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Flash Executive Summary Report

With the signing of last week's Memorandum of Understanding (MoU) between the United States and the Islamic Republic of Iran, this Flash Executive Summary will look at key factors that are in play by assessing high-level observations for clients to monitor as negotiations continue between the U.S. and Iran. The negotiations will likely ebb and flow, making it difficult at this point to determine exactly what the tenets of the final agreement will be.

Broad Observations:

The United States and Israel's tactical and operational firepower superiority during the war severely damaged many of Iran's key sectors. But ironically, the conflict may have strengthened the regime's position. Prior to the war, Tehran faced mounting economic pressures, public dissatisfaction, and questions about its long-term legitimacy. Historically, external military pressure has allowed the regime to rally nationalist sentiment, suppress internal dissent, and portray itself as the defender of Iranian sovereignty. If the regime successfully frames the conflict as resistance against foreign aggression, it could emerge politically more resilient despite suffering significant military and economic damage.

Iran's regime remains firmly in place and is arguably more radical than before the war. Its power projection capabilities, though damaged, in some cases severely, remain a threat to the region, especially to include the Strait of Hormuz and its neighbors. Bottom line, though Iran was beaten harshly during the war by the U.S. and Israel, it is possible and perhaps even likely that Iran will come out of this war stronger than it was prior to Operation Epic Fury. How so?

With the MoU, Iran strategically succeeded in securing its more immediate needs, especially access to the global oil market to feed its economy, as well as the end of U.S. and Israeli attacks. Further, the MoU allows Iran to do what it does best, which is to drag out, stymie, and frustrate negotiations to secure a better deal. Just days into the agreement, we already see Iran using tactics to delay not only a follow-on agreement, but to frustrate even the terms of the MoU. For instance, having the situation in Lebanon as part of the agreement was brilliant for Iran, as Hezbollah (Iran's crown jewel in its axis of resistance) will be able to entice Israel into retaliation attacks, where Iran will be able to claim it as a reason not to make a final agreement, amongst many other areas that Iran will cry foul. Additionally, Iran has temporarily secured relief from some of its international sanctions, later hoping for a windfall of money if its significant assets are unfrozen and sanctions further removed.

Iran has proven that its power projection capability can, for the most part, shut down the Strait with mines, drones, and fast boats. Even the threat of its employment can deter ships from transiting the international water portion of the Strait – and Iran now knows it can play this card whenever it desires. Also, it may succeed in negotiating a fee/toll framework that it clearly wants. But if Iran gets too greedy, it will incentivize its neighbors to find alternative routes to get their goods to the global market without relying upon safe passage through the Strait. Time will tell if the Iranian regime can use this for its long-term advantage or not, but for the short to medium-term, with its neighbors almost



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exclusively relying on the Strait for access to the market, Iran has secured a powerful tool, and it will wield it effectively.

Some in the U.S. Administration purport that Iran is on the cusp of rejoining the community of nations and ending its rogue/pariah ways. Of all scenarios, this is the least likely – as long as Iran's regime embraces the Islamic Revolution, it will continue its efforts to eliminate Israel and Western influence, and to expand its radical ideology.

President Trump has signaled that he does not want to return to a high-intensity conflict with Iran – and Iran knows this. This became evident at the very beginning of the ceasefire, when Iran immediately violated the primary U.S. demand for the ceasefire, namely, the opening of the Strait. This core violation brought about a U.S. blockade on ships going to and from Iranian ports, but it did not result in a return to war. Since the implementation of the ceasefire, the U.S. Administration has threatened a return to high-intensity strikes, only to either conduct minor tit-for-tat strikes or not do any at all. The reasons for the President's reluctance for renewed large-scale attack on Iran include not wanting a protracted war; impacts on the energy market with growing second and third order ramifications; rising domestic gas prices and economic factors; poll numbers trending down as the midterm elections near; and depletion of U.S. stocks of high-end offensive and defensive munitions and reductions in readiness of the Joint Force. Another reason is that there is no guarantee that renewed strikes would result in Iran's collapse or compel it to make major concessions.

Many of Israel's core concerns are not addressed or are insufficiently mentioned. Iran's power projection capabilities to include ballistic missiles and drones that can range Israel, Western allies, and Gulf States, are not included in the MoU. Also, the MoU leaves open the door that Iran can maintain its uranium enrichment capability, thus allowing Iran to later restart its nuclear weapons program (see below for more details). Further, Iran's proxy forces are not addressed, potentially allowing Iran to remain the world's largest state-sponsor of terror, most of which targets Israel. President Trump will continue to pressure Israel to pause its pressure campaign against Hezbollah, but this cuts against Prime Minister Netanyahu's domestic promises to dismantle the terror group and to retaliate when attacked. Lebanon will be problematic as negotiations between the U.S. and Israel continue, which is exactly what Iran wants.

To varying degrees, the Gulf States and Israel have similar concerns about not being included in the MoU. All are concerned about Iran's ballistic missiles and drone capabilities for good reason, and most worry about Iran's future control of the Strait.

This brings us back to Iran's nuclear program. It was probably the main reason why President Trump initiated the conflict. For months, the President declared that not only must Iran get rid of its Highly Enriched Uranium that was nearing weapons-grade levels, but Iran must get rid of all of its enrichment capabilities, even at low levels. The MoU leaves that door wide open for Iran, at a minimum, for it to retain low enrichment capabilities. The challenge with this is that when Iran had a limited and reduced enrichment program, its breakout time to achieve a nuclear weapon was over a year, a decade ago. Today, however, with Iran's new and advanced gas centrifuges, it could shorten that timeframe significantly. Today, an Iranian nuclear program that has only low-enriched uranium can surge to a nuclear weapon capability much quicker than in the past. We know that Iran currently has enriched uranium to at least a 60% level, which would only take

weeks to enrich to weapons-grade. A future Iran that retains sanctioned enrichment capabilities (even at low levels) would be able to surge enrichment to weapons grade in a month, not years. Also, Iran's promise to never attain a nuclear weapons capability should fall on deaf ears – it has lied about this for decades, and the war likely stiffened their resolve for nuclear weapons as a means of deterrence, like that of North Korea.

Iran may create so much friction during negotiations that no long-term agreement will be reached. The MoU could become irrelevant. If this occurs, the U.S. will likely reimpose its blockade on Iran and stop the limited sanctions relief. The U.S. might re-initiate high-intensity strikes (but will be hesitant to do so for reasons mentioned above), and if it were to do so, likely expanding the list of Iranian sectors that would be targeted and thus far largely untouched (such as Iran's energy infrastructure, government-specific power generation, and so on), but with no guarantee it will force Iran's hand to concede. The other bookend is that the Administration might declare victory and slowly disengage from the region, ceding strategic advantage to a significantly degraded Iran, but in some ways better positioned in the region than it was before the war. The greatest risk for regional security is not the collapse of the current negotiations, but rather a future agreement that reduces immediate tensions while leaving the underlying drivers of long-term instability unresolved.

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