allsop

The Hormuz Situation: Possible Scenarios

As of the end of March 2026

Use of Artificial Intelligence

This document includes augmented content with the assistance of an AI tool, under the supervision of the Allsop Research team. All content has been reviewed and approved by Seb Verity, Head of Research.

The Hormuz Situation - Possible Scenarios

On 28 February 2026, US-Israeli *Operation Epic Fury* struck Iran, killing Supreme Leader Ayatollah Khamenei. Iran retaliated by effectively closing the Strait of Hormuz from 2 March, something it had threatened for 45 years but never previously achieved.

The Strait carries approximately:

- 20% of global oil supply (~20 million barrels/day)
- 22% of global LNG exports
- Roughly one third of the world's seaborne fertiliser trade
- Roughly one third of the world's helium supply (critical for semiconductor production)
- Approx. 11% of total maritime trade volume

There appears to be broadly two scenarios that could now play out, as of the end of March 2026:

SCENARIO 1: QUICK RESOLUTION	SCENARIO 2: PROLONGED DISRUPTION
A rapid diplomatic or military 'end' to the conflict, with no more major damage to critical infrastructure in the region. The Strait of Hormuz reopens within 6-8 weeks, i.e. before June 2026.	*The conflict becomes prolonged and more industrial infrastructure is dealt lasting damage. The Strait of Hormuz remains closed/severely disrupted well into H2 2026 and perhaps beyond.*

1.1. SUPPLY CHAIN DISRUPTION

Scenario 1

Even with rapid resolution, 5-6 weeks of effective closure has already caused:

- **Cascading schedule delays** across global shipping networks
- Disruptions extending beyond 4 weeks generate "*disproportionately larger effects*" as delays accumulate
- **Over 200 ships stranded**: helium containers losing value as liquid warms and escapes
- **Fertiliser prices** already up 40%+ (urea); Northern Hemisphere planting season affected
- **Qatar's helium facilities** damaged — even if Strait reopens, market normalisation could take 2+ months due to specialised cryogenic containers (Pulsar Helium CEO)
- 46,000+ **flight cancellations** across Asia-Europe routes due to fuel shortages/cost increases

Scenario 2

- **OIL:** Approximately 20 million barrels/day of supply disrupted — far exceeding the 1973 embargo (4.4 million bpd) or 1979 Iranian Revolution (4.8 million bpd)
- **LNG:** ~20% of global LNG supply removed from market. Qatar's Ras Laffan complex (1/6 of global LNG supply) damaged by strikes. Force majeure declared on Qatari LNG shipments
- **FERTILISERS:** ~33% of world's seaborne fertiliser trade passes through Strait. Urea prices already up 40%+ ($683/metric ton). Gulf exports include 5 million tonnes of urea yearly from Qatar/Iran, 2 million each from UAE/Saudi Arabia. Impact on Northern Hemisphere food production could be severe.
- **HELIUM**: ~33% of world's helium supply from Qatar, transiting the Strait. Critical for semiconductor manufacturing, MRI machines, space technology. Production halted due to infrastructure damage. Even if Strait reopens, full restoration could take YEARS.
- **SHIPPING**: Container shipping lines (Maersk, MSC) suspended transits. US import rates up 30-50%. Petrochemical run-rates in South Korea/Japan cut 50%. 6,000+ vessels detained
- **FOOD PRICES:** Fertiliser shortages + higher diesel costs = reduced crop yields. "Third wave" of effects will elevate global food prices. Brazil and India most vulnerable.

SCENARIO 1: QUICK RESOLUTION	SCENARIO 2: PROLONGED DISRUPTION

1.2. FINANCIAL MARKET IMPLICATIONS

- **GILT YIELDS:** Could ease from current ~4.7-5.0% back toward 4.3-4.5% within weeks of confirmed resolution. Some fixed income managers already view current levels as "potentially attractive" if energy stabilises
- **SWAP RATES:** Moderate probability of 5-year SONIA swaps pulling back from ~4.25% toward ~3.7-3.8% within 6-8 weeks if oil falls to $75-80/barrel
- **MORTGAGE MARKET:** Products would likely be restored relatively quickly. British banks could respond pre-emptively to expected rate changes. However, the ~1,000 products already pulled would take weeks to reprice and relaunch
- **TIMELINE ESTIMATE:** 4-8 weeks from a confirmed resolution to meaningful mortgage market normalisation with 2-3 months for elevated swap rates to fully unwind.

- **GILT YIELDS:** 10-year gilt already at 5.0% (highest since 2008). In prolonged scenario, could reach 5.5%+, well above the 2022 mini-budget crisis levels. 30-year gilt already at 5.45%.
- **SWAP RATES:** 5-year SONIA swaps could reach 4.5-5.0% in prolonged scenario. Late March levels already at 4.35-4.48% for 2-5 year tenors.
- **MORTGAGE RATES:** Average 2-year fixed already at 5.01-5.51%. In prolonged scenario, could reach 5.5-6.0%+. Sub-4% deals would disappear entirely.
- **EQUITY MARKETS:** Gulf equity markets down 15-35% from pre-war levels. S&P 500 declined 2-2.1%. UK REIT market retreating to defensive sectors.

1.3. IMPACT ON INFLATION

- **OIL:** Could fall toward $75-80/barrel within 8 weeks of resolution, but unlikely to return to pre-conflict $72 due to infrastructure damage and risk premium
- **GAS:** European TTF would ease but remain elevated — EU gas storage at only 46 bcm (vs 60 bcm in 2025, 77 bcm in 2024). Refilling for winter 2026/27 will keep prices above pre-conflict levels
- **JULY OFGEM CAP:** WILL STILL RISE even in quick resolution scenario. Currently forecast at £1,920-1,973/year (up £280-332 from April's £1,641). The cap is calculated using 3-month wholesale price averaging — the March spike is therefore already "baked in." The July cap will be calculated by 27 May based on early April market data.
- **CPI TRAJECTORY:** Q2 2026 ~3.0%; Q3 could still reach 3.0-3.2% due to lagged energy cap effects, but would fall back toward 2.5% by Q4 and potentially reach 2% target by mid-2027

- **Q2 2026:** CPI ~3.0% (BoE March projection)
- **Q3 2026:** CPI 3.0-3.5% (BoE projects energy adding ~0.75pp directly)
- **JULY OFGEM CAP:** £1,920-1,973 (up £280-332 from April) - KPMG now anticipates peak "above 3.5%"
- **Q4 2026:** CPI 2.6-2.7% if oil stabilises
- **Oct'26 OFGEM CAP:** forecast at £2,016-2,047 (up £375-406 from April), but if Strait remains closed, could be significantly higher
- **2027:** Return to 2% target DELAYED by nearly a year vs pre-conflict forecast e,g, BCC forecasts 1.9% by 2027 (previously expected mid-2026)
- **HOUSEHOLD INFLATION EXPECTATIONS:** jumped to 5.4% in March from 3.3% in February — risking wage-price spiral

SCENARIO 1: QUICK RESOLUTION	SCENARIO 2: PROLONGED DISRUPTION

1.4. BoE MONETARY POLICY RESPONSE

Scenario 1: Quick Resolution

RATE CUTS could resume by August/September 2026 if inflation trajectory improves

- **MORNINGSTAR** economist Grant Slade expects zero hikes and one cut in late 2026; assuming inflation returns to 2% target by year-end
- **UBS** expects next move to be a CUT rather than hike, though delayed until
- **J.P. MORGAN** sees just one hike in June 2026 after Bailey signalled markets were being "overly aggressive" in pricing multiple hikes

Scenario 2: Prolonged Disruption

- **MARKETS** begin to price 3-4 rate hikes (April, June, July, September) totalling ~75-100bps, taking Bank Rate to 4.50-4.75% by Q4 2026

"Markets think the Bank of England will raise base rates by about 75bp this year, a volte-face from the 50bp of rate cuts priced in at the start of this year" - **Deloitte**

- **THE BOE FACES A CLASSIC STAGFLATION DILEMMA:** monetary policy cannot offset global energy prices but must anchor expectations to hit the 2% CPI target
- **KEY DISTINCTION FROM 2022:** Unlike 2022's demand-resilient inflation, 2026 features supply shocks colliding with fragile demand.

1.5. IMPACT ON GROWTH

Scenario 1: Quick Resolution

Recession likely AVOIDED in quick resolution scenario

- Short disruptions of 2 weeks or less have limited consequences — but at 5-6 weeks, we're already in the zone of "disproportionately larger effects"
- US relatively well-placed due to energy self-sufficiency; Asia most exposed; Europe: somewhere in between
- **Key risk:** even quick resolution doesn't undo the confidence shock or the repricing of geopolitical risk that has already occurred

Scenario 2: Prolonged Disruption

- **MORGAN STANLEY** warning of a "pronounced UK recession at the turn of the year" (late 2026) if energy costs stay high
- **PANMURE LIBERUM** sees recession as a "real possibility" in H2 2026
- **RECESSION** probability estimates range from ~30% chance to +50% depending on oil price duration.

Persistent $100+/barrel oil **+** base rate hikes **=** *high probability*.

- **GDP** growth already near zero (Q1 estimates at 0.1-0.2%)
- **UNEMPLOYMENT** already at 5.2% and rising
- **OBR** had already cut 2026 growth forecast to 1.1% BEFORE the conflict – extended disruption and heightened cost inflation makes a formal recession appear inevitable.

SCENARIO 1: QUICK RESOLUTION	SCENARIO 2: PROLONGED DISRUPTION

1.6. HISTORIC PARALLELS

- **1990 GULF WAR:** Oil spiked from $17 to $41/barrel (Aug-Oct 1990) but fell back to $20 within months of resolution.
- However, the UK still entered recession in 1990-91 (though this was driven by multiple factors including high interest rates and the ERM crisis)
- **KEY DIFFERENCE**: The 1990 shock was shorter and less severe than the current Hormuz closure.

  The IEA describes the current situation as: *"the gravest energy shock of all time"* — **Fatih Birol, IEA Executive Director**

"History shows oil shocks are followed by recessions — will it be any different this time?" — **Irish Times**, 28 March 2026

Source: irishtimes.com/opinion/2026/03/28

- **1973 OPEC EMBARGO:** Oil quadrupled ($2.90 → $11.65). World income growth fell from 6% to 1.4%. World trade contracted 7.3%. US recession Nov 1973 to March 1975.
- **1979 IRANIAN REVOLUTION:** Oil doubled ($15 → $39). Volcker's Fed hiked to 20%. Double-dip recession. Unemployment reached 10.8%.
- **CURRENT DISRUPTION:** 20 million bpd disrupted — FAR exceeding both 1973 (4.4 million bpd) and 1979 (4.8 million bpd)
- **ALLIANZ ESTIMATES:** Global GDP +2.6% (down 0.5pp from baseline), inflation up (US 3.2%, Eurozone 3.0%), trade growth just 1.5%

Source: allianz.com/en/economic_research

- **PROLONGED SCENARIO:** Up to $2.2 TRILLION in global GDP losses (2-3% of global GDP). Gulf economies face GDP declines of ~22%.
- **MITIGATING FACTOR:** Modern economies use same oil volume despite 4x GDP growth since 1973, reducing vulnerability. But the SCALE of this disruption is unprecedented.

POTENTIAL IMPACT ON UK REAL ESTATE MARKETS:

SCENARIO 1: QUICK RESOLUTION	SCENARIO 2: PROLONGED DISRUPTION

- Residential Transaction market could recover relatively quickly IF mortgage products are restored and swap rates normalise do anything like their February levels.
- Pre-conflict momentum was positive: February 2026 saw highest number of new house listings in a decade; sales at decade-high levels

BUT:

- The Renters' Rights Act (1 May 2026) implementation proceeds regardless, adding regulatory uncertainty on top of geopolitical uncertainty
- Landlord sell-off may actually ACCELERATE as some use the conflict as additional motivation to exit before May 1st.

A. RESIDENTIAL TRANSACTIONS:

- **UK Finance** already forecast 1% decline in transactions for 2026 (1.20m vs 1.21m in 2025) BEFORE the conflict
- Nearly 1,000 mortgage products pulled since conflict began
- Average borrowing costs up ~£900/year on a £250,000 mortgage
- 1.8 million fixed-rate mortgages expiring in 2026 — borrowers face significantly higher rates at renewal
- Pre-conflict momentum (0.8% house price growth in March, rising loan approvals) has stalled

"Needs-based sectors like residential are likely to be relatively insulated. Equally, assets on long leases are less exposed" — **L&G**

B. PRICES:

- Resurgent inflation would feed through into a higher cost of money, which would put upward pressure on property yields. At the same time, a hit to the wider economy from higher energy costs and inflation could dampen occupier demand.
- London faces heightened risk of domestic-driven price falls
- Short-term price pressure especially on higher-end properties (£500k+)

BUT:

- Supply shortages may provide a floor. UK housing undersupply is structural.
- Prime markets could also receive a demand bump from either/both HNWI outflows reversing away from the conflict zone and Middle Eastern capital & individuals seeking a safe haven.

C. DEVELOPMENT VIABILITY

- Construction costs rising through higher energy prices (bricks, cement, glass, asphalt, insulation all energy-intensive)
- Lead times extending for steel, aluminium, M&E equipment
- UK construction output already in fourth consecutive 3-month decline
- Elevated risk of delays, cancellations, and insolvencies — especially private housing and commercial schemes

D. REFINANCING RISKS

- £30bn+ of CRE loans due for refinancing in 2026
- Legacy low-cost debt (originated 2020-21 at sub-2% swap rates) now maturing into a 4%+ swap rate environment
- Structures that worked in 2020-21 often no longer fit today's interest rate environment

Market Factor:	Scenario 1: Quick Resolution	Scenario 2: Prolonged (3-6 months)
Oil price	$75 to $85/bbl	$100 to $130+/bbl
UK CPI peak	3.0% to 3.2%	3.5% to 4.0%+
Bank Rate end-2026	3.50% to 3.75%	4.00% to 4.75%
5yr SONIA swap	3.7% to 3.9%	4.3% to 5.0%
UK recession probability	20-30%	Over 50% likely
House prices	Flat to +1% yoy	Flat to falls of -2% yoy

This scenario analysis incorporates data from web research by Allsop, including Perplexity AI searches conducted March 2026 and multiple primary sources including **:** Bank of England, OBR, IEA, Chatham Financial, Morningstar, Bain Capital, L&G, Deloitte, ING, Morgan Stanley, J.P. Morgan, UNCTAD, Atlantic Council, Bruegel, Cornwall Insight, Ofgem, various UK government publications, and other industry analysis.

This analysis represents potential scenarios, not predictions.

Bringing property & people together

Asset Management

Auctions

Build to Rent

Business Rates

Development Agency & Advisory

Investment Sales & Acquisition

Lease Advisory

Letting & Management

Office Leasing (Central London)

Planning Consultancy

Receivership

Student Housing

Valuation

allsop