



# Geopolitical Shocks and Energy M&A: Assessing the Impact of Recent Events in the Middle East

## Introduction

On February<sup>1</sup> 28, 2026, the United States and Israel launched a surprise airstrike on multiple sites and cities across Iran killing Supreme Leader Ali Khamenei and several other Iranian officials. This was the largest attack to the region since Israel's missile strikes in 2024 and the Twelve-Day War in June 2025. Oil prices spiked to<sup>2</sup> \$80 per barrel over the next few hours.

The Iranian government's response was swift: they attacked American military bases throughout the Middle East, and, more consequentially for the global economy, closed off the Strait of Hormuz<sup>3</sup>. This geographical checkpoint represents the world's most critical energy chokepoint, where one-fifth of global petroleum liquids consumption (~20m barrels) and more than a quarter of seaborne oil trade passes each day.

The economic impact of this reaction on global economies is described to be the largest supply disruption since the 1970s energy crisis. Since February oil prices have, at points, soared to close to \$120 a barrel, pushed up by strikes on shipping and energy infrastructure and the effective closure of the Strait of Hormuz.

The impact of these geopolitical dynamics for merger and acquisition activity is evident. Energy M&A is highly sensitive to price expectations, financing conditions, and geopolitical stability. As a result, sudden shocks such as the Iran crisis tend to immediately affect deal timing, valuation, and strategic decision-making. Oil price volatility generates substantial valuation uncertainty, while the incorporation of a geopolitical risk<sup>4</sup> premium increases the cost of capital, leading to lower valuations. In parallel, financial institutions<sup>5</sup> become more conservative in their lending practices, tightening financing conditions. Additionally, execution risk intensifies due to potential sanctions and regulatory barriers, which may delay or ultimately derail transactions.

## Energy M&A market: the current situation

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<sup>1</sup> Reuters (2026), Iran war escalation wakes markets up to risks of deeper economic pain, <https://www.reuters.com/world/middle-east/iran-war-escalation-wakes-markets-up-risks-deeper-economic-pain-2026-03-19/>

<sup>2</sup> J.P. Morgan (2026), *US–Israel military operation against Iran: Are markets on edge?*, <https://www.jpmorgan.com/insights/global-research/commodities/iran-us-tensions-market-effect>

<sup>3</sup> Energy Council (2026), *Iran conflict: Considerations for energy investors*, <https://energycouncil.com/articles/iran-conflict-energy-investor-considerations/>

<sup>4</sup> IMAA Institute (2026), *Dealmaking under fire: How the Iran conflict could reshape the 2026 M&A landscape*, Institute for Mergers, Acquisitions and Alliances. <https://imaa-institute.org/blog/dealmaking-under-fire-how-the-iran-conflict-might-reshape-the-2026-ma-landscape/>

<sup>5</sup> Reuters (2026), *M&A activity to accelerate this year despite war disruption, Goldman Sachs says*, <https://www.reuters.com/business/finance/ma-activity-accelerate-this-year-despite-war-disruption-goldman-sachs-says-2026-03-20/>



The Feb-Mar 2026 military escalation has affected global Energy M&A primarily by breaking<sup>6</sup> near-term price discovery and raising execution risk. The shock has transmitted quickly as it involves both the physical and financial infrastructures that underpins energy cashflows: disruption at the Strait of Hormuz, a sharp rise in oil/gas volatility, and non-linear increases in shipping and insurance costs<sup>7</sup>.

The effects on deal activity soon became difficult to ignore. The most immediate and visible change has been in pace: transactions that might have moved swiftly through diligence in January started slowing down, with buyers asking difficult questions and sellers finding it hard to defend their underlying assumptions. This is particularly true for cross-border deals and any asset with meaningful Gulf-linked exposure, where the combination of operational uncertainty and legal complexity (sanctions, force majeure clauses, insurance gaps) made underwriting feel premature.

Alongside the slowdown in pace, bid-ask spreads widened<sup>8</sup>. With oil moving upwards of ten dollars in a single session, it has become difficult to agree on what a barrel of future production is worth, and this uncertainty in the futures market has stalled conversations. Financing conditions tightened in parallel. The rapid repricing of rates expectations following the escalation raised the cost of acquisition debt and prompted lenders to apply more conservative stress tests.

What emerges from all of this is a visible rotation in deal appetite. Buyers are not retreating from energy broadly: they are repositioning within it, gravitating toward assets insulated from Hormuz exposure and anchored in more predictable supply chains. US gas and LNG-linked strategies, already well-regarded before the crisis, are finding themselves in even sharper focus as the disruption deepens.

### **Baseline before the shock**

To understand the magnitude of this crisis, it helps to be precise about the state of the market beforehand.

The pre-crisis baseline was a megadeal-driven value recovery with limited breadth. PwC reported that global Energy, Utilities and Resources deal value rose 27% in 2025, underpinned by 20 transactions above \$5 billion compared to just six in 2024. Dealogic put total global M&A at \$4.81 trillion for the year, up 41%, with 70 deals exceeding \$10 billion. The headline numbers were strong. But deal volumes declined globally, mid-market activity remained constrained, and value was concentrated at the top of the market.

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<sup>6</sup> Financial Times (2026, March), *Iran war leaves US oil and gas dealmaking 'in paralysis'*, <https://www.ft.com/content/193718a3-5f4f-4a5d-9847-97820d63a546>

<sup>7</sup> Reuters (2026), *Maritime insurance premiums surge as Iran conflict widens*, <https://www.reuters.com/world/middle-east/maritime-insurance-premiums-surge-iran-conflict-widens-2026-03-06/>

<sup>8</sup> Bloomberg (2026), *Iran war may delay deal timelines, not derail M&A*, <https://www.bloomberg.com/news/articles/2026-03-18/iran-war-may-delay-deal-timelines-not-derail-m-a-mcmaster-says>



Within energy specifically, the recovery was similarly uneven. US upstream M&A ran at \$105 billion in 2024 before cooling to \$65 billion in 2025—a post-consolidation slowdown in the sector that had driven much of the prior cycle. Power and utilities held up better: Deloitte reported nearly \$142 billion across 157 announced US transactions, with natural gas generation accounting for around \$89 billion of that, consistent with a scarcity thesis that had been building throughout the year. By early 2026, the pipeline was restocking, momentum was returning, and the concentration of activity in gas and LNG-adjacent strategies was, if anything, increasing.

### **Transmission mechanisms into M&A**

The escalation reached M&A through five primary mechanisms. Notably, all five operate mainly through financial markets.

Commodity shocks and volatility were the first and most notable of these mechanisms. Reuters reported crude volatility <sup>9</sup>(CBOE index) at its highest since early 2020, inhibiting confident underwriting of forward cashflows and amplifying hedge costs. Gas and LNG responded <sup>10</sup>even more sharply than oil since 28 February (percentage moves far exceeding Brent), deepening uncertainty for LNG-linked infrastructure and gas-marginal power exposures.

Second, checkpoint disruption: the Strait's scale is quantified by the US Energy Information Administration and International Energy Agency (oil flows 20 mb/d; major share of seaborne oil). The physical event underlying the crisis constrains the O&G sector by activating force majeure clauses, extended cash conversion cycles, stressed working capital at trading and terminal businesses

Third, sanctions and legal uncertainty narrowed the buyer universe. Even where limited waivers existed, the complexity of payment mechanics and the risk of secondary sanctions exposure was enough to push some potential acquirers to the sidelines.

Fourth, insurance and shipping risk becomes an explicit valuation input: cancelled war-risk cover and sharply higher premiums raise operating costs and inject binary tail-risk into deal models.

Finally, and most pervasively, came rates repricing. Energy-driven inflation expectations pushed discount rates higher across the market. For long-duration, capex-heavy assets (LNG infrastructure, transmission networks, renewables projects) where the sensitivity to the discount rate is highest, this compressed valuations even for assets with no direct Gulf exposure.

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<sup>9</sup> Reuters (2026), Iran war escalation wakes markets up to risks of deeper economic pain, <https://www.reuters.com/world/middle-east/iran-war-escalation-wakes-markets-up-risks-deeper-economic-pain-2026-03-19/>

<sup>10</sup> Reuters (2026), Iran war deals harder blow to natural gas than oil, <https://www.reuters.com/markets/commodities/iran-war-deals-harder-blow-natural-gas-than-oil-2026-03-24/>



## Case study: Devon Energy Corp & Coterra Energy Inc

On March 3, 2026—four days before the escalation—Devon Energy Corporation announced an all-equity agreement to acquire Coterra Energy Inc. At signing, this deal represented one of the largest US onshore upstream consolidations of the year. That the deal was announced at all, in that environment, is itself informative.

Devon and Coterra are US onshore producers. Neither ships through the Strait of Hormuz. Neither has meaningful operational exposure to Gulf logistics. The escalation reached them not through physical channels but through financial ones: oil and gas price volatility affecting near-term EBITDA estimates, and cost-of-capital repricing driven by energy-inflation expectations affecting the discount rate applied to future cashflows. Reuters reported the EV/EBITDA multiples implied by the deal ranging from 5.9x to 7.5x depending on the year.

The all-equity structure was the transaction's key advantage. By removing dependency on acquisition debt, it sidestepped the refinancing and covenant risk that leveraged structures were facing as rates moved. The trade-off is inherent: a fixed exchange ratio means the implied offer value moves with the acquirer's stock, and in a market repricing energy equities daily on geopolitical headlines, that created uncertainty around the headline premium.

### How the Iran shock transmits into this deal's economics

#### Price and volatility channel

Reuters reported crude-oil implied volatility reaching its highest since early 2020 and warned of “wild” swings, conditions that weaken the reliability of forward curves used to value upstream cashflows. This matters for the merger because the multiples shown in the exhibits (EV/EBITDA <sup>11</sup>5.9-7.5x depending on year) are not structurally stable: near-term EBITDA for both firms can change quickly with commodity prices, and investors may discount headline multiples more heavily when volatility increases.

Oil also experienced sharp event-driven moves: Reuters reported Brent crude reaching \$119/bbl intraday on 19 March, before retreating; by 25 March, Reuters reported oil prices down on ceasefire-plan headlines. This kind of pattern is the core mechanism behind deal hesitation described in broader Oil & Gas M&A commentary: pricing becomes difficult when the market cannot agree on the duration of the shock.

#### Chokepoint and geopolitics channel

The Strait of Hormuz is the central physical conduit for Gulf oil flows, as through its waters converge about one-fifth of global oil trade.

For this specific merger, the chokepoint's importance is indirect but still material: the shock affects global marginal supply risk, which, in turn, affects the oil risk premium embedded in prices, and therefore upstream equity valuations, even for US onshore producers that do not ship through the Strait.

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<sup>11</sup> MergerMarket Database



### **Shipping/insurance channel and why it matters even to a US onshore deal**

Although the combined company's core production is domestic, the escalation generated large, measurable increases in shipping and insurance costs (e.g., VLCC freight and war-risk premiums). These costs are part of the system-wide energy security shock that drives inflation expectations and rates repricing, which in turn affects equity discount rates and upstream valuation levels.

### **Financing channel: the advantage (and trade-off) of an all-stock consideration**

Reuters described sharp swings in rates expectations after the energy shock, consistent with a higher and more uncertain cost of capital. In that setting, an all-stock merger reduces dependency on acquisition debt markets: potentially improving executability relative to leveraged deals.

However, all-stock deals shift risk to equity market dynamics: the offer value becomes a moving target when commodity equities swing, which can affect shareholder support and headline premium perceptions (the exhibit's own reference prices show the offer value sitting below near-dated market prices around announcement). This is a key reason why deal timetables stretch under wartime volatility: boards and investors seek more certainty before locking in value.

### **Documented deal impact through 25 March 2026**

No source cited through 25 March publicly reports that this specific merger has been re-priced, terminated, or formally delayed; rather, it remains pending. The shock's observable impact is therefore best framed as contextual and risk-management driven, consistent with sector-wide reporting. The Financial Times reported US Oil & Gas dealmaking entering paralysis after the Iran war because volatility made pricing difficult, with some deals paused or scrapped despite a strong start to 2026. Bloomberg Law reported dealmakers expecting the Iran war to stretch M&A timetables and intensify diligence.

This combination of signals supports a plausible inference (not a confirmed deal-specific fact): the merger's closing process likely faces heightened scrutiny on commodity macro assumptions, and management must maintain shareholder support through a period when the implied deal value can fluctuate materially.

### **Final takeaways**

The events of February and March 2026 have shown just how quickly a barrel of oil can become a unit of foreign policy. Markets have come to learn that energy assets carry a valuation component no DCF can capture properly in the tenuous geopolitical arrangements allowing them to function correctly.

The Iran escalation has shown, above all, that a shock of this magnitude fundamentally changes how deals are done. Buyers become more selective; their capital moves away from complexity, exposure, and uncertainty, toward simplicity, domestic insulation, and resilience. The Devon/Coterra merger captures this shift well.

Looking back over the analysed period, what is perhaps most striking is how quickly the disruption travelled through financial channels rather than physical ones. It was not the closure of the Strait alone that stalled deals, but the volatility, the rates repricing, the cost of insurance, and above all the inability of buyers and sellers to agree on valuations. It is informative to look at this geopolitical shock as a case study on how uncertainty paralyzes deals.

### **Authors**

*Lorenzo Ferrante, Riccardo Caldara, Jacopo di Nicola*