

# Oil Shock Pressures Global Markets as U.S. and European Stocks Close Lower and Stagflation Risks Rise

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**The U.S. and European stock markets closed lower as surging oil prices and escalating geopolitical tensions tied to the Iran conflict continued to dominate investor sentiment.** The sharp rise in energy costs has become the central macro risk confronting markets, raising concerns that a sustained oil shock could push the global economy toward a stagflationary environment characterized by slower growth and persistently elevated inflation.

The **Dow Jones Industrial Average closed down 118.02 points, while the S&P 500 declined 40.36 points. Technology shares led the declines, with the Nasdaq Composite falling 206.62 points,** reflecting growing caution toward higher-valuation sectors as rising energy costs cloud the outlook for inflation and interest rates.

Despite intermittent rebounds during the week, the major U.S. equity benchmarks finished the period firmly lower as energy-driven volatility and geopolitical uncertainty weighed on investor sentiment.

For the week, **the Dow Jones Industrial Average declined 1,180.97 points, while the S&P 500 fell 163.73 points.** Technology stocks experienced the steepest pressure, with **the Nasdaq Composite dropping 590.59 points.** The synchronized pullback across the three major indices reflects growing investor concern that the surge in oil prices tied to the Middle East conflict could slow economic growth while simultaneously complicating the Federal Reserve's path toward easing monetary policy.

**Oil prices remained at the center of market volatility. West Texas Intermediate crude traded near \$97 per barrel,** while Brent crude hovered around \$101 per barrel, the highest levels seen since 2022. The rally followed renewed tensions surrounding the Strait of Hormuz, one of the world's most critical energy shipping corridors, through which roughly 20% of global oil supply normally passes.

Investor anxiety intensified after comments by Iran's new Supreme Leader, Mojtaba Khamenei, who indicated that the Strait of Hormuz could remain closed as a strategic lever in the conflict. Traffic through the narrow waterway has been severely disrupted since U.S. and Israeli strikes on Iranian targets earlier this year, amplifying concerns about global energy supply stability.

U.S. officials attempted to calm markets during the session. Pete Hegseth, Secretary of the U.S. Department of Defense, said authorities were actively addressing the situation and suggested markets should not assume a prolonged disruption of the shipping route. Despite those reassurances, investors remain cautious amid ongoing geopolitical developments that continue to influence energy markets and the broader economic outlook.

## European Markets

**European equity markets closed lower on Friday as investors continued to assess the economic implications** of the Middle East conflict and the volatility it has introduced into global energy markets. The STOXX Europe 600 finished the session closed down 0.52%, reflecting a cautious tone across the region after a week marked by sharp swings in commodities and currencies. Sector performance was mixed. Energy, insurance, and utilities stocks posted gains as investors

rotated toward sectors that typically benefit from higher commodity prices and defensive positioning. Industrials and mining companies lagged the broader market amid concerns about higher energy costs and slowing global growth.

Currency markets also reflected growing caution. The British Pound Sterling weakened after preliminary data showed that the United Kingdom economy stalled in January, falling roughly 0.8% to \$1.323. The Euro also slipped against the U.S. dollar, trading near \$1.144, as investors sought the relative safety of dollar-denominated assets.

Energy prices remained a central influence on European markets. Brent crude hovered near the \$100 per barrel level despite the International Energy Agency announcing a record 400-million-barrel release from strategic reserves earlier in the week. Meanwhile, the United States Department of Energy confirmed it would release 172 million barrels from the U.S. Strategic Petroleum Reserve to stabilize global supply conditions.

Security risks around the Strait of Hormuz continue to influence investor sentiment. After multiple attacks on vessels, U.S. officials indicated that naval escorts for commercial tankers could begin once operational conditions permit. The shipping corridor has been severely disrupted since the escalation of hostilities, contributing to the rapid rise in oil prices earlier this week.

Among individual companies, Deutsche Bank shares edged higher after the lender disclosed approximately \$30 billion in exposure to the private credit market, bucking a broader decline in banking stocks. The STOXX Europe 600 Banks Index fell about 1.15% as investors assessed the financial sector's sensitivity to geopolitical risk.

Elsewhere, BE Semiconductor Industries surged roughly 8% following market speculation regarding potential takeover interest, though the company did not comment on the reports.

### **U.S. Economic Data Signal Slower Growth but Persistent Inflation**

Recent economic releases continue to reinforce the complex environment facing policymakers.

**The second estimate of fourth-quarter U.S. GDP showed the economy expanding at an annualized rate of 0.7%, a sharp downward revision from the initial estimate of 1.4%.** The downgrade reflected weaker consumer spending, softer business investment, and slower export activity.

Despite the weaker headline figure, the underlying composition of growth suggests the domestic economy remains more resilient than the headline implies. Much of the slowdown was influenced by the temporary federal government shutdown and volatility in trade and inventory components.

Excluding those factors, core domestic demand suggests the economy expanded closer to 1.9%, supported by consumer spending and business investment.

Consumer activity at the start of the year has also been subdued. January personal consumption rose just 0.1% month-over-month, indicating a cautious consumer backdrop that some economists attribute partly to unusually severe winter weather.

Inflation pressures remain persistent. The Core Personal Consumption Expenditures Price Index, the Federal Reserve's preferred inflation gauge, rose 0.4% in January, leaving the year-over-year rate near 3.1%, well above the central bank's 2% target.

### **Federal Reserve Outlook Becomes More Uncertain**

The surge in oil prices is complicating the outlook for monetary policy. Rising energy costs are heightening the risk of a stagflationary environment, characterized by higher inflation and slowing economic growth.

Interest-rate futures markets have already begun adjusting expectations. Investors who earlier anticipated multiple Federal Reserve rate cuts this year are now pricing in fewer policy easing moves, with the probability of a September rate cut declining sharply as inflation risks tied to energy prices rise.

With energy markets driving much of the uncertainty, investors will continue to closely monitor geopolitical developments, oil supply conditions, and incoming economic data as policymakers

weigh how best to balance inflation risks with the possibility of slowing economic activity in the months ahead.

### Economic Data:

- **U.S. Real GDP QoQ:** fell to 0.70%, compared to 4.40% last quarter.
- **U.S. PCE Price Index YoY:** fell to 2.83%, compared to 2.91% last month.
- **U.S. Core PCE Price Index YoY:** rose to 3.06%, compared to 3.01% last month.
- **U.S. Index of Consumer Sentiment:** fell to 55.50, down from 56.60 last month.
- **U.S. Personal Income MoM:** rose to 0.43%, compared to 0.29% last month.
- **U.S. Personal Spending MoM:** fell to 0.38%, compared to 0.44% last month.
- **U.S. Job Openings: Total Nonfarm:** rose to 6.946 million, up from 6.55 million last month.
- **U.S. Total Vehicle Sales:** rose to 16.12 million, up from 15.21 million last month.
- **Canada Employment Net Change:** fell -83.90K, down from -24.80K last month.
- **Canada Unemployment Rate:** rose to 6.70% from 6.50% last month.
- **Canada Labour Force Participation Rate:** fell to 64.90%, compared to 65.00% last month.
- **Canada Manufacturing Shipments MoM:** fell -3.04%, compared to 0.44% last month.
- **Eurozone Industrial Production Index YoY:** fell -1.10%, compared to 2.20% last month.
- **UK Industrial Production Index YoY:** fell to 0.40%, compared to 0.50% last month.

### Eurozone Summary:

- **Stoxx 600:** closed at 595.73, down 3.13 points or 0.52%.
- **FTSE 100:** closed at 10,261.15, down 44.00 points or 0.43%.
- **DAX Index:** closed at 23,436.29, down 153.36 points or 0.65%.

### Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 46,558.47, down 119.38 points or 0.26%.
- **S&P 500:** closed at 6,632.19, down 40.43 points or 0.61%.
- **Nasdaq Composite:** closed at 22,105.35, down 206.62 points or 0.93%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,986.62, up 65.29 points or 1.66%.
- **Birling Capital U.S. Bank Index:** closed at 7,996.96, down 253.89 Points or 3.08%.
- **U.S. Treasury 10-year note:** closed at 4.28%.
- **U.S. Treasury 2-year note:** closed at 3.73%.

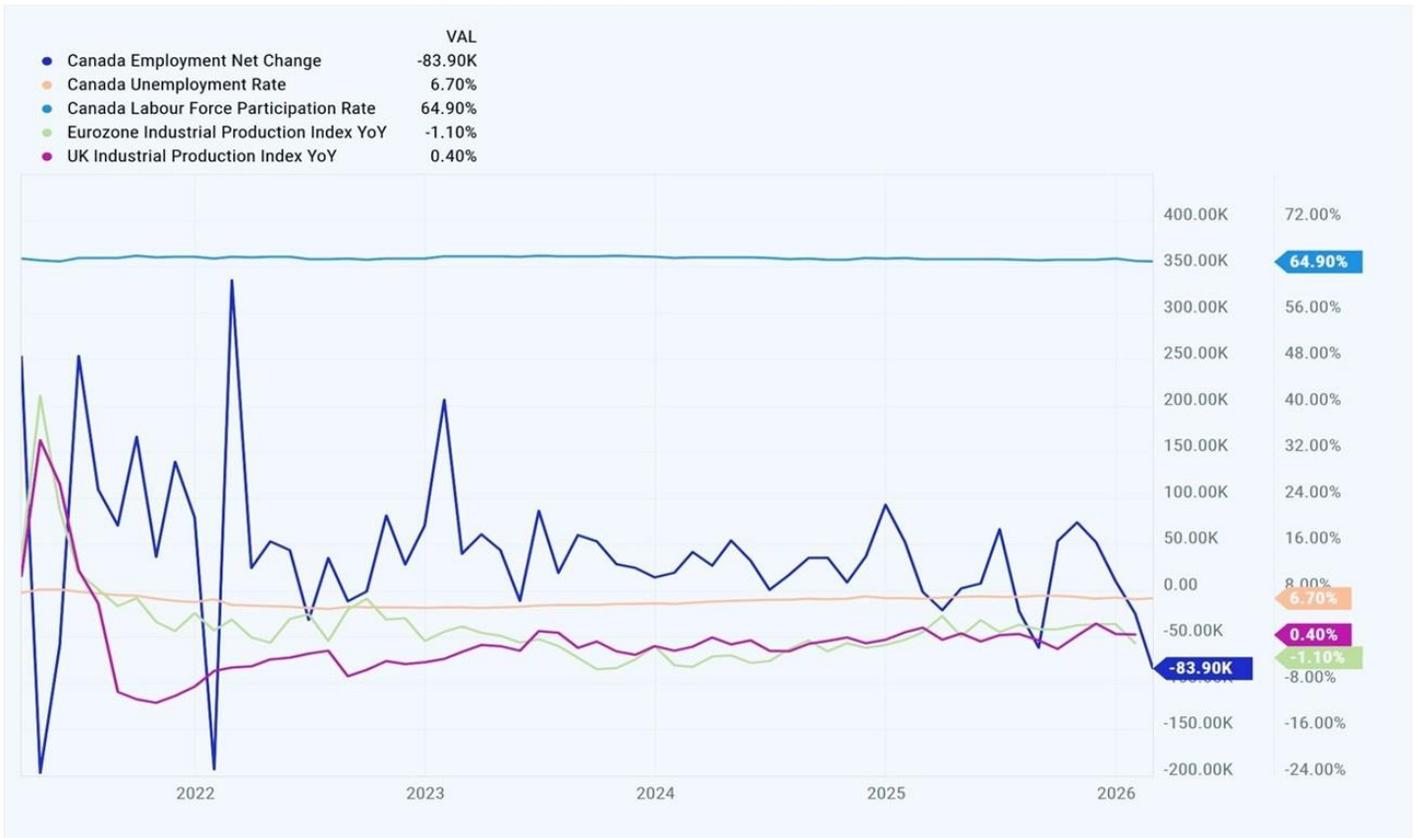
# US PCE, US Core PCE, US Index of Consumer Sentiment, US Real GDP, US Personal Income & US Personal Spending



# U.S. Job Openings: Total Nonfarm & US Unemployed Persons: Job Seekers



# Canada Employment Net Change, Canada Unemployment Rate, Canada Labour Force Participation Rate, Eurozone Industrial Production & UK Industrial Production



# Wall Street Recap

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