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Morning Briefing

On Iran's Chaos Strategy, Owl's Woes & Laser Guns

Check out the accompanying chart collection.

Executive Summary: Last weekend's attack on Iran by the US and Israel has unleashed a vengeance that's disrupting global energy commerce. Iran has bombed nearby countries' oil and gas production facilities and threatened to burn ships in the Strait of Hormuz. Major oil companies are shutting down facilities. Amid the chaos, energy prices and stocks have soared. Jackie reports on the news and the stock market's reactions. … Also: A look at a private credit investment firm with good results but poor share price performance. … And our Disruptive Technologies focus: With Israel's new Iron Beam laser self-defense system, intercepting an incoming rocket or drone can cost less than a cup of coffee.

Energy: War Jolts Prices. The attack on Iran by the US and Israel sent energy prices spiking higher on fears about production disruptions and transportation bottlenecks. The price of Brent crude futures jumped to $81.40 on Tuesday, up from roughly $60 per barrel at the start of 2026 (*Fig. 1*). The price of US gasoline has risen 44.1% ytd to $2.46 a gallon in reaction to the Iran attack, and the US natural gas price rose 6.8% this week through Tuesday's close but remains down 17.1% ytd because the price of gas spiked at the start of the year due to a cold snap (*Fig. 2* and *Fig. 3*).

The immediate concern driving prices higher was inability to transport oil and natural gas through the Strait of Hormuz for fear that the tankers would be targeted by Iranian speedboats, missiles or drones. Another looming problem is Iranian forces' use of drones to strike oil and natural gas production facilities in the region.

Iran has been surprisingly aggressive in attacking its neighbors in recent days. While Iran's attacks on US bases across the Middle East should have been expected, Iran's drone hits on hotels, airports, and ports in the United Arab Emirates (UAE), Kuwait, Iraq, Oman, and Bahrain were more surprising.

The FT *reported* that after Israel's June attacks on Iran, the Ayatollah Ali Khamenei and his

top leaders created a plan to sow chaos if Iran were attacked again. Iran aimed to hurt global oil markets and disrupt air travel in hopes of pressuring the US and Israel to halt their attacks.

Here's a dive into the war's impact on the oil and gas markets:

(1) *Excess supply.* Before the war started, the energy markets were oversupplied. Production increased sharply last year, while consumption remained relatively stable (*Fig. 4*). Global liquid fuels production rose from 103.3 million barrels per day (mbd) in 2024 to 106.3 mbd in 2025, and it was forecast to grow to 107.8 mbd this year, according to the US Energy Information Administration. Global liquid fuels consumption rose much more slowly, from 102.5 mbd last year to 103.6 mbd in 2025 and a forecasted 104.8 mbd this year.

Given those estimates, producers were expected to pump three mbd more than was being consumed this year, thanks in part to increasing production in US, Brazil, and Guyana. Prior to the war, the EIA expected the oversupplied market would push Brent crude oil futures to $58 per barrel this year and $53 in 2027, down from $69 per barrel last year. The war has, of course, made a hash of all projections.

(2) *Damage across the region.* Iran's leadership may have decided that it will make this a very expensive war for a world that remains hooked on oil and gas. It has damaged facilities in nearby countries, including an energy hub in Fujairah, UAE, which was on fire on Tuesday due to the falling debris of a downed drone. Saudi Arabia's Aramco shut its biggest domestic oil refinery on Monday after it was targeted by Iranian drones.

Qatar's state-owned QatarEnergy halted *the production* of liquefied natural gas (LNG) on Monday after Iranian drones hit energy facilities in two cities. Qatar's natural gas facilities produce 20% of the world's LNG export capacity. The news sent the price of the European natural gas benchmark, the Dutch TTF, up 69.9% on Monday and Tuesday before falling 10.2% on Wednesday to 48.77 megawatt-hours (*Fig. 5*). Europe and Asia are major customers of Qatari LNG.

Some production curtailments are occurring preemptively in response to the existing threat of damage. The Israeli Energy Ministry ordered the temporary shutdown of the country's offshore gas platforms. And Iraq has begun curtailing *oil production* at key southern fields, including Rumaila, while West Qurna 2 is also shutting in roughly 460,000 barrels per day.

(3) *Shippers fear the Strait of Hormuz.* On normal days, about 80 oil and gas tankers pass

through the Strait to provide roughly 20% of the world's oil and much of Qatar's LNG exports. Roughly 20 mbd of oil, including almost all of the oil exports from Saudi Arabia, Iraq, Kuwait, Qatar, and the UAE are *exported* through the Strait. An Iranian military official threatened this week to set on fire any ship traveling through the Strait, and Iranian forces reportedly hit a Honduras-flagged fuel tanker in the Strait with two drones on Monday, setting it on fire.

Insurers reacted by pulling insurance on the ships and their cargo. Marine insurers—including Gard, Skuld, NorthStandard, the London P&I Club, and the American Club—said their war risk policy cancellations would take effect from March 5, *reported* German broadcaster DW. As a result, shipping firms will have to find new insurance coverage at today's much higher rates.

Shipping traffic through the Strait has slowed to a trickle due to the Iranian threats and the lack of marine insurance. On Monday, only two ships appear to have made the journey through the Strait, the NYT *reported*. If shipping isn't resumed soon, producers may need to stop producing. JPMorgan *estimates* Gulf producers could sustain output for just over three weeks before storage constraints would force them to halt production to avoid overwhelming storage capacity. If the disruptions persist beyond several weeks, Brent crude could trade in the $100- to $120-per-barrel range, according to JPMorgan. And if prices spike too sharply, demand destruction could cap the rally, particularly if higher fuel costs begin to weigh on global growth.

In an effort to get ships sailing again, President Donald Trump said on Tuesday that the US Navy would begin escorting tankers through the Strait "if necessary" and a US government agency would begin offering "political risk insurance" to shippers in the area at a "very reasonable price." But one naval analyst *estimated* that it could take at least a week before US warships could begin such an operation, and the US or Israel would probably first need to reduce or eliminate Iran's anti-ship capabilities.

None of this is good news for countries that import the oil that sails through the Strait. In 2024, more than 80% of the oil and gas that passed through the Strait went to Asia, with China, India, Japan, and South Korea the top importers. China's officials reportedly have pushed Iran to keep the Strait of Hormuz open to tanker traffic. China is the world's largest importer, buying roughly 11 mbd of crude oil. It purchases nearly 90% of Iran's sanctioned oil, which represents about 11% of China's imported crude.

(4) *Ramifications, expected and not.* The US is better positioned than most countries to

weather an energy crisis because it is a net exporter of both oil and natural gas (*Fig. 6* and *Fig. 7*). US energy-related stocks have been climbing since the start of the year, initially boosted by the US military's capture of Venezuelan President Nicolas Maduro and his wife. The ensuing attack on Iran continued to propel energy prices and energy-related stocks higher.

The S&P 500 Energy sector has risen 25.6% ytd, more than any of the other 10 sectors in the S&P 500. Here's the performance derby for the S&P 500 and its sectors ytd through Tuesday's close: Energy (25.6%), Materials (14.0), Consumer Staples (13.3), Industrials (12.9), Utilities (9.7), Real Estate (8.7), Health Care (1.0), S&P 500 (-0.4), Communication Services (-0.7), Consumer Discretionary (-5.7), Information Technology (-5.8), and Financials (-6.8) (*Fig. 8*).

Some of the ytd returns of industry indexes within the S&P 500 Energy sector have been even more impressive: Oil & Gas Equipment & Services (30.1%), Oil & Gas Refining & Marketing (29.2), Integrated Oil & Gas (25.5), Oil & Gas Storage & Transportation (24.3), and Oil & Gas Exploration & Production (23.5) (*Fig. 9*).

The risk to buyers is that when the Iran war ends, the world will return to an oversupplied environment, and energy-related prices will fall back to reflect that reality.

Financials: The Private Credit Dilemma. There's lots of handwringing about the loan portfolios held by private credit investors, so we decided to take a look at one of the funds trading at the deepest discount to its net asset value, Blue Owl Technology Finance (BOTF). Its shares have fallen 27.6% since they were initially listed last June. They traded at $11.89 on Wednesday, more than 30% below the fund's *stated* net asset value of $17.33 per share as of December 31.

Some of the company's results make you wonder why the shares trade at a large discount. Investment income during Q4 did fall, but not because of credit losses. Rather, it decreased modestly to $321 million, from $323 million in Q3, because interest rates fell, and 96.2% of the portfolio is made up of floating-rate debt. Likewise, the fund's adjusted net income dropped to $220.2 million in Q4, down from $253.1 million in Q3 but up sharply from $102.0 million in Q4-2024, when the firm had far fewer assets.

BOTF's portfolio includes 199 companies and investments with a fair value of $14.3 billion. It reports that only 0.2% of its total portfolio at fair value is on non-accrual, which typically represents accounts that are severely delinquent, with borrowers not making interest

payments. That implies that over 99% of the firm's borrowers are making their payments. The firm also reported that at year-end it had $2.3 billion of liquidity, including $2 billion of undrawn capacity on its credit facilities.

Investors' worries center on the impact that artificial intelligence will have on BOTF's portfolio companies. The firm reported that 17.9% of its loans were made to companies in the systems software industry, and another 13.6% to application software companies. In recent weeks, AI companies have shown they can help humans write software. This has raised concerns that companies will no longer pay large annual subscriptions for software because they can have an AI-assisted employee create the software instead. And when software companies go bust, they usually have few assets to sell to repay loans.

So BOTF has three potential problems: 1) The fund has a large concentration of loans in an area that could be hurt by AI in the upcoming years. 2) Investors may not be willing to wait around to find out whether the dreaded AI reckoning will come to pass. 3) If the company has to sell its loans in the open market, the Street will find out whether the net asset values of its private loans, which don't trade, are accurate. As a friend of ours in the fixed-income field noted, you never know what something is worth until you try to sell it.

Disruptive Technologies: The Light Saber Becomes a Reality. Israel showed off the power of its new Iron Beam laser system on Monday when it shot down Hezbollah rockets entering the country from Lebanon. Developed by Israel's Ministry of Defense's Directorate of Defense Research & Development and the Rafael Advanced Defense Systems, the beam can intercept rockets, drones, and other short-range aerial threats.

The chief benefit of the laser system is cost. The laser costs only a dollar to two to shoot, compared with about $50,000 to shoot the interceptor rockets that are part of Israel's Iron Dome.

There are downsides to the laser system, which is meant to complement the Iron Dome defense system. The lasers can shoot only about 6 miles, so defending a large area requires the deployment of 100s of Iron Beam units.

"Soldiers in command-and-control vehicles must decide in real time whether to engage an incoming threat with a cheap laser beam or launch an expensive Tamir interceptor missile. In heavy barrages involving dozens of rockets, both capabilities can be activated simultaneously," explained a Calcalistech (CTech) *article*.

In addition, multiple lasers can't be shot simultaneously at multiple targets from the same shooter. So, if 10 rockets are coming in, defenders will need 10 lasers to shoot them down. The laser also needs a clear line of sight to reach its target, and it can be affected by atmospheric interference, such as bad weather or dust in the sky. So while more work needs to be done, the new lasers are a step forward in self-defense.

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): It was record highs across the board during the February 26 week for the S&P 500's forward revenues, earnings, and profit margin. Forward revenues rose 0.2% w/w, and forward earnings gained 0.3% as the forward profit margin remained steady at a record-high 14.6% for a fourth straight week.

Consensus expectations for forward revenues growth rose 0.2ppt w/w to a 44-month high of 7.3%. From a longer-term perspective, that's well above its 20-year average of 5.2% and its 33-month low of 2.3% during the February 23, 2023 week. The analysts' forward earnings growth forecast rose 0.2ppt w/w to a 54-month high of 15.3%. That's well above its 20-year average of 11.4% and up 4.4ppts from its 15-month low of 10.9% during the May 29 week.

Annual growth expectations for revenues and earnings also rose to new highs w/w instead of falling as is typical. Analysts expect revenues to rise 7.6% in 2026 (+0.1ppt, new high) and another 7.5% in 2027 (+0.1ppt, new high), compared to a 6.8% gain in 2025 (new high). They expect an earnings gain of 15.4% in 2026 (+0.2ppt, 5-week high) and a 16.5% rise in 2027 (+0.2ppt, new high), compared to 2025's earnings gain of 13.9% (+0.2ppt, 13-month high).

Consensus profit margin forecasts were mostly steady w/w but remain on solid uptrends . Analysts expect the profit margin to rise 1.0ppt y/y in 2026 to 14.3% (eight-month high) and 1.2ppts y/y in 2027 to 15.5% (new high), compared to 2025's 13.3% (eight-month high).

Looking at valuation data as of February 26, the S&P 500's weekly forward P/E rose 0.2pt w/w to 21.8 from a nine-month low of 21.6. That's well above its 20-year average of 16.4 and is up 2.6pts from its 16-month low of 19.2 during the April 17 week, but has fallen 1.5pts from its 25-year high of 23.3 during the October 30 week. It also compares to 23.1 in early September 2020, which was then its highest level since July 2000, and to a 77-month low of 14.0 in March 2020.

The S&P 500 weekly price-to-sales ratio rose 0.03pt w/w to 3.18 from a nine-week low of 3.15. That's still well above its 20-year average of 1.80, but 0.10pt below its record high of 3.28 during the October 30 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Revenues, Earnings & Margins (*link*): During the February 26 week, nine of the 11 S&P 500 sectors posted gains in their forward revenues and six had forward earnings rise. Three sectors had their forward profit margins tick up w/w, and five are a short trip back to new record highs. Indeed, eight of the 11 sectors have higher forward profit margins y/y.

Looking at their forward revenues, the record-high club lost one sector last week and is down to these five: Financials, Industrials, Information Technology, Real Estate, and Utilities. Less than 0.1% from their very recent records are Communication Services, Consumer Discretionary and Health Care. A ninth, Consumer Staples (2.8% below record), would be in too after adjusting for the removal of CVS last September. Energy's forward revenues remains depressed at 29.3% below its September 2008 record high, while Materials' has improved steadily since its May 2025 bottom to just 1.7% below its June 2022 record.

The membership roll for the record-high forward earnings club dropped to these three: Industrials, Information Technology, and Utilities. The lower count w/w is not a concern, as the sectors' forward earnings uptrends remain intact. As recently as late November, nine of the 11 S&P 500 sectors were in the record-high forward earnings club. Earnings remains depressed near a cyclical low for Energy (42.5% below October 2022 record), but has improved steadily for Materials since May 2025 (16.4% below April 2022 record). Among the remaining six sectors, Communication Services and Health Care are 1.2% below their recent highs and these four are less than 0.1% away: Consumer Discretionary, Consumer Staples, Financials, and Real Estate.

The record-high forward profit margin club remained steady w/w, with Information Technology as the sole member. However, three sectors rose w/w, and these five sectors are just a short trip back to record highs: Communication Services, Consumer Discretionary, Financials, Industrials, and Utilities. Among the five lagging sectors: Consumer Staples, Materials, and Real Estate are improving from their recent multi-year lows, while Energy's and Health Care's are just a tick above their recent cyclical or record lows.

Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin

forecasts: Information Technology (30.4%, up 0.1ppt w/w to record high), Financials (21.3, 0.1ppt below 21.4 record in early February), Communication Services (19.4, up 0.1ppt w/w & 0.4ppt below 19.8 record in August), Real Estate (16.5, up 0.1ppt w/w to 3.7ppts below 19.2 record high in 2016), Utilities (14.9, 0.1ppt below early February 48-month high of 15.0 and 0.2ppt below April 2021 record 15.1), S&P 500 (14.6, record high), Materials (11.7, 39-month high & down from 13.6 record high in June 2022), Consumer Discretionary (9.5, 0.2ppt below 9.7 record in January), Energy (8.3, 64-month low and 4.5ppt below 12.8 record in November 2022), Industrials (11.2, 0.1ppt below 11.3 record high in January), Health Care (8.0, 0.1ppt above 7.9 record low in January and 3.5ppt below February 2022 record high of 11.5), and Consumer Staples (7.1, 0.4ppt above September low & 0.6ppt from June 2020 record high of 7.7).

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Joe Abbott, Chief Quantitative Strategist, 732-241-6502
Melissa Tagg, Senior Global Investment Strategist, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
William Pesek, Contributing Editor, 516-277-2432
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102