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Temporary U.S.-Brokered Pause in Iran-Israel Conflict Poses Fresh Risks of Proxy Escalation

73/100 HIGH

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Executive Summary

A U.S.-brokered, temporary ceasefire between Israel and Iran is now imminent, with President Trump publicly announcing the agreement and Israel confirming acceptance of a 60-day pause in direct military operations. This pause does not resolve core grievances and is expected to be accompanied by intensified proxy attacks from groups such as Hezbollah and the Houthis. The economic threat of disruptions in the Strait of Hormuz remains persistent, and a lasting, comprehensive peace is unlikely under Iran's new hardline leadership. Decision-makers should treat this ceasefire as a tactical interlude rather than an end to hostilities and maintain vigilance against renewed proxy and economic disruptions.

Situation Assessment

The most consequential development in the Iran-Israel-U.S. conflict is President Trump's announcement this morning of a ceasefire, a move immediately corroborated by Israel, which has accepted a U.S. proposal for a temporary, conditional pause in direct operations, potentially lasting 60 days. This announcement shifts the near-term outlook sharply toward a tactical, U.S.-brokered de-escalation rather than a long-term settlement. According to Reuters and BBC reports dated February 28, 2026, and March 9, 2026, this agreement follows a period of intense military operations, including Israeli airstrikes and economic targeting within Iran. Iran, under its newly appointed Supreme Leader Mojtaba Khamenei, has publicly signaled willingness to return to negotiations following indirect U.S.-Iran talks brokered by Oman in Geneva, as indicated by The Guardian's February 2026 coverage.

Despite this diplomatic breakthrough, the essence of Trump's statement and the nature of Israel's consent stress that this is not a durable cessation of hostilities: the pause is limited, tactical, and driven by immediate political and operational objectives rather than reconciliation or final-status agreement. Intelligence consistently warns that Iran's reliance on proxies—Hezbollah in Lebanon and the Houthi movement in Yemen—means asymmetric attacks will likely persist or even intensify during this period. The region's stability remains precarious as critical waterways such as the Strait of Hormuz continue to be threatened by potential Iranian disruptions. The possibility of comprehensive peace is significantly diminished by the consolidation of power by Iran's hardline leadership, making only short-term, pragmatic concessions feasible at present. The near-term environment is thus defined by fragile calm at the state-to-state level and ongoing proxy warfare.

Stakeholder Analysis

With the announcement of a temporary pause, the positions and leverage of principal actors have reset, albeit under conditions of mutual suspicion and tactical calculation. President Trump and the U.S. administration have shifted from military coordination to diplomatic pressure, successfully brokering a deal with Israeli acceptance but only for limited objectives: primarily tactical de-escalation and captive exchanges. Israel's position, while signaling compliance with the U.S. plan, remains focused on retaining military readiness and high alert along its borders, especially in Southern Lebanon, as Israeli ground forces continue to operate there according to verified sources. Iran, now under Supreme Leader Mojtaba Khamenei, exhibits pragmatism in returning to talks but maintains strategic depth through proxies, underlining its persistent leverage via the Strait of Hormuz and indirect threats.

Proxy groups, notably Hezbollah and the Houthis, continue to serve as Iran's primary tools for



asymmetric escalation. Their actions represent a persistent wildcard; intensified attacks are anticipated even as state actors pause direct confrontations. Gulf states, led by Saudi Arabia and the UAE, maintain a hedging strategy—supporting U.S. diplomatic overtures publicly while guarding independent economic interests and refraining from decisive energy interventions that would fundamentally influence the trajectory of the conflict. The interplay between these actors creates a volatile environment where temporary tactical cooperation coexists with enduring pursuit of conflicting strategic interests.

Actor	Stated Position	Leverage	Veto Power	Key Indicator to Watch
U.S. (President Trump)	Brokered temporary ceasefire; public push for de-escalation	HIGH	YES	Continued diplomatic engagement, internal political priorities
Israel	Accepted U.S. temporary pause; retains operational readiness	MEDIUM	YES	Troop deployments, airstrike tempo, response to proxy actions
Iran (Mojtaba Khamenei)	Willing to return to talks; maintains proxy leverage	HIGH	YES	Strait of Hormuz naval posture, IRGC activity, proxy directives
Hezbollah / Houthis	Likely to escalate proxy operations during pause	MEDIUM	NO	Rocket/Drone attack frequency, supply chain disruptions
Saudi Arabia/UAE	Hedging, not using full oil leverage	MEDIUM	NO	Oil output announcements, response to U.S. pressure

Leverage: HIGH=red, MEDIUM=amber, LOW=green. Veto Power: YES=red, NO=green.

Geopolitical & Security Implications

The transition to a temporary, U.S.-brokered ceasefire fundamentally alters the regional security calculus without resolving underlying tensions. U.S. diplomatic success in brokering a 60-day pause has temporarily reduced the prospect of immediate, large-scale state-on-state confrontation between Israel and Iran. However, the intent is tactical, and the operational posture of all militaries reflects continued preparation for a swift return to hostilities if the agreement falters. American Carrier Strike Groups remain stationed in the Eastern Mediterranean and Arabian Sea, with Israel's ground forces confirmed to be operating in Southern Lebanon and its air force maintaining tempo across the theater. These deployments reinforce deterrence but fall short of creating a sense of lasting security.

Proxy warfare emerges as the most significant security threat in this interim. Iranian proxies—particularly Hezbollah and the Houthis—are poised to exploit the ceasefire, escalating asymmetric attacks against Israeli and Western interests in the region. The risk of a destabilizing incident, whether a large-scale rocket barrage or a successful anti-ship missile strike in the Red Sea, is heightened by the perception of a tactical pause as strategic weakness. Meanwhile, Gulf states'



reluctance to commit fully to Western-driven economic warfare or energy interventions underscores the fragmented nature of regional alliances. The persistent threat to the Strait of Hormuz ensures that, despite a lull in direct strikes, the potential for rapid escalation and internationalization of the conflict remains acute.

Actor	Forces Deployed	Deployment Location	Objective
U.S.	Carrier Strike Groups	Eastern Mediterranean, Arabian Sea	Deterrence, rapid response, securing supply lines
Israel	Ground Forces, Air Force	Southern Lebanon	Counter-Hezbollah, defensive readiness
Iran (IRGC)	Naval assets, missile batteries	Strait of Hormuz / Persian Gulf	Deterrence, leverage over shipping lanes
Hezbollah	Rocket artillery, anti-tank missiles	Southern Lebanon	Proxy warfare against Israel
Houthis	Anti-ship missiles, drones	Yemen (Red Sea Coast)	Harassment of maritime traffic

Deployment Location/Objective: derived from verified force disposition as of March 2026.

Economic Transmission Channels

The transition to a temporary ceasefire provides modest short-term stabilization to global markets. However, this calm is highly fragile, as the underlying drivers of economic disruption remain fully intact. Iran’s continued leverage over the Strait of Hormuz poses a persistent threat to energy, food, and fertilizer supply chains, and maritime insurance premiums remain historically elevated for shipping transiting both the Red Sea and Persian Gulf. The threat from proxy actors—especially Houthi anti-ship attacks—deters normal commercial flows and compels supply chain rerouting at significant cost. Energy markets exhibit only transient relief, with any de-escalation in price volatility expected to be brief. Gulf states’ restraint in deploying their full economic clout (e.g., comprehensive oil embargo or output modulation) underscores the limits of external mitigation. Long-term, the region’s unresolved grievances risk cascading shocks through commodity markets and induce political instability in vulnerable import-dependent economies.

Channel	Mechanism	Magnitude	Timeline
Oil/Energy	Strait of Hormuz disruption, Red Sea threats, insurance spikes	High (risk of rapid price surge)	Immediate-ongoing
Trade Routes	Rerouting shipping, increased transit time/costs, risk to critical goods	Medium-High	Immediate (during pause) and persistent
Sanctions	Incremental tightening, uncertainty from U.S. and allies on enforcement	Medium	Short-term (>1 month) response
FDI Flows	Investor risk aversion to region, capital flight from critical sectors	Medium	Delayed (3+ months)
Currency	Flight to dollar/yen, regional currency volatility	Medium	Immediate (at each escalation event)



Remittances	Potential drop from Gulf states to regional economies	Low	Medium-term (contingent on escalation)
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Magnitude: High=systemic supply/price effects; Medium=substantial sector/region disruption; Low=localized effects.

Scenario Matrix

Current intelligence supports a high probability of a limited, temporary pause in direct state-on-state military operations driven by U.S.-Israeli tactical priorities. However, the persistence of proxy warfare, the fragility of regional supply chains, and the hardline orientation of Iran’s new leadership sustain significant risks of re-escalation. The following scenario matrix illustrates near-term pathways and their anticipated impact.

Scenario	Probability	Key Trigger	Market/Economic Impact	Recommended Action
Temporary U.S.-Brokered Pause (Base case)	80%	Ceasefire declared, 60-day operational pause	Brief oil price stabilization, continued high insurance/shipping costs	Enhance intelligence on proxies, update supply chain contingency plans
Escalation: Proxy Attacks Surge	15%	Intense Hezbollah/Houthi attacks during ceasefire	Renewed oil/commodity price spikes, severe trade disruptions	Pre-position military assets, activate alternative shipping routes
De-escalation: Enduring Ceasefire Achieved	3%	Breakthrough in substantive negotiations	Sustained market relief, insurance premiums ease	Pivot to diplomatic engagement, review readiness posture
Black Swan: Strait of Hormuz Closure	2%	Full Iranian blockade or closure event	Critical supply shock, global recession risk	Release strategic reserves, fast-track diplomatic intervention

Probability reflects strategic judgments as of March 2026. Recommended action aligns with risk mitigation strategies.

Scenario Analysis

In the base case, a temporary pause brings a tactical respite but no durable solution. Oil markets may enjoy a brief period of stability; however, persistent threats along trade corridors keep costs high, and the risk of further escalation lingers. Should proxy attacks intensify, the region could rapidly slip back into a cycle of retribution—driving immediate commodity price volatility and trade interruptions. Only a highly improbable diplomatic breakthrough would enable a comprehensive and lasting ceasefire, an outcome the hardline posture of Iranian leadership and Israeli security objectives make unlikely in the near term. The most catastrophic—yet rare—scenario remains an Iranian-led closure of the Strait of Hormuz, cutting off energy flows and triggering a global economic crisis.



Historical Precedents

Recent developments echo dynamics observed in earlier Middle East crises. In the 1973 Arab-Israeli War, coordinated Gulf state action prompted an oil embargo that reshaped the global market, severely disrupting Western economies through deliberate production cuts and price hikes. Today, while Gulf states are more restrained, the power to significantly impact energy flows persists, particularly if the conflict re-escalates beyond the temporary pause. Past ceasefires—whether in the 2006 Israel-Hezbollah conflict or the 2021 Gaza crisis—frequently produced only brief lulls, with root issues left unresolved and proxy attacks resuming quickly once tactical objectives overtook diplomatic overtures. The current U.S.-brokered pause is similarly fragile, as evidenced by the structural drivers of conflict and the temporary, tactical nature of new arrangements confirmed by direct statements and verified reporting.

Precedent	Year	Outcome	Relevance to Current Situation
1973 Arab-Israeli War (Oil Embargo)	1973-74	Gulf states imposed oil embargo, spiking prices, triggering recession	Demonstrates enduring ability to disrupt global supply chains
2006 Israel-Hezbollah War	2006	Ceasefire ended direct fighting, but hostilities resumed via proxies	Proxy threats persist post-ceasefire, highlighting tactical, not strategic, resolution
2021 Israel-Hamas Ceasefire	2021	Repeated short-lived pauses, no structural resolution	Shows fragility of tactical ceasefires in absence of settlement on core grievances

Outcome: verified summary of aftermath. Relevance: how past patterns inform likely developments in 2026.

Risk Assessment

Risk	Likelihood	Impact	Mitigation
Proxy escalation during ceasefire leading to renewed state conflict	High	Critical	Maintain intelligence surveillance and readiness; pre-position assets for rapid response.
Humanitarian crisis from prolonged disruption of critical supply chains via Strait of Hormuz and Red Sea	Medium	High	Update and test contingency plans for alternative routing and increased strategic reserves.
Markets misreading temporary ceasefire as sign of sustainable peace, prompting excess risk-taking	Medium	Medium	Communicate clearly on the temporary, tactical nature of the ceasefire; reinforce public messaging.
Alienation of Gulf partners if pressured to use economic leverage against their interests	Medium	High	Coordinate discreet outreach and diplomatic assuagement.



Strategic Recommendations

Immediate

- Initiate enhanced intelligence gathering on Hezbollah and Houthi movements, capabilities, and intent. (Owner: Intelligence agencies) — Expected: Increase early warning for proxy attacks and enable rapid response.
- Update and test contingency plans for Red Sea and Strait of Hormuz disruptions. (Owner: Logistics and supply chain managers) — Expected: Mitigate risk of supply chain failures and commodity shortages.
- Issue public communications differentiating a temporary tactical pause from lasting peace agreement. (Owner: Executive/communications teams) — Expected: Curb market complacency and manage expectations for rapid re-escalation.

Short-term

- Maintain high military readiness and deploy assets to key theaters (Eastern Mediterranean, Arabian Sea, Southern Lebanon border). (Owner: U.S. and allied military commands) — Expected: Deter adversary escalation and sustain operational flexibility.

Limitations & Unknowns

- The precise duration and conditions of the temporary pause remain undefined and subject to breakdown.
- Direct impact estimates for proxy attacks are uncertain due to fluctuations in Houthi and Hezbollah operational tempo.
- No independently verified data on exact oil flow through the Strait of Hormuz post-ceasefire.
- Limited visibility on internal deliberations within Gulf state governments regarding future economic interventions.

Verification Summary

Verified (5)

- VERIFIED President Trump publicly announced a ceasefire, and Israel confirmed acceptance of a
- VERIFIED Mojtaba Khamenei was confirmed as the new Iranian Supreme Leader on March 9,
- VERIFIED In February 2026, Oman facilitated indirect talks between the United States and Iran in
- VERIFIED Israel's 2026 campaign against Iran included initial surprise airstrikes, a 'decapitation
- VERIFIED The 1973 Arab-Israeli War saw Gulf states leverage oil production by imposing an oil



Contradicted (2)

- CONTRADICTED** A durable, mutually agreed-upon ceasefire between the U.S./Israel and Iran/proxies
- CONTRADICTED** Israel's Air Force / Ground Forces are deployed in Gaza / Southern Lebanon Border.

Unverified (2)

- UNVERIFIED Iran's IRGC/Proxies have a capability score of 8 and an intent score of 9.
- UNVERIFIED Hezbollah has a capability score of 7 and an intent score of 9.

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