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# War-Driven Repricing: U.S. Defense, Energy & Capital Flow Reset

Insights Engine | Geopolitics



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# Executive Summary

*The U.S.-Iran war is driving a structural market reset elevating defense spending, tightening energy supply, and reshaping capital flows positioning supply chains, energy assets, and defense technology as dominant investment themes.*

*“Wars today are won as much by industrial capacity and supply chains as by battlefield superiority.”*

## Doug Bush

Assistant Secretary of the Army, U.S. Department of Defense

The ongoing U.S.-Iran conflict is driving a structural repricing across global markets, with energy, defense, and capital flows emerging as key transmission channels. Oil prices above \$100 per barrel are fueling inflation, pushing U.S. Treasury yields higher and increasing market volatility, while the U.S. dollar strengthens against emerging currencies.

Defense spending has surpassed \$960B, with additional wartime funding accelerating demand for munitions, hypersonic, and AI-driven systems. However, supply chain constraints particularly in critical minerals and semiconductors are limiting production scalability.

Energy disruption risks of up to 10M+ barrels per day are compressing margins in energy-intensive sectors while benefiting U.S. producers. This environment is shifting capital toward defense, energy, and upstream supply chain assets.

The result is a multi-year structural cycle where geopolitical risk, not monetary policy, becomes the dominant driver of investment strategy and asset allocation.



# 960B+

U.S. Defense Budget  
FY2026

# \$110

Oil Price per Barrel Range  
Amid Conflict Escalation

# 200M

Estimated U.S. Defense  
Stockpile Depletion Rate

# 10M+

Barrel Per Day Global oil  
Supply Disruption

# Capital Flows Reprice Risk



*Oil-led inflation shock drives yields, volatility, and USD strength, reshaping global capital allocation dynamics.*

Oil markets have emerged as the primary transmission channel, with Brent crude sustaining above \$100–\$112 per barrel, reflecting escalating geopolitical risk premiums and supply disruption scenarios. This energy-led inflation shock has triggered a synchronized repricing across asset classes.

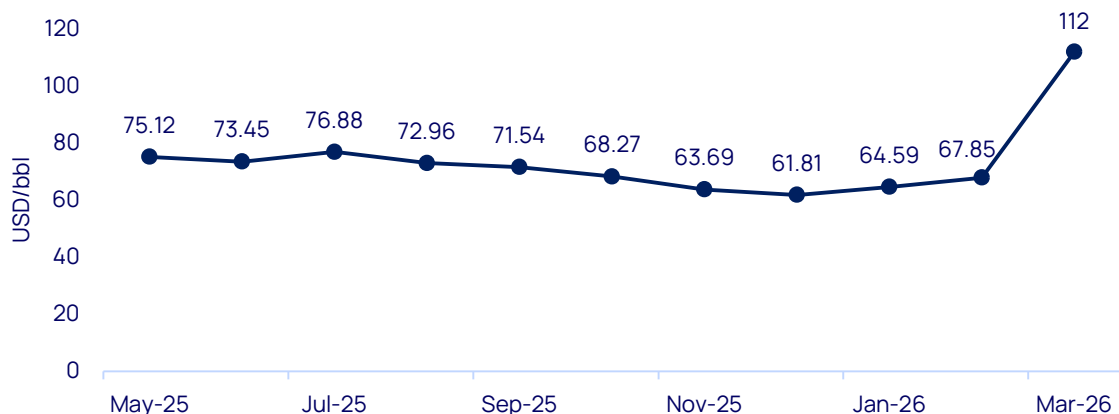
U.S. Treasury yields have moved higher, with the 10-year yield trending above 4.3%–4.5%, signaling persistent inflation expectations and delayed monetary easing. Simultaneously, equity volatility has surged, with the VIX crossing 25 levels, indicating heightened institutional hedging activity and risk-off sentiment. In contrast to traditional geopolitical playbooks, precious metals have underperformed, with gold and silver

experiencing near-term sell-offs as rising real yields and a stronger U.S. dollar reduce their relative attractiveness. The U.S. dollar has strengthened materially against emerging market currencies, supported by safe-haven flows and superior U.S. energy independence.

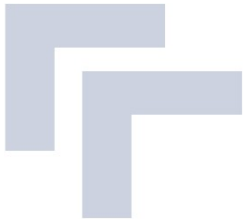
From a capital flow perspective, this environment reflects a multi-factor rotation rather than a binary risk-off regime. Institutional capital is reallocating toward energy producers, defense-linked industrials, and USD-denominated assets, while cyclicals and EM exposures face outflows. The breakdown of traditional correlations underscores a structural shift where energy and rates, not equities, are driving asset behavior.

## Brent Crude Oil Price

Oil above \$110 drives yields, volatility, and USD strength, reshaping global capital allocation dynamics.



Source: Trading Economics



# Defence Spending Enters Overdrive

*\$960B+ defense budget and wartime spending acceleration create multi-year revenue visibility across defense ecosystems.*

The U.S. defense budget has reached \$960B+, marking the highest peacetime allocation and signaling a structural escalation in military spending. Incremental war-driven costs estimated at over \$11B within the first week are accelerating supplemental funding expectations, reinforcing a sustained defense spending cycle. Notably, the Department of Defense has allocated \$6.5B toward munitions production and approximately \$3.9B toward hypersonic systems, highlighting a strategic pivot toward advanced warfare capabilities. Artificial intelligence and autonomous systems are emerging as key growth vectors, with over \$13B earmarked for AI-driven defense applications, including unmanned systems, battlefield analytics, and decision intelligence platforms.

Parallely, private capital participation is expanding, with over \$130B deployed into defense technology startups, reshaping the competitive landscape and accelerating innovation cycles. However, production capacity remains a critical constraint. U.S. defense stockpiles are being depleted at an estimated rate of ~\$200M per day, while industrial capacity expansion continues to lag demand. This creates a divergence between topline growth and execution capability, particularly for large defense primes. For investors, this signals a transition from cyclical defense spending to a structural supercycle, with sustained demand visibility but increasing emphasis on supply-side scalability and capital efficiency.

## Defense Startup Funding in 2025

Largest rounds of funding transactions in the defense space in 2025 (\$M)



Source: S&P Global Market Intelligence

# Supply Chains Define Defense Economics

*Supply chain fragility, becomes the binding constraint shaping defense margins, timelines, and valuations.*

The defining feature of the current defense cycle is not demanding expansion but industrial capacity constraints. Critical inputs including rare earth minerals, sulfur for energetics, and advanced semiconductors are emerging as structural bottlenecks. Less than 6% of the U.S. defense supply chain is fully transparent, exposing systemic vulnerabilities across procurement and production layers.

Rising demand for precision munitions, missile defense systems, and advanced platforms is coinciding with surging manufacturing costs, driven by input inflation, labor shortages, and fragmented supplier networks. This dynamic is compressing margins for prime contractors while elevating the strategic importance of upstream suppliers.

At the same time, the Pentagon is accelerating industrial base expansion through targeted investments and large-scale program funding.



The “Golden Dome” missile defense initiative has seen a \$10B incremental increase, while the Space Development Agency has awarded over \$3.5B in contracts for next-generation missile tracking satellites. These investments signal a shift toward integrated, multi-domain defense systems spanning space, cyber, and terrestrial operations.

Private equity and venture capital are increasingly participating in defense ecosystems, particularly in dual-use technologies such as AI, cybersecurity, and space-based systems. However, deal activity is becoming more selective, with capital favoring scalable, supply-chain-integrated platforms.

From an investment standpoint, value creation is migrating upstream. Suppliers of critical inputs and enabling technologies are positioned to capture disproportionate economic value as supply chain control becomes the primary determinant of defense economics.

# Energy Shock Reshapes Economy

*Up to \$10M+ bpd disruption risk drives inflation, margins compression, and sectoral divergence across global economies.*

Energy markets remain the dominant macro driver, with potential supply disruptions of up to 10M+ barrels per day creating a structurally tight oil environment. This supply shock is translating into elevated input costs across energy-intensive sectors, leading to margin compression in industries such as airlines, chemicals, and heavy manufacturing.

Higher energy prices are reinforcing inflation persistence, constraining central bank policy. For corporates, this translates into rising operating costs, tighter margins, and delayed capital expenditure cycles. Conversely, U.S. energy producers and LNG exporters are benefiting from elevated price realizations and global demand shifts.

Major U.S. oil and gas companies are operating at near record profitability levels, supported by pricing power and relatively stable domestic supply conditions. The divergence between energy exporters and importers is becoming more pronounced, with the U.S. economy relatively insulated compared to Europe and Asia.

This dynamic is reinforcing U.S. macro resilience and supporting capital inflows into domestic energy and infrastructure assets. The broader implication is a structural transition toward an energy-constrained global economy, where supply disruptions and geopolitical risks drive long-term pricing dynamics and sectoral performance.

The U.S.-Iran war is catalyzing a structural reset across defense spending, energy systems, and global capital flows. Investors must reposition portfolios toward supply-constrained sectors, energy linked assets, and defense ecosystems, as traditional correlations break and geopolitical risk becomes a persistent driver of market behavior.

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