

Credit Conditions:

# Credit Conditions Special Update: Conflict In Middle East Casts New Light On Established Risks

March 5, 2026

*(Editor's Note: S&P Global Ratings believes there is a high degree of unpredictability around the duration and scale of the Middle East war, and its potential effect on commodity prices, supply chains, economies and credit conditions. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential shifts and reassess our guidance accordingly.)*

This report does not constitute a rating action.

## Key Takeaways

- The escalation of U.S.-Israeli joint strikes against Iran materially heightens geopolitical risk, with the potential—depending on duration and scope—to disrupt energy markets, supply chains, and global credit conditions well beyond the end of the strikes.
- While market conditions have normalized rapidly after recent geopolitical events, the extent of this conflict appears to be different, with some credit impact inevitable. The key question will be whether these effects remain localized or become more pervasive.

The coordinated U.S.-Israeli military strikes on Iran underscore the fragility of geopolitical stability and, depending on duration and scale, could have long-lasting effects on commodities and financing conditions, global supply chains, and macro-credit conditions more broadly.

Our base-case scenario remains that military confrontation will be relatively short-lived—with the most intense part lasting around two to four weeks—recognizing that broader spillovers and intermittent security incidents could extend beyond this period (see "[Scenario And Sensitivity Analysis: Credit Implications Of The Middle East War](#)", published March 5, 2026). However, statements from the Trump administration have suggested U.S. military operations could last a month or more, and the nature of U.S.-Israeli objectives—while not explicitly articulated—appear far broader than those relating to the 12-day war in June 2025. And because the current conflict is effectively existential for Iran, it seems likely it will continue to retaliate as readily as it can. This will include targeting critical infrastructure such as energy facilities, airports, and ports across the region, raising questions about the extent of economic disruption, even beyond any resolution to the conflict. There is also a risk that intermittent security incidents or asymmetric actions could weigh on confidence in the resumption of commercial shipping through the Strait of Hormuz.

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Brent oil prices jumped more than 15% to \$84 per barrel (/bbl), returning prices to the peak in June 2025 when the U.S. attacked Iran's nuclear facilities. Volatility in the equity market also increased, even as the reaction in secondary credit markets has been fairly subdued. S&P Global Ratings expects the effective closure of the Strait of Hormuz (through which about one-fifth of the world's oil and liquefied natural gas [LNG] passes) to be temporary. However, we estimate that a scenario in which an effective closure lasts for longer than a few weeks could push oil prices to well over \$100 and spot LNG prices could squeeze above €100 per megawatt-hour (/MWh) for Title Transfer Facility (TTF) gas, for instance. (see "[Middle East Conflict: GCC Energy Value Chain Shows Exposures](#)", March 3, 2026 and "[What The Military Conflict With Iran Could Mean For Hydrocarbons](#)", March 3, 2026).

Depending on how events unfold, credit impacts in various regions and sectors could materialize via different channels:

- Durably higher commodity prices and prolonged disruption to supply chains would have an uneven impact on corporate sectors such as transportation, logistics, industrial and petrochemicals, and agriculture, adding to input costs and weighing on some companies' earnings and credit quality.
- An increase in investor risk-aversion could push all-in borrowing costs higher and make it harder for borrowers at the lower end of the ratings ladder and in emerging markets to find favorable terms to refinance maturing debt or for working capital.
- Consumer spending, which has been key to economic resilience in many jurisdictions, could also take a hit. It would also underpin inflation and affect exchange rates, which could affect policy interest rates.

### How do the strikes affect our view of the key risks to credit conditions?

A short-lived military confrontation would have contained, albeit uneven, credit repercussions. If the bulk of military strikes and related retaliation ends within around two to four weeks, safe passage through the Strait of Hormuz chokepoint resumes, and critical infrastructures do not incur lasting damage, the oil price spike could be contained and short-lived, taming inflation, and market confidence would likely return. That said, credit conditions in some industries, particularly in the Middle East, would still come under more durable strain.

Key drivers to watch will be the duration and scope of the conflict and extent of permanent damage to critical infrastructure. Uncertainty around the duration of the conflict, supply chain and trade disruption (especially in commodities/energy markets), damage to critical infrastructure in the region, and the ongoing threat of low-cost, high-impact terrorist attacks (cyber and otherwise) around the world will shape how the above risks play out. Previous military events in the region were typically short-lived, and damage to critical infrastructure—including in the energy sector—rapidly repaired. This limited the spillover to global credit conditions, especially amid excess oil supply. The extent of this conflict appears to be different, with some credit impact inevitable. The key question will be whether these effects remain localized or become more pervasive.

Recent events are a major escalation and feed directly and indirectly into key credit risks. We've been identifying geopolitical tensions, and their threat to supply chains and commodity markets, as the top risk to global credit conditions for some time. Policy uncertainty, including trade, our other top risk, is less immediately at play but closely related to the ongoing geopolitical reshuffling (see "[Credit Conditions: Credit Conditions Special Update: Policy Risk Remains After U.S. Tariff Ruling](#)", published Feb. 23, 2026). Pressures in this field could surge again once the

military conflict dissipates somewhat, and as key U.S. elections approach. Another key risk is a possible market correction that would also shake credit markets, which the Middle East war could ignite. Recent bouts of AI-related market anxiety have exposed new vulnerabilities, including in the rapidly growing private markets where transparency and liquidity are more limited. Finally, resilient private-sector balance sheets have upheld the economic growth of many economies. Inflationary pressure and a loss of confidence could fracture this pillar of economic resilience.

## **What to watch and what are the sectoral credit transmission channels?**

The spillover effects from the war across sectors vary. They range from direct impacts such as higher energy prices to second- and third-order effects such as potentially higher borrowing costs and declining consumer appetite for large discretionary purchases. Proximity to the war is still an important variable for credit, with certain sectors like airports, ports, hotels and tourism, and real estate in the Middle East region among the first to face credit pressure. But entities outside the region could also face pressure under a longer-lasting conflict.

A loss of confidence in the debt capital markets would be the biggest transmission channel based on past credit downturns. Aside from a brief period in early 2025 with tariff worries and the very beginning of the COVID-19 pandemic, we have not seen a prolonged dislocation in the credit markets for many years, and this fact has prevented a much bigger spike in downgrades from rising geopolitical risk. If funding availability dries up for a prolonged period, this would be a cost issue for higher-rated credits, but an existential issue for the weakest of speculative-grade issuers. It also would curtail overall levels of capex and investment, which would have more diffused but still noticeable effects on sectors such as capital goods or construction. Although the proportion of credits rated in deep speculative grade or lower has declined somewhat in the last year or two, this cohort of riskier credits remains far larger as a proportion of all credit ratings than at any earlier period—the result of many years of cheap and available funding before the interest rate reset in 2022.

We also believe the risk of capital outflows has increased, posing a greater risk to banks in the region. Previous confrontations have mostly led to flights to quality within the local banking systems. However, given the larger scale of the current confrontations, we do not exclude the scenario of moderate external capital outflows, which we believe most banking systems in the region will be able to withstand. As with other sectors, the ultimate impact to outflows will be determined by the duration and scope of hostilities. Bahraini and Qatari banking systems have the largest net external debt position in the Gulf Cooperation Council (GCC) and may require some external or government support in the case of significant outflows. Other banking systems remain in net external asset position and should be able to withstand moderately high capital outflows using their own liquidity, assuming hostilities do not drag on.

For sovereigns, significant geographic differences among countries in the region will influence their vulnerability to supply-chain disruptions and the conflict in general. Higher oil prices would generally benefit hydrocarbon producers, although this will depend on how long the Strait of Hormuz is obstructed. We consider a prolonged blockage of the strait to be unlikely, given the substantial U.S. military presence in the region. However, exposure to a closure is higher for Iraq, Bahrain, Qatar, and Kuwait, reflecting their reliance on this route. In contrast, Oman, the UAE, and Saudi Arabia can partially mitigate the impact through alternative export routes for part of their volumes, although transport and hydrocarbon production facilities may be at risk anywhere in the region

## What are the risks to our macro projections?

The macro risks from the conflict with Iran are clearly on the downside. These include rising inflation pressures and slowing growth pressures. Central banks face potentially tricky trade-offs. The longer the conflict persists, the more likely these risks will arise. Financial market fallout has been relatively modest so far. The U.S. dollar has gained modestly from safe haven flows, while most other currencies have declined, particularly in some emerging markets. The benchmark 10-year U.S. Treasury yield has been broadly unchanged, while other advanced economy bond yields have risen 10-20 basis points. Overall, financial conditions are tightening.

We are monitoring a number of macro transmission channels from the conflict. First, inflation pressures will rise with higher oil prices, particularly in emerging markets where fuel has a larger weight in consumer baskets (10% compared with 7% in the U.S.). Moreover, weaker currencies will also raise import prices, further contributing to inflation pressures. Combined, these factors will likely lead central banks to lean higher in their policy decisions. Second, growth is likely to slow as higher oil prices reduce purchasing power (again with higher effects in oil-importing emerging markets, particularly in Asia) and heightened volatility pares back investment and discretionary consumption.

The longer the conflict persists, the more likely these risks eventuate. The immediate macroeconomic impact on the GCC of course, could be significant, and will depend on the damage inflicted on infrastructure, oil supply, and the evolution of tourism and investment flows.

In the U.S., risk of a potential energy shock opens the door to a much wider range of possible outcomes. Depending on the magnitude and duration of such a shock, this could mean higher inflation. We now cannot rule out a sustained move this year in the inflation rate toward 4% (versus our November forecast for inflation staying near 3% for most of 2026; see more in [“Economic Research: New U.S. Inflation Risks Emerge While Price Pressures Build For Producers”](#), published March 3, 2026).

For the Federal Reserve, it would complicate policy making, given its dual mandate. In theory, the Fed may look through a first round of spikes in energy prices if inflation expectations are anchored, especially given its experience in 2022 with persistent inflation. If those price spikes pass through persistently into broader nonenergy prices, that would raise the Fed's bar for cutting interest rates. And while it should temper enthusiasm for rate cuts, it doesn't necessarily mean rate hikes given downside risks to consumer spending growth and employment.

## How have recent events affected financing conditions?

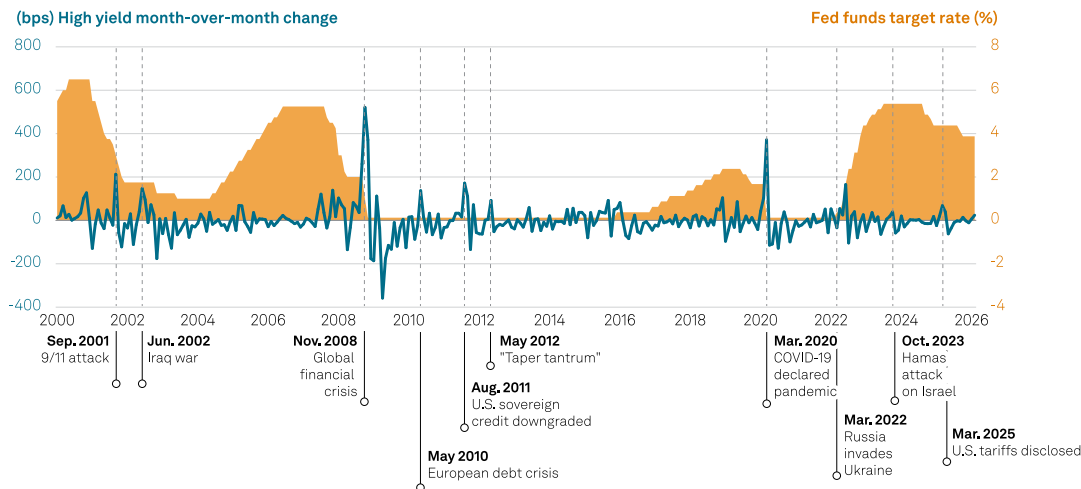
Thus far, market reactions have seen increased volatility in both directions. As expected, market reactions have swung quickly, often in a pessimistic direction. However, there have already been positive swings, with both responses being heavily information-dependent on a day-by-day basis, if not more frequently. This is not uncommon amid geopolitical events, particularly those initially fraught with unclear details of events as they unfold, or equally unclear initial assessments of their potential impact and duration (see chart 1). Global equity markets have experienced day-by-day volatility since the start of the conflict, with slightly deeper losses outside of U.S. markets. Similarly, corporate bond spreads have widened outside of the U.S., by roughly mid-single digit ranges in relative percentage change terms, similar to losses seen in equity markets.

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Chart 1

### Recent geopolitical events have little affected credit markets

High yield month-over-month change vs. Fed funds target rate



Data as of Feb. 28, 2026. Source: S&P Global Ratings.  
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Future market reactions will depend greatly on the depth and length of the current conflict. The longer and deeper the conflict, the more disruptive it would be as a drag on economic growth, weighing on global market sentiment. We would expect debt issuance to be more limited than normal for this otherwise active time of year, with deep speculative-grade debt being hardest hit in terms of market access. If hostilities last a month or less, we wouldn't necessarily expect any material decline in annual issuance, but rather a "wait-and-see" approach that could move typical issuance at this time out by another month. Global nonfinancial corporate bond issuance is already well ahead of 2025's year-to-date pace (up 15.5% through February, with speculative-grade issuance up 23%), so most issuers are positioned well to ride out the next few weeks.

If the conflict stays contained, global funding conditions should recover but possibly change channels. Though only a few days in, market sentiment has shifted to strengthen the U.S. dollar and U.S. interest rates have seen slight declines. Meanwhile, equity markets around the globe are seeing the typical, expected declines, market volatility has increased moderately, and even gold has lost some of its shine. If there is no near-term solution to the conflict, but it remains relatively contained geographically, borrowers may shift away from the negative sentiment and volatility in their local bond markets and seek dollar-funding as an alternative. A longer-term risk is that hostilities with Iran could recur within the next 12-18 months, potentially posing greater systemic risks to financial markets and financing conditions if renewed conflict coincides with weaker economic fundamentals.

The current conflict is one of multiple potential stress points for markets to consider. Existing conflicts, an uncertain path ahead surrounding the AI build-out, limited transparency in growing private markets, and the increasing economic concentration around this build-out would be further complicated for both lenders and monetary policymakers if a prolonged conflict results in higher energy prices and inflation.

### What are the implications for hydrocarbons?

The immediate implication of the strikes has been a sharp rise in geopolitical risk premia across oil and gas markets, rather than a structurally tighter supply backdrop. Energy markets entered the conflict with a degree of slack, following a period of global oversupply and declining crude

prices through much of 2025. Against this backdrop, oil and gas prices reacted quickly to the strikes, reflecting fears of disruption rather than realized shortages. OPEC's willingness to increase output and the availability of strategic reserves among major consuming countries have so far limited the scale of the price response, underscoring that market balance remains highly sensitive to perceptions of escalation rather than fundamentals (see "[What The Military Conflict With Iran Could Mean For Hydrocarbons](#)", published March 3, 2026).

The most consequential hydrocarbon risk stems from the vulnerability of regional energy infrastructure and shipping routes, particularly if hostilities broaden. Iran's retaliatory actions and reported drone strikes near key Saudi and Qatari facilities highlight how exposed oil refining, LNG production, and export terminals remain to low-cost, high-impact attacks. Even temporary shutdowns have demonstrated the speed with which LNG prices can react, given Europe's low inventories and Asia's reliance on Middle Eastern supply. A wider conflict drawing in additional producers or causing sustained infrastructure damage would materially tighten both oil and LNG markets, with global repercussions. Disruption to shipping routes or broader logistical constraints could also force production shut ins at fields with limited storage or export capacity—as seen in Iraq—potentially extending supply disruptions beyond the duration of any direct outages.

Uncertainty alone is sufficient to keep energy prices elevated, even without a full loss of supply. The Strait of Hormuz represents the single most important transmission channel from military conflict to hydrocarbon markets. Roughly one-fifth of global oil consumption and LNG trade transits this narrow chokepoint, and recent attacks on commercial vessels have already disrupted tanker flows, leading to cancelled coverage or highly elevated insurance costs. Beyond energy, the strait is a key transit route for fertilizers and its inputs, and its blockage would raise agricultural input costs, intensify food inflation (especially in emerging markets), and weigh on growth and credit conditions. While a prolonged closure is widely seen as unlikely, even intermittent disruption forces traders and producers to reroute volumes, delay shipments, and reprice risk.

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