



JAMES DIXON, CIM®: MACRO THOUGHTS – AUG 19, 2026

US-IRAN CONFLICT: NEXT STEPS

EXECUTIVE SUMMARY

The US–Iran confrontation is entering a new and potentially more durable phase—not one characterized by either a comprehensive peace agreement or an inevitable return to war, but by managed instability.

The most likely path forward is a sequence of partial agreements, implementation tests, renewed threats, limited escalation and subsequent negotiation rather than a binary outcome of “deal” and “no deal.”

The recent June Memorandum of Understanding (MOU) established a framework covering commercial passage through the Strait of Hormuz, the US naval blockade, sanctions relief, frozen Iranian assets and ultimately Iran’s nuclear program. This has shifted the challenge from agreeing on the broad framework to sequencing and implementing its individual components.

Recent developments reinforce this assessment. Iran has sought broader concessions before fully reopening Hormuz, while negotiations through regional intermediaries continue. At the same time, US officials report that the seven-day average of oil moving through Hormuz has recovered to almost 9 million barrels per day—an important improvement, but still far below normal pre-conflict flows.

For investors, five conclusions can be drawn:

1. **Diplomacy over settlement.** A comprehensive near-term settlement remains unlikely, but neither side appears to benefit from returning to full-scale conflict. This creates room for an extended period of imperfect diplomacy.
2. **Hormuz is key.** Hormuz remains the immediate economic bargaining chip. Partial normalization can occur without resolution of the nuclear issue, allowing both sides to claim progress without surrendering their core negotiating leverage.
3. **WMD.** The nuclear question will take considerably longer to resolve. Enrichment, Iran’s existing stockpile and International Atomic Energy Agency verification remain the hardest components of any lasting settlement.
4. **Energy premium.** Energy markets should retain a geopolitical risk premium. Even if Hormuz gradually normalizes, the conflict has demonstrated the vulnerability of the broader Middle Eastern energy and shipping architecture. Goldman Sachs and JP Morgan have both argued that normalization can ultimately pull oil prices lower, but the transition remains highly dependent on restoring Gulf supply and shipping flows.
5. **Positioning.** For portfolios, the appropriate response is resilience rather than positioning around a single geopolitical outcome. Energy exposure, quality equities, inflation protection and liquidity of

holdings remain useful portfolio stabilizers. A temporary oil spike would represent the principal transmission mechanism from geopolitical risk into inflation, rates and equities.

Key insight: My base case is neither peace nor renewed war. It is prolonged, non-linear de-escalation.

This distinction is important because markets can perform well through geopolitical uncertainty provided the uncertainty does not translate into a sustained energy shock.

1. FROM WAR TO MANAGED INSTABILITY

The diplomatic environment has improved materially from the direct military confrontation earlier this year. Still, investors would be wise to resist interpreting the June MOU as the beginning of a conventional peace process.

The more useful framework is managed instability!

Washington and Tehran have strong reasons to avoid another sustained military confrontation.

- **Iran.** Iran needs greater economic normalization and access to global trade.
- **US.** The United States has little incentive to become involved in another prolonged Middle Eastern conflict. Especially if its objectives surrounding maritime security and nuclear containment can be pursued through economic and military leverage rather than continuous combat.

But incentives to avoid war are not equivalent to incentives to compromise.

- **Iran.** Tehran wants sanctions relief; access to frozen assets; an end to the blockade; and assurances that any U.S. concessions will not simply be reversed later.
- **US.** Washington wants demonstrable Iranian compliance before surrendering its economic leverage.

This creates an inherently unstable negotiating structure: both parties want the other side to move first.

The result is likely to be negotiation punctuated by confrontation rather than negotiation replacing confrontation.

That explains why contradictory headlines can coexist. Iranian officials can describe intermediary talks as constructive while simultaneously demanding additional concessions. Oman and other regional actors can push diplomacy forward even while military incidents periodically threaten the process.

Investors should expect this contradiction to continue.

2. HORMUZ: THE FIRST TEST

The Strait of Hormuz remains the most important near-term indicator of whether diplomacy is working.

The improvement in tanker traffic is meaningful. The US administration recently indicated that the seven-day average of oil leaving Hormuz had approached 9 million barrels per day.

But normalization remains incomplete!

This matters because Hormuz is simultaneously an economic artery and a negotiating instrument.

For Iran, reopening the Strait completely without receiving concessions would mean relinquishing one of its strongest sources of leverage. Washington, conversely, does not want to provide major sanctions relief while maritime disruption continues.

Gradual normalization is therefore the most plausible compromise.

- More commercial vessels transit the Strait.
- Military activity diminishes.
- Washington incrementally relaxes elements of its pressure campaign.
- Iran receives limited economic concessions.

Each stage becomes conditional on the successful implementation of the previous one.

That would represent an important improvement without requiring either side to concede the larger strategic argument.

For investors, the volume and reliability of maritime traffic may consequently be more informative than diplomatic rhetoric.

3. SANCTIONS: THE SECOND BARGAINING CHIP

The second obstacle is sanctions sequencing.

Iran needs to know that concessions offered by Washington have economic value and some degree of durability. At the same time the United States needs evidence of compliance before providing meaningful relief.

This creates another potential avenue for incrementalism.

- **US.** Rather than wholesale sanctions removal, Washington could progressively authorize specific transactions; release portions of frozen Iranian funds; or provide narrowly defined waivers.
- **Iran.** Iran could reciprocate through greater maritime normalization; military restraint; and eventually increased nuclear transparency.

The important point is that sanctions relief does not need to be comprehensive for negotiations to continue.

A staircase of conditional concessions is politically easier for both governments rather than one transformational agreement.

This also provides an important mechanism for enforcing compliance: if Iran reverses course, Washington retains the ability to stop or reverse subsequent sanctions relief.

4. THE NUCLEAR ISSUE: THE HARDEST PART

The nuclear negotiations are fundamentally different from the maritime negotiations.

Commercial passage through Hormuz can be improved incrementally. Nuclear capabilities are more difficult to divide into temporary compromises.

Three questions remain central:

1. What are acceptable enrichment levels?
2. How to treat Iran's existing enriched uranium stockpile?
3. How to verify the regime governing Iranian facilities?

International Atomic Energy Agency access will therefore remain one of the most important indicators for investors.

- **Meaningful access.** If inspectors regain meaningful access and verification mechanisms are restored, the probability of a durable diplomatic settlement rises materially.
- **Diminishing access.** If access deteriorates while enrichment continues, the probability of renewed military action—particularly involving Israel—rises.

This is why the original 60-day negotiating window was always ambitious. Maritime arrangements and sanctions sequencing might be achievable within months. A credible nuclear settlement could take substantially longer.

Key insight: The June framework should therefore be viewed less as a deadline for peace than as a mechanism for preventing the confrontation from returning to war while harder negotiations continue.

4. ISRAEL: THE CRITICAL THIRD ACTOR

The US–Iran relationship cannot be analyzed entirely as a bilateral negotiation. This is because Israel's strategic objectives may not always perfectly align with Washington's.

Washington may ultimately tolerate an imperfect agreement if it constrains Iran sufficiently; protects maritime trade; and prevents the development of a nuclear weapon. Israel may however demand a substantially higher threshold of nuclear containment.

This creates one of the largest tail risks to the diplomatic process.

Even if Washington and Tehran conclude that continued negotiation serves their interests, Israeli policymakers could determine that developments within Iran's nuclear program create an unacceptable strategic threat.

This makes the decision for markets muddier. The critical question is not simply: Are Washington and Tehran negotiating? It is also: Does Israel believe the negotiations are successfully containing Iran's nuclear capabilities?

That distinction could ultimately determine whether the diplomatic process survives.

5. ENERGY: THE PRIMARY TRANSMISSION MECHANISM

For financial markets, the conflict matters primarily through energy.

The consequences of a prolonged regional conflict are significant because the risk is no longer confined exclusively to Hormuz. Shipping routes; regional infrastructure; and alternative maritime chokepoints can all become vulnerable as conflict spreads.

This argues for maintaining some geopolitical premium in oil even as physical flows improve. With that said, investors should distinguish between temporary geopolitical scarcity and structural oil scarcity.

JP Morgan currently forecasts Brent averaging approximately \$86/bbl in Q3 and \$80/bbl in Q4, exiting 2026 around \$78. These forecasts are based partly on the expectation of gradually improving Hormuz flows and evidence that demand has adjusted to higher prices more effectively than initially anticipated.

Goldman Sachs similarly argues that greater normalization should ultimately reduce oil prices. This despite lingering conflict damage; low inventories; and the possibility of incomplete reopening justify a continuing premium.

This creates an asymmetric distribution.

- The base case is a gradual normalization and ultimately lower oil prices.
- The tail risk is another disruption that sends oil sharply higher.

While broader positioning should be driven by the base case, the tail deserves respect! Energy remains one of the fastest mechanisms through which geopolitical risk can migrate into the broader economy.

Key insight: This is why I continue to retain a small strategic overweight to energy exposure.

6. OIL: THE KEY MACRO RISK

A renewed oil shock would create three interconnected risks.

- **Inflation.** Higher gasoline, transportation and input costs would lift headline inflation and potentially affect inflation expectations.
- **Consumption.** Energy behaves effectively like a tax on households. Higher prices reduce disposable income available for other goods and services.
- **Margins.** Transportation, industrial, chemical, consumer and other energy-intensive industries would face renewed cost pressure.

The interaction with monetary policy is particularly important.

Importantly, a temporary geopolitical increase in inflation does not automatically require tighter monetary policy. Supply driven over demand driven inflation shocks create challenges for Central banks. This is why they traditionally attempt to look through temporary supply shocks unless they begin affecting expectations, wages or underlying inflation.

This thesis is consistent with Morgan Stanley's assessment that the Federal Reserve would require a larger shock than markets might previously have assumed before returning to rate hikes.

Consequently, the first-order consequence of another moderate oil spike would probably be slower growth and temporarily higher inflation rather than an immediate Fed tightening cycle. Refer to my thoughts last week (THE FED OUTLOOK).

7. THE FIVE SIGNPOSTS INVESTORS SHOULD WATCH

A research piece from Morgan Stanley identified observable developments they are watching as developments unfold.

1. **Maritime normalization.** Consistently increasing tanker traffic through Hormuz would be the strongest near-term indication that the June framework is working.
2. **IAEA access.** Improved inspection and verification would signal progress on the hardest component of the negotiations.
3. **Sanctions implementation.** Incremental sanctions relief matched by Iranian compliance would demonstrate that both sides have found a workable sequencing mechanism.

4. **Military restraint.** Reduced US, Iranian and Israeli military activity would indicate that diplomacy is becoming increasingly valuable to the participants.
5. **Rhetoric.** Rhetoric will remain volatile, but the distinction between negotiating rhetoric and preparations for renewed military action will become important.

Importantly for investors, no single indicator should be viewed in isolation. The more important signal would be several of these improving simultaneously.

8. THE LIKELY PATH

Rather than a single outcome, investors should consider three broad scenarios.

BASE CASE — PROLONGED, UNEVEN DE-ESCALATION

Per my thesis above, this remains the most likely outcome.

- Hormuz gradually reopens; sanctions relief occurs incrementally; negotiations continue through Oman and other intermediaries; and nuclear discussions extend well beyond the original timetable.
- Periods of escalation periodically interrupt the process, but neither side chooses to abandon diplomacy entirely.
- Oil retains a geopolitical premium but gradually moderates as physical supply improves.

This outcome remains compatible with continued global economic expansion and constructive equity markets.

BULL CASE — BROADER STRATEGIC AGREEMENT

Under this framework.

- The US and Iran successfully establish a sanctions-for-compliance mechanism; Hormuz normalizes; IAEA access improves; and a longer-term nuclear framework emerges.
- The geopolitical risk premium in oil declines materially.
- Lower energy prices reduce inflation pressure, improve real household incomes and reinforce the case for easier monetary policy.

This would represent a particularly constructive combination for risk assets: lower geopolitical risk; lower inflation and much lower interest rates.

BEAR CASE — NEGOTIATIONS COLLAPSE

Under the bear case:

- Sanctions negotiations fail, nuclear activity accelerates or Israel concludes that diplomacy is no longer containing Iran.
- Military activity resumes and Hormuz or other regional infrastructure experiences renewed disruption.
- Oil rises sharply.

The principal investment risk would then extend beyond energy markets into inflation expectations; consumer confidence; corporate margins and ultimately equity valuations.

The severity of the economic impact would depend much more on the duration of the energy disruption than on the military confrontation itself.

Under this scenario, energy importers feel the most pain which is why I continue to steer investors clear of Europe and Asia. Its better to be safe in the event the situation turns for the worse.

9. PORTFOLIO IMPLICATIONS

For investors the appropriate response is not to build portfolios around predicting the next diplomatic headline. It is rather to construct portfolios capable of absorbing several possible outcomes.

- **Maintain strategic energy exposure.** Energy remains a useful geopolitical hedge and continues to generate substantial cash flows even without another major oil spike.
- **Focus on quality equities.** Do not abandon quality equities because of geopolitical volatility! Historically, geopolitical events only become lasting equity-market problems when they create recessions, financial instability or persistent commodity shocks. Not where we are today! Recall we are entering mid expansion phase (Aug 5 - POSITIONING FOR THE NEXT PHASE OF THE BULL MARKET).
- **Retain inflation protection.** Real assets, infrastructure and appropriate commodity exposure can provide useful diversification against the principal macroeconomic tail risk. This is why I remain overweight materials and industrials.

Key insight: The objective for UHNW portfolios should therefore be strategic positioning with optionality rather than prediction. The base case discussed above remains the most likely outcome.

10. CONCLUSION

The US–Iran confrontation is unlikely to end with a single diplomatic breakthrough.

The more probable path is considerably messier: partial agreements; conditional sanctions relief; gradual maritime normalization; periodic military incidents; hostile rhetoric and continued negotiation over Iran's nuclear program.

That may appear unsatisfactory politically, but from an investment perspective it could be sufficient!

Neither Washington nor Tehran appears to benefit from returning to sustained conflict. That mutual incentive creates a foundation for what can best be described as managed instability—a situation in which neither side resolves the fundamental dispute but both attempt to contain its economic and military consequences.

Hormuz will provide the first test. Sanctions implementation will provide the second. IAEA access and Iran's nuclear program will ultimately determine whether tactical de-escalation becomes something more durable.

For investors, oil remains the bridge between geopolitics and financial markets. A sustained disruption would threaten inflation; consumption; and equity valuations. Conversely, continued normalization could gradually remove the geopolitical energy premium and reinforce the broader disinflationary trend.

The central investment conclusion is therefore more constructive than the headlines might suggest.

Volatility should be expected but sustained escalation should not be assumed.

For UHNW families, this argues against repositioning portfolios around every development in the region. Maintain strategic hedges, liquid assets and energy exposure with focus on quality.

If the base case of gradual uneven de-escalation prevails, the US–Iran confrontation should evolve from a dominant macroeconomic threat into a persistent but increasingly manageable geopolitical risk.

CONTACT

James Dixon, CIM ®

Investment Advisor, CIBC Wood Gundy

277 Lakeshore Rd E, Oakville, ON, L6J 6J3

Tel: 905-631-3905 (w)

James.dixon@cibc.com

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