
Carlsquare/Vontobel weekly trading note: How long will the war last?

This week's case asks how long President Trump will continue the war against Iran. East Asian economies are more sensitive to high oil prices than those in Europe and the U.S. Therefore, a short war would likely benefit the Nikkei index the most.

On February 28, the United States and Israel launched a joint military offensive against Iran. At the beginning of the conflict, President Donald Trump said the war would last four to five weeks. Since then, he has declared that the U.S. is "well ahead" of that estimated timeline. Trump promised his supporters during the presidential campaign that he would not involve the military in long wars abroad. Therefore, entering into a long war would increase the likelihood that Republicans will lose the U.S. midterm elections in November 2026.

Since the outbreak of hostilities, global oil prices have surged dramatically. Japan is the biggest loser from the war because it imports about 95% of its oil from the Middle East, 70% of which transits the Strait of Hormuz. Since the war started, the Nikkei index has declined significantly more than the Dow Jones Industrial Average. If the war lasts only four to five weeks, the Nikkei is likely to outperform other stock indices during the recovery phase.

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