

# Wages of War: Opportunities Amid Risks

Bill Campbell, Portfolio Manager, Global Sovereign & Emerging Markets | April 2026



While bearing in mind the human price of the Iran conflict, at DoubleLine our professional responsibility is, of course, to understand the fallout for markets and the global economy. As the war has reached the one-month mark, notwithstanding the fluid situation in the theaters of conflict, this marks a good time to share the current thinking of the Global Sovereign & Emerging Markets (GSEM) team on the medium-term market and macroeconomic impacts. To be sure, Operation Epic Fury has raised serious risks on the global inflation and growth fronts. Beyond those shocks, I foresee lasting added risk premiums on energy, chemical and fertilizer sources as the world prices in a destabilized security environment in and surrounding the Persian Gulf. However, the Iran conflict also likely will act as an accelerant of trends that have informed GSEM's decisions on portfolio allocation and construction. These include transition from a U.S.-led investment regime to a multipolar one; commensurate capital flows away from the United States toward non-U.S. markets; accelerated U.S. deficit spending and debt issuance, aggravating an already unsustainable fiscal trajectory; and increased tailwinds to energy-exporting countries in Latin America.

## Moving the Goal Posts: From Regime Change to Off-Ramp

President Donald Trump commenced this war with a call for a popular uprising against Tehran. That gambit apparently rested on the notion that U.S. and Israeli air power would provide for an environment on the ground for government opponents to take control of Iran. So far, that gambit has fallen flat. Despite the assassinations of scores of top government and military leaders, the regime remains in power. Today, the publicly stated objectives of Operation Epic Fury seem limited to military accomplishments such as degrading Tehran's ballistic missile arsenal and eliminating its capability to develop nuclear weapons. Regime change into a government amenable to Washington's dictates no longer seems feasible absent a much larger campaign, including perhaps U.S. troops on the ground in Iran. Such a commitment would be fraught with political risk for the president and his fellow Republicans in Congress, given approaching midterm elections and the unpopularity of the war among Americans.<sup>1</sup> In light of the administration's relative quiet on the subject of regime change, the president appears to be laying the groundwork to argue that the military objectives have been mostly accomplished. This could provide a path for him to declare victory and find an off-ramp from this conflict.

## Energy Price Shock Today; Ingrained Risk Premia Tomorrow

The specifics around the off-ramp matter not only for the outlook for the Gulf Cooperation Council (GCC) region but also for global markets and the global economy.<sup>2</sup> One of the biggest open questions is, in what state will the U.S. leave Iran, its Arab neighbors and the Strait of Hormuz? Oil prices on Brent and WTI crude contracts surged from pre-war prices of \$72 and \$67 a barrel, respectively, to over \$100 due to concerns about the strait being impassable for maritime traffic. If the U.S. is unable to secure and reopen the waterway, oil prices almost certainly will remain elevated and could durably constrict the availability of liquified natural gas, crude oil and oil distillates such as heating oil, gasoline and diesel to global markets. Additional discussions have focused on Tehran extracting permanent tolls to transit the strait, which would introduce a permanent premium to energy prices. The impacts of these concerns have already started to show up in prices.

Beyond the inflationary dimension of the conflict and possible postwar outcomes, investor concern is shifting to focus on the impact to global growth as higher energy prices act as a tax on consumers and businesses. Consumers are already feeling the impact of higher gasoline prices: The national average was \$2.91 per gallon in February; as of April 2, it exceeded \$4. Similarly, airfares have risen due to the cost of jet fuel, with prices surging 95% in the U.S. from \$2.50 per gallon on Feb. 27, the day before the U.S. and Israeli strikes on Iran, to \$4.88 on April 2, according to the Argus U.S. Jet Fuel Index. As airline costs increase, businesses incur higher costs for travel. This can slow business activity and reduce company profit margins. In addition, the costs for shipping via seaborne freight have marked a dramatic increase. Far East to U.S. West Coast spot rates — a trade route that transits the Pacific Ocean thousands of miles from the conflict — have climbed 29% since the end of February, according to Peter Sand, chief analyst at Xeneta, a Norway-based provider of maritime and air freight data and analytics. Spot rates on the Far East to North Europe route have risen 31% and by 30% on Mediterranean routes. The fuel to inflation and impediment to growth pose obvious challenges for policymakers, including at the Federal Reserve with its dual price stability and full employment mandates.

## 2026 Year-Over-Year Growth and Inflation Forecasts

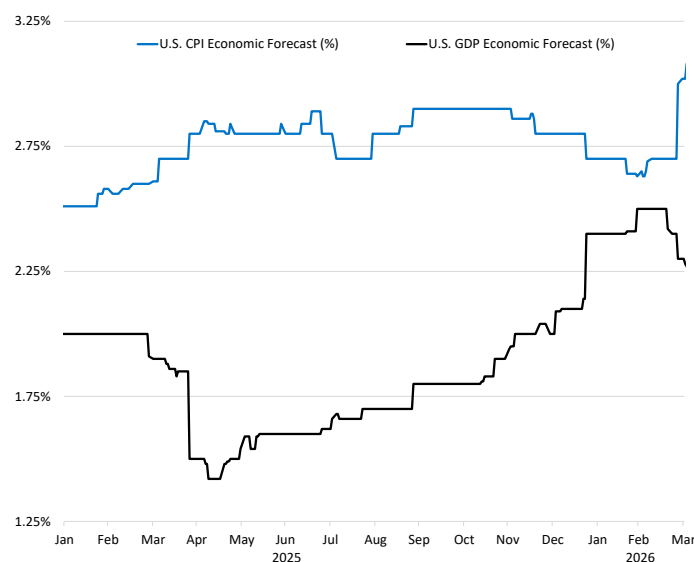


Figure 1  
Source: DoubleLine, Bloomberg, Macrobond

## GCC Eyes a Potentially Vengeful Neighbor

Another question that naturally arises is what the diplomatic landscape of the GCC will look like if the U.S. decides to take an as-yet undefined off-ramp from this conflict. The war has affected all nations in the region. In its wake, what shape will take relations among Iran and the GCC members? Saudi Arabia and the United Arab Emirates are clearly worried that the war will leave in place

a vengeful regime in Tehran. Meanwhile, Israel will continue efforts to degrade Iran’s military capabilities. And Tehran already is entertaining the imposition of a toll system in the strait. Will the GCC nations accept this? In my outlook, an enlarged geopolitical risk premium will be built into markets whose supply side has heavy exposure to export through the Strait of Hormuz — namely, energy, chemicals and fertilizer. Impacts to inflation and growth will depend on the cooperation among GCC nations, and on choices by Iran and its not inconsiderable allies. That amounts to a complex, volatile cocktail, with Hormuz as a persistent potential flashpoint. President Trump has suggested that it could be up to the GCC nations to figure out these issues after the U.S. completes Epic Fury. The president, however, also has left open whether the U.S. would act to keep Hormuz open.

The last big question to be answered about how the U.S. leaves the conflict in Iran is, will U.S. involvement remain hands-on in the Gulf and GCC region, or will Washington leave a relative power vacuum for other countries to step in and help navigate GCC relations? This scenario leads to another unknown. Europe has notably been absent in this conflict. The United Kingdom, France, Germany, Italy, the Netherlands and Japan issued a joint statement expressing their “readiness to contribute to appropriate efforts to ensure safe passage through the Strait.” But what capacity or willpower do they have — as separate or combined states — to project naval and air power in the Persian Gulf? China has close diplomatic relations with Iran and recently offered its own road map for de-escalating this conflict. What are the markets to make of that?

## U.S. Fiscal Spirals: Already Unsustainable. Now Worse

The war comes at a real price, with the U.S. campaign estimated to cost about \$1 billion per day to execute. Additional fiscal costs will come due after the war to replenish depleted weapon stockpiles. Earlier this month, the Trump administration proposed about \$1.5 trillion for defense in fiscal year 2027, more than 40% above the appropriation for the FY 2026. For several years, DoubleLine has warned about the fiscal burden on the U.S. coming to a head.<sup>3</sup> The current conflict and future defense spending would only add to the federal deficit and debt spirals.

2026 is an election year in the U.S., with control of Congress in the balance. One of the major themes of this election has been affordability for the electorate. The war has increased the costs of energy, which is finding its way into increased gasoline, food and transportation prices. It would not surprise me to see the Trump administration push out a new fiscal program to help with these rising costs, but if that happens, it would add to America’s already elevated fiscal bill.

When the dust settles, the war in Iran will likely have exacerbated many of the structural vulnerabilities facing developed markets, which have factored for some time in DoubleLine’s asset allocation and portfolio construction. First, elevated inflation uncertainty due to energy-price shock and increased fiscal instability due to the war will only add to term premium pressures. This will likely keep pressure on longer-dated yields to move higher in order to compensate investors for these elevated risks.

## Accelerating EM-DM Convergence With a LatAm Bonus

Prior to the war in Iran, I had been highlighting that the world, on the strength of relative disparities between emerging markets (EM) and developed markets (DM) in fiscal discipline, age demographics and economic growth, was moving away from one dominated by U.S. hegemony into a multipolar order that would see the rise of regional powers and partnerships.<sup>4</sup> (Figures 2, 3) Last year, the Trump administration accelerated these trends with a policy shift on tariffs and trade. Now, concerns about U.S. foreign policy are clearly on the rise. The president has questioned long-standing alliances such as NATO and pursued interventionist policies in Venezuela and now Iran, the latter even at the price of disconcerting parts of the electorate that twice sent him to the White House.

The Iran situation is particularly worrisome given uncertainties over U.S. willingness to secure regional peace and stability in the aftermath of the current campaign, an ambiguity that risks destabilizing the region. These trends will likely continue to push nations around the globe to secure new alliances outside of the U.S. and form stronger trading and security partnerships with regional allies. Over time, this will likely drive new capital flows outside of what has been a predominantly U.S.-based system into a multipolar system, benefiting non-U.S. markets and economies.

Finally, the change in the energy landscape needs to be monitored closely. Some of the infrastructure that has been hit in this conflict will take years to rebuild. Uncertainty around free transit in Hormuz and the potential for increased GCC regional tensions threaten to add new, durable input costs to GCC-produced energy. In all likelihood, this would initially create inflation and subsequently a drag on growth to importing nations in Asia and Europe. This scenario also could stimulate the diversification of energy sources, benefiting those Latin America countries, notably Brazil and Mexico, that export energy to Asia.

## An Open-Ended “Conclusion”

A fragment surviving from the work of the ancient Greek philosopher Heraclitus teaches that “war is the father of all and king of all.” That aphorism suggests that the thoughtful ready themselves for the wider changes war brings to the world, including the opportunity set. The conflict with Iran has come

### Fiscal Prudence: 2024 Government Debt Percentage of GDP

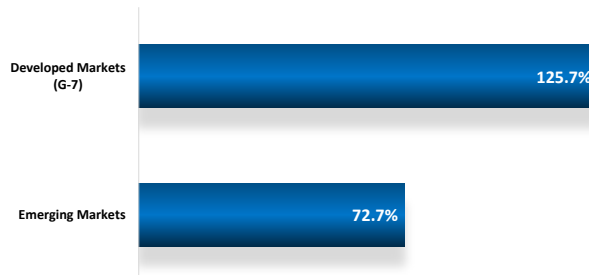


Figure 2  
Source: DoubleLine, IMF WECO

### Median Age in DM and EM Economies

Median age has risen from 30 to 43 years in DM economies and from 19 to 30 years in EM economies.

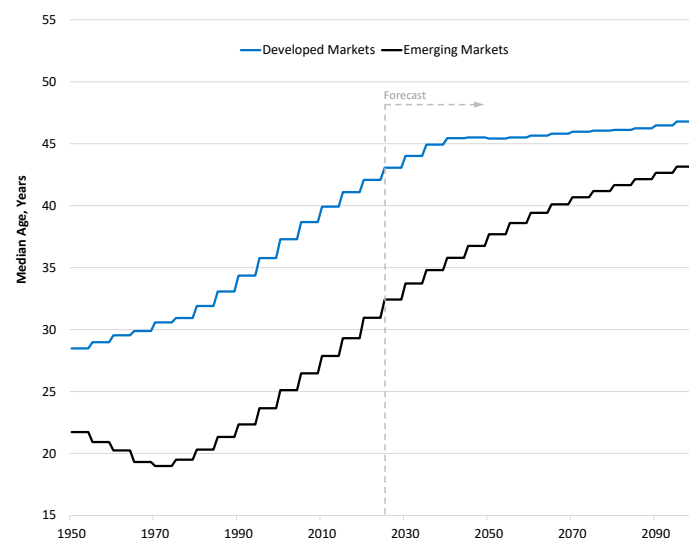
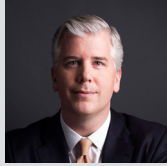


Figure 3  
Source: DoubleLine, United Nations, Macrobond

as a shock to the global system. Increasing uncertainty about the future state of global energy, U.S. foreign policy, inflation and global growth is at the forefront of investors’ minds. Taking a step back and considering the medium-term implications from this conflict, several themes emerge. Term premium likely will remain elevated across developed markets as the war increases the need for more fiscal expenditures. Energy markets might face a permanent change, but within change there are opportunities to invest abroad. The case for a move toward a multipolar global system is strengthened, an added support for international markets going forward. To be sure, risks unknown as well as known abound in a crisis of this magnitude. The investment team at DoubleLine is monitoring developments closely as new market impacts and follow-on effects come into view. But when the dust settles, it will be important to take advantage of trends that emerge in the world order. ■



**Bill Campbell**  
Portfolio Manager  
Global Sovereign & Emerging Markets

Mr. Campbell joined DoubleLine in 2013. He oversees the firm’s Global Sovereign Debt & Emerging Markets team and serves as the lead Portfolio Manager for the firm’s emerging markets and international strategies. He is a permanent member of the Fixed Income Asset Allocation Committee. Prior to DoubleLine, Mr. Campbell worked for Peridiem Global Investors as a Global Fixed Income Research Analyst and Portfolio Manager. Prior to that, he was with Nuveen Investment Management Co., first as a Quantitative Analyst in the Risk Management and Portfolio Construction Group then as a Vice President in the Taxable Fixed Income Group. Mr. Campbell also worked at John Hancock Financial as an Investment Analyst. He holds a B.S. in Business Economics and International Business, as well as a B.A. in English, from Pennsylvania State University. Mr. Campbell also holds an M.A. in Mathematics, with a focus on Mathematical Finance, from Boston University.

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Endnotes

- <sup>1</sup> In a survey of 13 opinion polls conducted March 16-April 6, RealClearPolitics.com, a political news and public polling aggregator, found 54.8% disapproved of the president’s military action against Iran, 39.5% approved, a spread of -15.3%.
- <sup>2</sup> The Gulf Cooperation Council is formed of six Arab nations bordering the Persian Gulf: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. All six host some level of U.S. military presence, and none has been spared missile or drone strikes by Iran since the Feb. 28 start of Operation Epic Fury.
- <sup>3</sup> See Bill Campbell, “Treasury Briefing: Trump, the Fed and Maturity Walls,” September 2025, and earlier papers on the U.S. fiscal trajectory referenced therein. [https://doubleline.com/wp-content/uploads/Trump-The-Fed-and-Maturity-Walls\\_September-2025.pdf](https://doubleline.com/wp-content/uploads/Trump-The-Fed-and-Maturity-Walls_September-2025.pdf) Also note that other developed market countries, unlike the U.S., heavily dependent on energy imports, face similar fiscal constraints with perhaps even tighter political margins within which to govern. See Campbell, “Winds of Change: DM Safe Haven No Longer to Be Taken for Granted,” December 2025. [https://doubleline.com/wp-content/uploads/DoubleLine\\_Winds-of-Change\\_December\\_2025.pdf](https://doubleline.com/wp-content/uploads/DoubleLine_Winds-of-Change_December_2025.pdf)
- <sup>4</sup> Campbell, “EM-DM Convergence: A Secular Trade on Deglobalization,” February 2026. [https://doubleline.com/wp-content/uploads/DoubleLine\\_EM-DM-Convergence\\_February-2026.pdf](https://doubleline.com/wp-content/uploads/DoubleLine_EM-DM-Convergence_February-2026.pdf)

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