

What happens next in the Israel-Iran conflict: Four potential scenarios

In the Loop

Key Insights

- The Israel-Iran conflict is a highly fluid situation with various potential geopolitical outcomes.
- We believe that a controlled confrontation is the highest-probability scenario, followed by the conflict broadening to involve the U.S. Both outcomes present downside risks.
- In our view, regional bond markets are too complacent, with current prices not adequately reflecting the risks.



Razan Nasser
Credit Analyst



Peter Botoucharov
Credit Analyst

The Israel-Iran conflict is a highly fluid situation with various potential geopolitical outcomes. Below, we outline four potential scenarios for how this conflict could evolve from here, followed by potential implications for the region's oil and bond markets.

Four potential outcomes to the current conflict:

1. Controlled confrontation scenario

In this scenario, both sides continue exchanging attacks without involvement from the U.S. or other external powers. The exchange of fire would likely diminish when Israel feels it has inflicted sufficient damage to Iran's military capabilities, which could take several weeks or potentially several months. However, occasional exchanges of fire may persist beyond this period.

Concerns would likely remain high around Iran trying to reconstitute its

2. Broader conflict involving the U.S.

The U.S. has so far held back from directly intervening in the conflict. This could change if U.S. military assets in the region are attacked or if energy supply from the region is under threat. This is a significant downside risk that would likely have broader spillover to markets if it occurs. It's also important to note that it is not guaranteed that U.S. involvement in the conflict would lead to a decisive end. At this stage, this is a medium-probability scenario, in our view.

nuclear program. Even if Iran loses fire power and attacks become one-sided, Iran may endure the situation and attempt to find ways to respond and reconstitute. In this scenario, the impact of the conflict remains constrained to regional assets, but there are risks of collateral damage to oil facilities in the region or other targets. At this stage, this is the highest-probability scenario, in our view.

3. Iran steps back and approaches the U.S. with the aim to restart nuclear talks in earnest

This could lead to the U.S. pressuring Israel into a ceasefire and resumption of nuclear negotiations. While this would be a constructive outcome, we assign a low probability to this playing out. That's because, although Iran may be willing to agree to a ceasefire in exchange for nuclear talks, which would give it a break from the fighting and an opportunity to reconstitute, there is little incentive for Israel to accept such a deal. Ultimately, it would be difficult to see Iran agreeing to give up its nuclear capabilities and ballistic missiles, since this would be perceived internally as outright surrender to Israel.

4. Iran regime collapses

At this stage, we assign a low probability to this outcome, with the caveat that political regime changes are difficult to predict.



Investment implications

Regional impact and oil

The Middle East will be affected to varying degrees by the conflict. A negative development for all would be if there's any disruption to traffic in the Strait of Hormuz, which is a narrow waterway that enables the transport of roughly one-third of the world's seaborne oil supplies.

In terms of oil, targets have so far been limited to domestic energy facilities; no exported oil barrels have been impacted yet. The United Arab Emirates and Saudi Arabia have capabilities to circumvent the Strait for a large share of their exports, but that is not the case for Iraq and Kuwait. The risks to the strait of Hormuz being blocked is limited, but shippers and insurers could be deterred from using the route, given the conflict.

Risks being underpriced

With risks skewed to the downside, regional bond markets in the Middle East are being too complacent, in our view. There is unlikely to be a resolution to the conflict in the near term. At current prices, we believe that investors are not being adequately compensated. For example, Israeli local government bonds and credit face increased geopolitical risk, potential deterioration of public finances, and higher funding needs.

Overall, the environment remains highly uncertain. We continue to monitor the evolving situation to evaluate implications for financial markets.

INVEST WITH CONFIDENCE™

T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so they can feel more confident.

T. Rowe Price cautions that economic estimates and forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual outcomes could differ materially from those anticipated in estimates and forward-looking statements, and future results could differ materially from any historical performance. The information presented herein is shown for illustrative, informational purposes only. Forecasts are based on subjective estimates about market environments that may never occur. Any historical data used as a basis for this analysis are based on information gathered by T. Rowe Price and from third-party sources and have not been independently verified. Forward-looking statements speak only as of the date they are made, and T. Rowe Price assumes no duty to and does not undertake to update forward-looking statements.

Important Information

Outside of the United States, this is intended for investment professional use only. Not for further distribution.

This material is being furnished for informational and/or marketing purposes only and does not constitute an offer, recommendation, advice, or solicitation to sell or buy any security.

Prospective investors should seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services.

Past performance is not a guarantee or a reliable indicator of future results. All investments involve risk, including possible loss of principal.

Information presented has been obtained from sources believed to be reliable, however, we cannot guarantee the accuracy or completeness. The views contained herein are those of the author(s), are as of June 17, 2025, are subject to change, and may differ from the views of other T. Rowe Price Group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

All charts and tables are shown for illustrative purposes only. Actual future outcomes may differ materially from any estimates or forward-looking statements provided.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

DISCLOSURE CONTINUES ON THE FOLLOWING PAGE.

Important Information (cont.)

Australia—Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 28, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, Australia. For Wholesale Clients only.

Brunei—This material can only be delivered to certain specific institutional investors for informational purpose only. Any strategy and/or any products associated with the strategy discussed herein has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

Canada—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to non-individual Accredited Investors and non-individual Permitted Clients as defined under National Instrument 45-106 and National Instrument 31-103, respectively. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

Colombia, Chile, Mexico, Perú, Uruguay—This material is prepared by T. Rowe Price International Ltd - Warwick Court, 5 Paternoster Square, London, EC4M 7DX which is authorised and regulated by the UK Financial Conduct Authority - and issued and distributed by locally authorized distributors only. For professional investors only.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd which is regulated by the Dubai Financial Services Authority as a Representative Office. For Professional Clients only.

EEA—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

Hong Kong—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

Indonesia—This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

South Korea—This material is intended only to Qualified Professional Investors. Not for further distribution.

Mainland China—This material is provided to qualified investors only. No invitation to offer, or offer for, or sale of, the shares will be made in the mainland of the People's Republic of China ("Mainland China", not including the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the Mainland China. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the Mainland China. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the Mainland China that are expressly authorized under the laws and regulations of the Mainland China to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the Mainland China. Potential investors who are resident in the Mainland China are responsible for obtaining the required approvals from all relevant government authorities in the Mainland China, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the Mainland China, or nationals with permanent residence in the Mainland China, or to any corporation, partnership, or other entity incorporated or established in the Mainland China.

Malaysia—This material can only be delivered to specific institutional investor. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

New Zealand—Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 28, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

Philippines—ANY STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING DISCUSSED HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

Singapore—Issued by T. Rowe Price Singapore Private Ltd. (UEN: 201021137E), 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

South Africa—Issued in South Africa by T. Rowe Price International Ltd (TRPIL), Warwick Court, 5 Paternoster Square, London EC4M 7DX, is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (Financial Services Provider (FSP) Licence Number 31935), authorised to provide "intermediary services" to South African Investors. TRPIL's Complaint Handling Procedures are available to clients upon request. The Financial Advisory and Intermediary Services Act Ombud in South Africa deals with complaints from clients against FSPs in relation to the specific services rendered by FSPs. The contact details are noted below: Telephone: +27 12 762 5000, Web: www.faisombud.co.za, Email: info@faisombud.co.za

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

Taiwan—This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

Thailand—This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to "institutional investors" as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

UK—This material is issued and approved by T. Rowe Price International Ltd, Warwick Court, 5 Paternoster Square, London EC4M 7DX which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

USA—Issued in the USA by T. Rowe Price Investment Services, Inc., distributor and T. Rowe Price Associates, Inc., investment adviser, 1307 Point Street, Baltimore, MD 21231, which are regulated by the Financial Industry Regulatory Authority and the U.S. Securities and Exchange Commission, respectively.

© 2025 T. Rowe Price. All Rights Reserved. T. Rowe Price, INVEST WITH CONFIDENCE, the Bighorn Sheep design, and related indicators (see troweprice.com/ip) are trademarks of T. Rowe Price Group, Inc. All other trademarks are the property of their respective owners.