Markets Retreat as Oil Surges and Middle East Tensions Reprice Global Risk

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by Francisco Rodríguez-Castro
frc@birlingcapital.com

The U.S. and European stock markets closed lower as investors reassessed geopolitical risks stemming from the escalating conflict with Iran and the resulting surge in global energy prices. Oil prices climbed sharply amid concerns about disruptions to shipping through the Strait of Hormuz—one of the world's most critical energy corridors, responsible for transporting roughly 20% of global oil and liquefied natural gas supplies. The spike in crude prices lifted inflation expectations and pushed Treasury yields higher, contributing to renewed pressure across global equity markets. At the same time, the U.S. dollar strengthened against major currencies as investors sought the relative safety of the world's primary reserve asset.

Market declines were broad-based, with cyclical and industrial stocks leading losses as investors weighed the potential economic consequences of sustained energy disruptions. Defensive sectors such as health care and consumer staples also weakened as risk sentiment deteriorated throughout the session. International markets reflected a similarly cautious tone. Asian equities rebounded overnight after sharp declines earlier in the week, while European markets reversed earlier gains to close firmly lower amid intensified geopolitical uncertainty and rising energy prices.

From an allocation perspective, the current environment continues to highlight opportunities across regions and asset classes despite elevated volatility. Within equities, U.S. large- and mid-cap companies remain relatively well positioned given their earnings resilience, strong balance sheets, and broadening sector leadership. We also see selective opportunities in international developed small- and mid-cap equities and in emerging markets, where valuations remain comparatively attractive and global growth dynamics remain supportive. In fixed income, international bonds can provide diversification through exposure to different economic and interest-rate cycles, while emerging-market debt may enhance portfolio income in a higher-yield environment.

U.S. Markets

U.S. equities resumed their decline on Thursday after a brief pause the previous session, as escalating tensions involving Iran pushed energy prices sharply higher and reignited concerns about the potential economic consequences of a prolonged geopolitical conflict. The spike in oil prices weighed heavily on sentiment, particularly in cyclical sectors that are sensitive to global growth expectations.

The Dow Jones fell 784.67 points, the S&P 500 declined 0.56%, while the Nasdaq Composite slipped 0.26%, reflecting comparatively stronger resilience in technology shares relative to the broader market.

Losses were led by economically sensitive companies such as Boeing and Caterpillar, which tend to be among the most exposed if higher energy costs and geopolitical instability begin to slow global industrial activity.

Energy markets were the primary catalyst behind the day's volatility. **West Texas Intermediate (WTI) crude surged above $80 per barrel during the session, settling up more than 8% at $81.01, marking its**

highest level since July 2024. The move followed reports that Iran struck an oil tanker with a missile, raising fears of broader disruptions to shipping routes in the Persian Gulf. Brent crude, the international benchmark, finished nearly 5% higher at $85.41 per barrel.

The oil spike triggered significant swings throughout the trading session. The Dow briefly dropped nearly 1,000 points as crude oil crossed $80, and at its worst levels, the index was down more than 1,100 points, or roughly 2.4%. Both the S&P 500 and Nasdaq also retreated sharply from earlier gains, each falling around 1.4% to their intraday lows before partially recovering into the close.

Market participants are increasingly focused on the potential implications of disruptions to the Strait of Hormuz, a strategic maritime chokepoint that transports roughly 20% of the world's oil supply. While the White House has indicated that the United States is preparing to escort commercial vessels and provide insurance against shipping risks in the region, officials have not provided a clear timeline for when maritime flows will be fully secured.

Iranian Foreign Minister Abbas Araghchi stated that Iran is not seeking a ceasefire with the United States or Israel, signaling that the confrontation may continue to intensify. Meanwhile, U.S. officials maintained a confident posture, with Defense Secretary Pete Hegseth stating that American forces are achieving decisive operational progress while additional assets are being deployed to the region.

In addition to geopolitical developments, investors also monitored policy signals from Washington. Treasury Secretary Scott Bessent indicated that the administration's recently announced 15% global tariff could be implemented within days, adding another layer of uncertainty for global trade and corporate supply chains.

One notable positive performer during the session was Berkshire Hathaway, whose shares rose more than 2% after the conglomerate disclosed it had resumed share repurchases for the first time since 2024. CEO Greg Abel also purchased approximately $15 million of company stock, reinforcing investor confidence in the firm's long-term outlook.

European Markets

European equities fell as energy risks and geopolitical tensions weighed on sentiment, amid investor reaction to intensifying developments in the Middle East and a sharp rise in global energy prices. The pan-European STOXX 600 declined 1.4%, reversing earlier gains, as most sectors finished in negative territory, except media stocks. The pullback reflected growing investor caution as markets reassessed the potential economic implications of a prolonged conflict involving Iran.

Major regional indices broadly tracked the decline. Spain's IBEX 35 ended the session down 1.4%, as political tensions between Madrid and Washington added an additional layer of uncertainty. The Spanish government drew criticism from President Donald Trump after initially declining to authorize the use of Spanish bases for U.S. military operations related to the conflict with Iran. While the White House later indicated that Spain would cooperate militarily, Spanish officials publicly rejected that characterization, highlighting diplomatic friction at a sensitive geopolitical moment.

Energy prices continued to move higher during the session, reinforcing concerns about inflation and growth. Brent crude, the global benchmark, traded around $84.44 per barrel, up roughly 3.7%, while West Texas Intermediate (WTI) climbed approximately 6% to $79.17 per barrel. The sustained rise in oil prices has become a central factor shaping market sentiment as investors evaluate whether the current surge represents a temporary supply shock or the beginning of a more persistent energy disruption.

The conflict between the United States, Israel, and Iran remained the dominant global driver for markets. Israel launched additional strikes on Tehran during the previous 24 hours, while U.S. officials reported significant military actions against Iranian naval and logistical targets. The ultimate strategic objective of the operation—referred to as "Operation Epic Fury"—remains uncertain, and analysts continue to debate whether the conflict could expand or evolve into a longer-term regional confrontation.

Corporate developments also influenced trading. German defense supplier Renk reported €1.37

billion in revenue for fiscal 2025, representing 19.8% year-over-year growth, driven largely by strong demand in its defense division. The company also reported €1.57 billion in new orders and an order backlog of €6.7 billion, up significantly from roughly €5 billion in 2024. Despite the strong operational results, Renk shares fell 11.4%, suggesting investors had previously priced in a significant portion of the sector's defense-driven growth.
Overall, European markets remain highly sensitive to developments in energy markets and the evolving geopolitical situation.

U.S. Labor Market

Initial jobless claims were unchanged at 213,000 last week, modestly below consensus expectations of 215,000. Continuing claims, which measure the number of individuals currently receiving unemployment benefits, rose slightly to 1.87 million compared with forecasts for 1.85 million. Taken together, the data point to a labor market that is gradually cooling but remains fundamentally stable.
Attention now turns to the upcoming employment report, where economists expect February payroll growth of roughly 60,000 jobs. Such an outcome would reflect a slower hiring pace compared with last year but should be sufficient to keep the unemployment rate steady at approximately 4.3%. These dynamics are broadly consistent with a labor market transitioning from the tight conditions of the post-pandemic recovery toward a more balanced equilibrium.

Fixed Income

Treasury yields rose for a fourth consecutive session, with the benchmark 10-year Treasury yield closing at 4.13%. The upward pressure appears to be primarily driven by higher inflation expectations stemming from rising energy prices and the possibility that the Federal Reserve could delay future rate cuts.
Market pricing has gradually shifted, with investors now anticipating the next potential policy easing in September, while expectations for subsequent cuts have been pushed further into the future. Inflation expectations embedded in Treasury Inflation-Protected Securities (TIPS) markets have also edged higher, with the 10-year breakeven inflation rate climbing roughly 5 basis points over the past week to around 2.3%.
Despite the recent rise in yields, the broader macro backdrop still suggests the Federal Reserve may have room to ease policy later in the cycle. With headline personal consumption expenditures (PCE) inflation currently around 2.9% and the labor market showing signs of gradual moderation rather than deterioration, policymakers may prefer to maintain a cautious stance while monitoring whether inflation continues its path toward the Fed's long-term 2% target.
In our assessment, the combination of a stabilizing labor market, resilient global growth, and gradually moderating inflation supports a constructive outlook for diversified portfolios across equities and fixed income, even as near-term volatility remains tied to geopolitical developments and energy-market dynamics.

Economic Data:

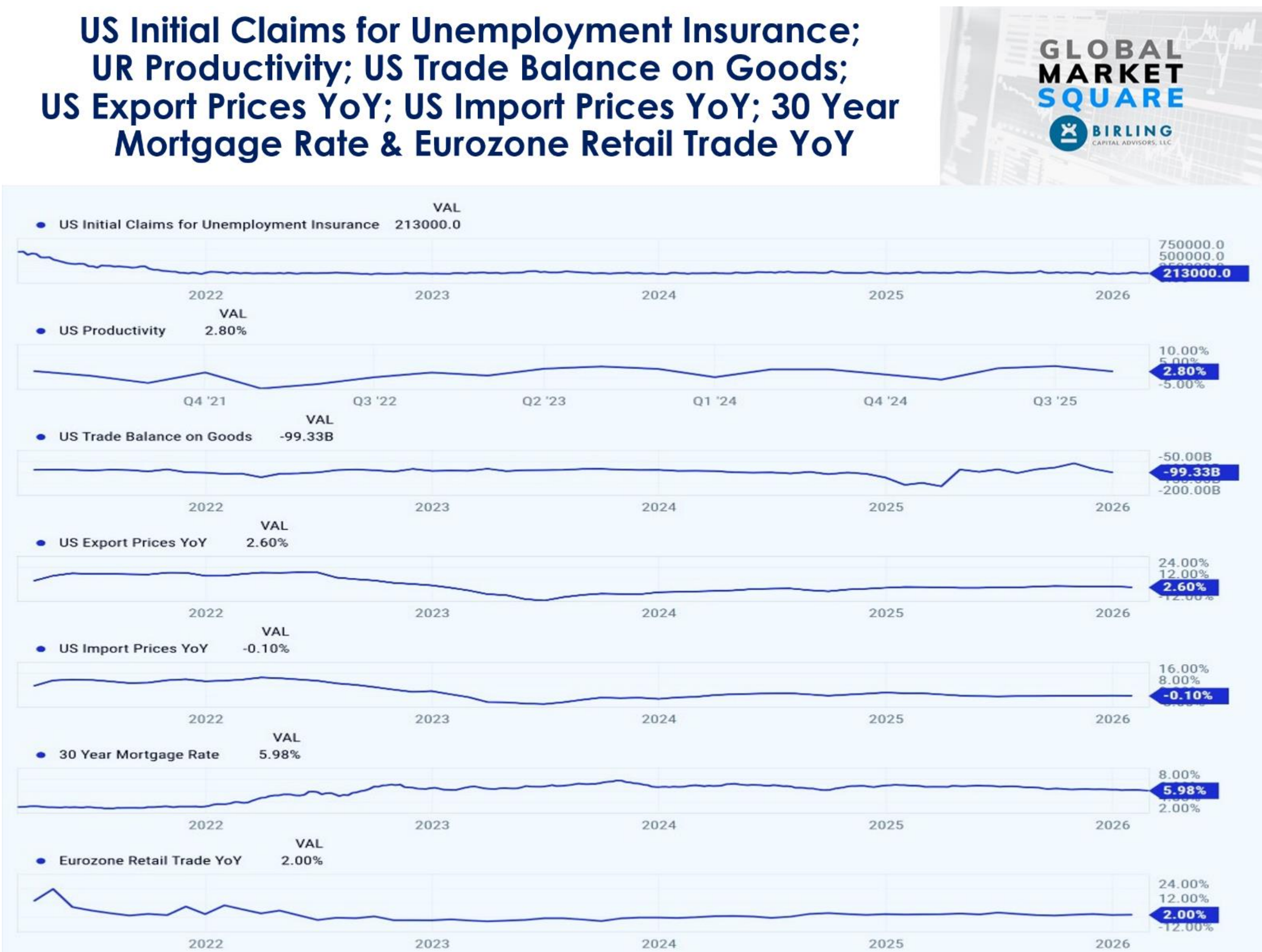
- **US Initial Claims for Unemployment Insurance:** are unchanged at 213,000 from 213,000 last week.
- **US Productivity:** fell to 2.80%, compared to 5.20% last quarter.
- **US Trade Balance on Goods:** fell to -99.33B, down from -83.64B last month.
- **US Export Prices YoY:** fell to 2.60% from 3.40% last month.
- **US Import Prices YoY:** fell -0.10%, compared to 0.00% last month.
- **30 Year Mortgage Rate:** fell to 5.98%, compared to 6.01% last week.
- **Eurozone Retail Trade YoY:** rose to 2.00%, compared to 1.80% last month.

Eurozone Summary:

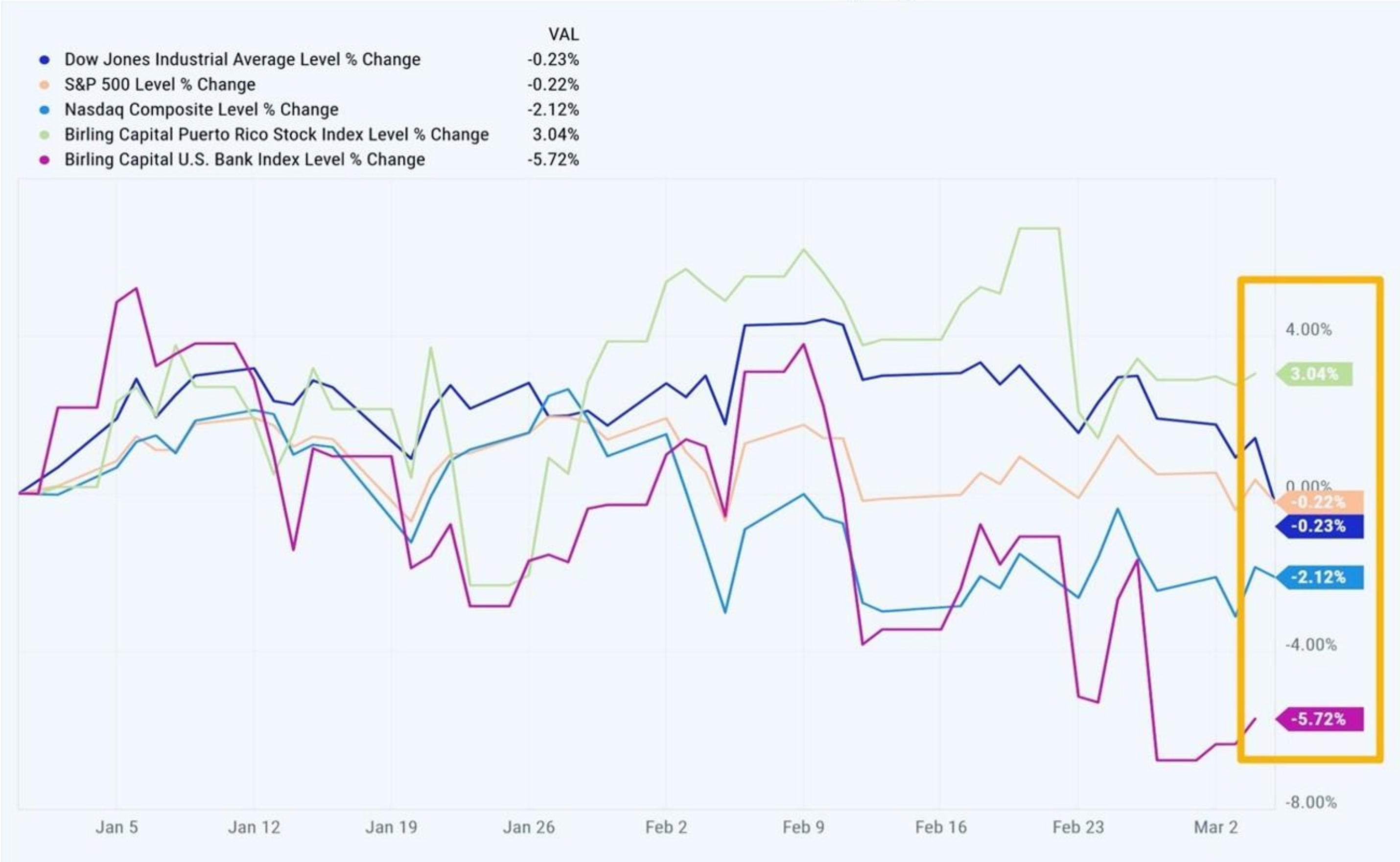
- **Stoxx 600:** closed at 604.83, down 7.88 points or 1.29%.
- **FTSE 100:** closed at 10,413.94, down 153.71 points or 1.45%.
- **DAX Index**: closed at 23,815.75, down 389.61 points or 1.61%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 47,954.74, down 784.67 points or 1.61%.
- **S&P 500:** closed at 6,830.71, down 38.79 points or 0.56%.
- **Nasdaq Composite:** closed at 22,748.98, down 58.49 points or 0.26%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,085.77, up 11.37 Points or 0.28%.
- **Birling Capital U.S. Bank Index:** closed at 8,629.98, up 58.66 Points or 0.68%.
- **U.S. Treasury 10-year note:** closed at 4.13%.
- **U.S. Treasury 2-year note:** closed at 3.57%.



Dow Jones, S&P 500, Nasdaq, Birling Puerto Rico Stock Index & Birling US Bank Index YTD Returns 3/5/26



Wall Street Recap

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