull/Bear readings are approaching the 'Liberation Day' April/2025 tariff panic readings. This week saw the tech-heavy NASDAQ fall into a 10% 'correction'.

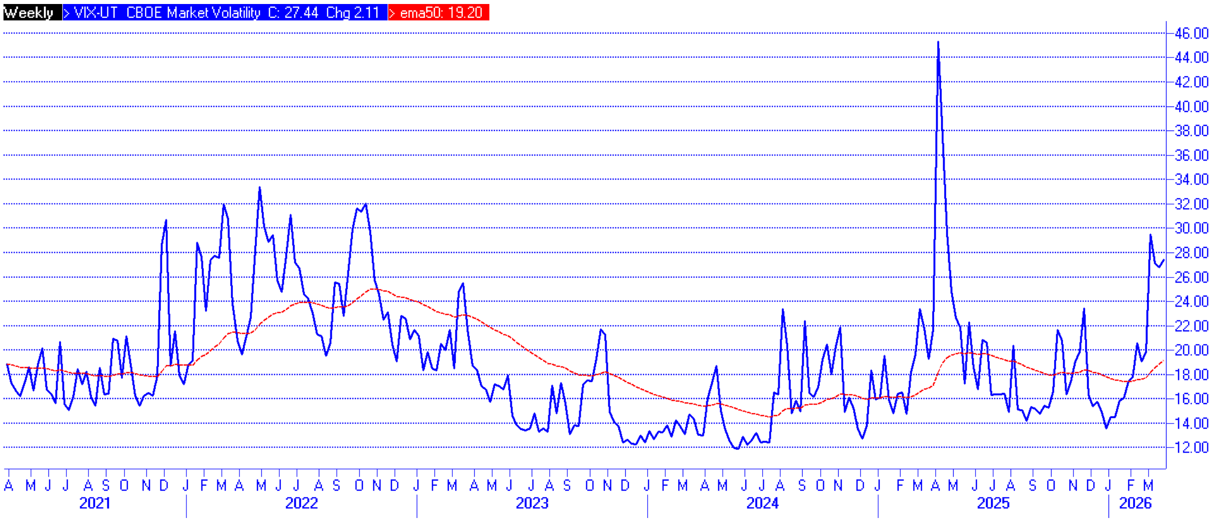
NASDAQ Composite (NDSQ-21,408) daily ranges, year to date March 26, 2027



Source: LSEG, NBF, Hilberry Mar 26, 2026 close

Volatility is up.

CBOE Volatility Index (VIX-227.44) weekly ranges – 5 years



Broadly bearish, more worried than confident, the herd is not suffering from irrational exuberance. These are classic BUY signals but…we're in an unusually binary scenario. If (if) geopolitics settle down, we could see surprisingly strong equity market returns. That outcome requires adults to enter the room (!?). We're cautiously optimistic.

Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD Mar. 26, 2026 close

DOW INDUSTRIALS:	45,960
S&P 500:	6,477
S&P/TSX COMP:	31,887
WTI:	$93.67
LOONIE IN $USD:	$0.7214 $US

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