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Think Strategically

Warp Speed Through the Geopolitical Fog: Oil Shocks, Inflation Signals, and the Endurance of Global Markets

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The Strait of Hormuz Returns to the Center of Global Market Risk

Periods of geopolitical conflict are rarely quiet. They arrive with sudden shocks, disrupted supply chains, and swift repricing of risk across global markets. The current confrontation centered on Iran has delivered such an environment, placing energy markets at the core of the global economic narrative. Oil prices surged as supply route disruptions and uncertainty surrounding the Strait of Hormuz triggered volatility across equities, bonds, and currencies. The week tested every major asset class as geopolitical risk, energy market disruption, and shifting expectations for monetary policy converged to create a challenging trading environment. The spike in oil prices forced investors to reassess inflation expectations, economic growth prospects, and the timing of Federal Reserve policy easing. Global equities struggled to absorb the shock. Energy costs climbed to the highest levels in over two years, raising concerns that sustained supply disruptions could push inflation higher just as central banks were seeing progress on disinflation. About 20% of the world's oil supply passes through the Strait of Hormuz. Even the possibility of prolonged disruption unsettled financial markets worldwide. U.S. equities ended the week under pressure despite rebounds during some sessions. The Dow closed at 46,559.83, down 118.02 points (-0.25%). The S&P 500 fell 40.36 points (-0.61%) to 6,632.19. The Nasdaq Composite fell 206.62 points (-1.66%) to 22,105.35, reflecting growing caution toward higher-valuation sectors amid rising energy costs that cloud the outlook for inflation and interest rates.

The weekly losses were far more significant, underscoring the extent to which geopolitical tensions and energy market disruptions weighed on investor sentiment. For the week, the Dow Jones Industrial Average dropped 1,180.97 points (-2.47%), the S&P 500 declined 163.73 points (-2.41%), and the Nasdaq Composite fell 590.59 points (-2.60%). The synchronized pullback across the three major benchmarks 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.

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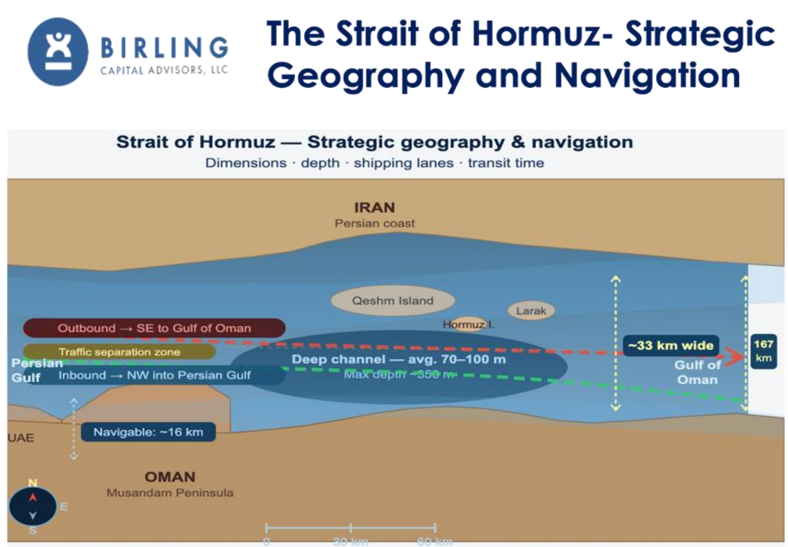
Weekly Market Close Comparison

Weekly Market Close Comparison	3/13/26	3/6/26	Return	YTD Retun
Dow Jones Industrial Average	46,558.47	47,954.74	-2.91%	-3.13%
Standard & Poor's 500	6,632.19	6,830.71	-2.91%	-3.12%
Nasdaq Composite	22,105.36	22,748.98	-2.83%	-4.89%
Birling Puerto Rico Stock Index	3,981.52	4,026.94	-1.13%	0.41%
Birling US Bank Index	7,965.61	8,430.13	-5.51%	-12.98%
U.S. Treasury 10-Year Note	4.28%	4.13%	3.63%	2.14%
U.S. Treasury 2-Year Note	3.73%	3.57%	4.48%	7.49%

Energy markets remained the epicenter of volatility. West Texas Intermediate crude traded near $97 per barrel. Brent crude hovered around $101. These are the highest levels since 2022. The rally followed renewed tensions over the Strait of Hormuz, a narrow but critical waterway linking the Persian Gulf to global energy markets. Investor anxiety intensified after remarks from Iran's new Supreme Leader, Mojtaba Khamenei. He suggested the strait could remain closed as a strategic instrument in the conflict. Traffic through the corridor has been severely disrupted since U.S. and Israeli strikes on Iranian targets earlier this year, amplifying concerns that even brief interruptions could significantly tighten global oil supply.

U.S. officials sought to calm markets this week, just as they have in prior escalations where threats to energy supply have loomed large. Pete Hegseth, Secretary of the U.S. Department of Defense, stated that authorities were actively addressing the situation and suggested markets should not assume the shipping route disruption would become permanent. Nevertheless, investors remain cautious as developments unfold, keeping energy prices—and their implications for inflation and growth—central to the economic narrative, highlighting once again how quickly market sentiment can shift.

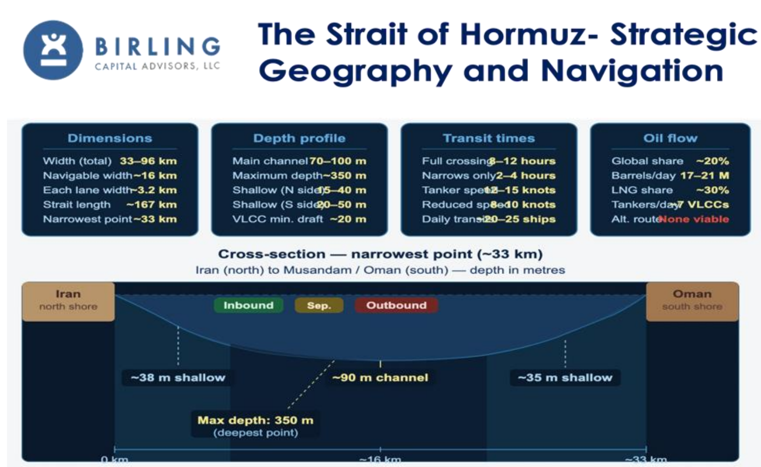
Historical Context: The Strait That History Always Warned Us About



History consistently teaches that geography is unmoved by human intentions or optimism. The Strait of Hormuz—a 21-mile-wide corridor—embodies this, connecting the Persian Gulf with the world and remaining a persistent global chokepoint.

The anxiety surrounding the Strait is easy to see. About one-fifth of the world's oil passes through it, making the narrow waterway both indispensable and especially vulnerable during conflict.

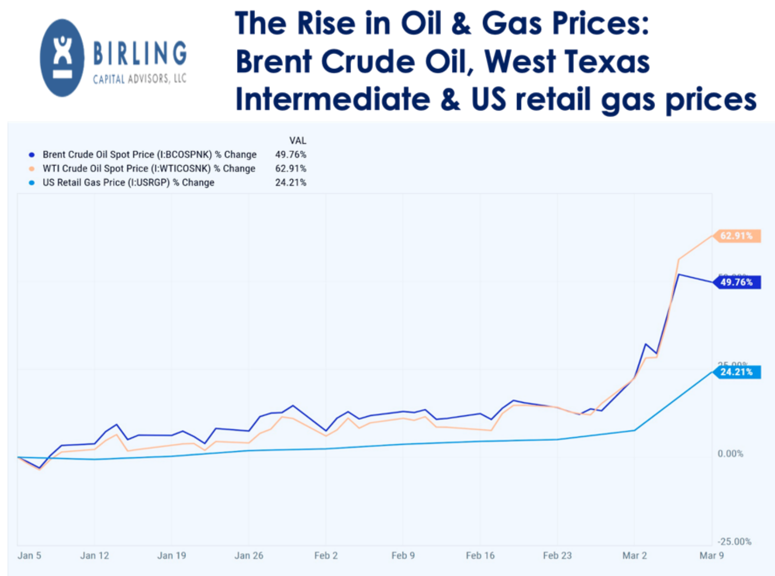
The history of this waterway as a theater of confrontation is not recent. In the 1980s, Tanker War—a part of the long Iran-Iraq conflict—over 400 commercial vessels were attacked in the Persian Gulf and near the Strait. The Reagan administration was drawn in, eventually sending the U.S. Navy to escort Kuwaiti tankers under American flags. Operation Earnest Will was improvised and dangerous, culminating in the accidental shootdown of Iran Air Flight 655 in July 1988, killing 290 civilians—a reminder that the fog of war does not lift simply because one's intentions are righteous. Iran has never been shy about making clear what the Strait means to it. During the 1979 hostage crisis, Iranian leaders talked openly about their ability to halt Gulf oil flow. Later, the Revolutionary Guard Corps built a "swarming" doctrine. They used small, fast boats, mines, and shore missiles to challenge shipping. Military analysts in Washington and London took this seriously. U.S. national security war games showed that even a partial disruption of the Strait of Hormuz could trigger oil shocks and risk a global recession.



All this history was well known. The current question is why, despite clear warnings, the risk of disruption at Hormuz was treated as a remote contingency rather than a likely one.

Historians may see this as a failure of imagination, not intelligence—a reluctance to seriously consider what the past repeatedly foretold. It has been said again and again, ***"Those who cannot remember the past are condemned to repeat it."***

Energy Prices and Market Volatility



At one point during the past week, West Texas Intermediate crude approached $120 per barrel, reflecting the market's instinctive reaction to any threat involving one of the world's most strategically important energy corridors. Although prices later retreated after signals from President Donald Trump that diplomatic channels might shorten the conflict's duration, crude remains dramatically elevated—roughly 45% above pre-conflict levels. The International Energy Agency attempted to calm markets through a coordinated 400-million-barrel release of strategic reserves, the largest in its history, while the United States authorized temporary purchases of sanctioned Russian oil to stabilize supply.

Even with these interventions, the oil market has entered a phase of uncertainty that could take months to resolve. Historically, geopolitical oil shocks tend to be short-lived, but the scale of current disruptions suggests that prices may remain above the 2025 average of roughly $65 per barrel for some time. That shift alone has been sufficient to reintroduce volatility into financial markets worldwide. Retail gasoline prices, a direct transmission channel from crude markets to household budgets, rose to $3.148 per gallon during the week ending March 13, up from $3.072 the week prior—a signal that energy-cost pressures are already reaching American consumers.

The surge in oil prices has become the dominant driver of market behavior during March. Global equities retreated as investors recalibrated expectations for inflation, interest rates, and economic growth. Europe, Japan, and South Korea have each experienced market declines exceeding 8% since the conflict began, reflecting their structural reliance on imported energy. The euro area and Japan import more than half their total energy consumption, making them especially vulnerable to oil supply disruptions. Currency movements have compounded these pressures; a roughly 2.5% appreciation of the U.S. dollar during March has further dampened returns for non-U.S. investors. The U.S. trade balance on goods narrowed meaningfully to -$81.8 billion from -$99.3 billion the prior month, a development that partly reflects the dollar's appreciation and a shift in import volumes as supply chain patterns adjust to elevated energy prices.

By contrast, the United States has demonstrated greater resilience. Since becoming a net energy exporter in 2019, the U.S. economy has been less exposed to global oil shocks than in previous decades. Structural shifts toward a more service-oriented economy have also reduced the energy intensity of economic output, providing an additional buffer against commodity-driven volatility.

Inflation: Calm Before the Energy Pass-Through

Recent inflation data suggested a continuation of the gradual disinflation trend that has defined the post-pandemic cycle. February's Consumer Price Index showed core CPI rising just 0.2% for the month and 2.5% year-over-year, while headline inflation held steady at 2.4% annually—unchanged from the prior month and in line with expectations. Shelter costs—a critical component that accounts for nearly a quarter of the CPI basket—continued to moderate, with owners' equivalent rent rising at the slowest pace since 2021.

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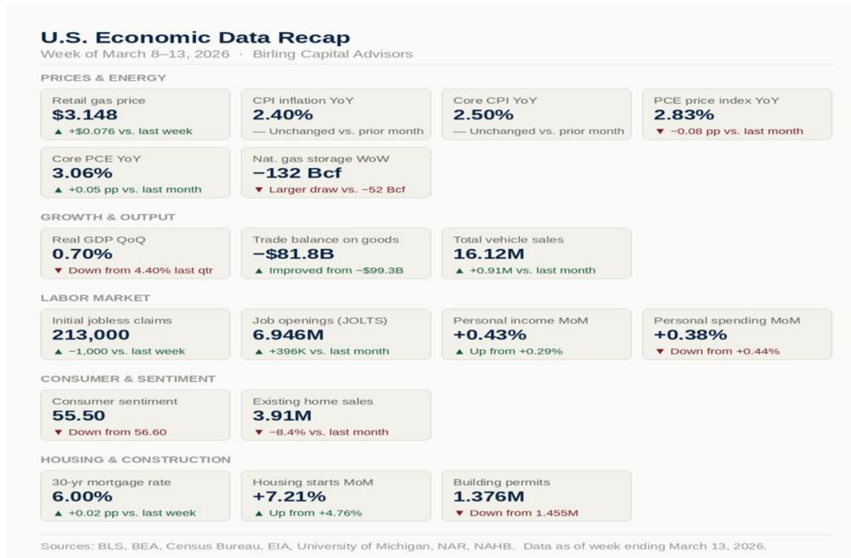
Key U.S. Economic Data Week of March 8-13, 2026



The Federal Reserve's preferred measure, the Personal Consumption Expenditures index, delivered a similarly mixed but broadly reassuring signal. The headline PCE price index eased to 2.83% year-over-year from 2.91% the prior month, while core PCE—which excludes food and energy—edged slightly higher to 3.06% from 3.01%. The divergence between headline and core reflects the temporary downward pull of services disinflation, even as energy prices begin to exert renewed upward force. On the consumer side, personal income rose a solid 0.43% in the most recent month, accelerating from the prior month's 0.29% gain, while personal spending moderated to 0.38% from 0.44% a configuration consistent with households building modest precautionary savings buffers in the face of energy uncertainty. The University of Michigan's Index of Consumer Sentiment fell to 55.50 from 56.60, a historically subdued reading that reflects how quickly the geopolitical backdrop has eroded household confidence.

Yet these inflation readings likely represent a snapshot taken just before energy costs begin filtering through the inflation pipeline. Energy accounts for roughly 6% of the CPI basket, and oil's recent surge is expected to push headline inflation back above 3% in the coming months if prices remain elevated. Futures markets currently imply crude retreating to approximately $75 per barrel by year-end, but even that level would remain significantly above average 2025 levels.

The Federal Reserve: Patience in the Face of Energy Shocks

Against this backdrop, the Federal Reserve convenes this week with markets widely expecting no change to the federal funds target range of 3.50% to 3.75%. The meeting itself is unlikely to produce policy surprises; the true focus will be the central bank's updated economic projections and any revisions to the expected path of rate cuts. The 30-year fixed mortgage rate, which had briefly touched 5.98%, ticked back up to 6.00% this week, a reminder that long-duration borrowing costs remain sensitive to any signal of renewed inflationary pressure. Housing starts surged 7.21% month-over-month—an encouraging supply-side development—but building permits fell to 1.376 million from 1.455 million, suggesting that forward momentum in residential construction may be more constrained than the starts figure implies. Existing home sales fell sharply to 3.91 million, down 8.4% from the prior month's 4.27 million, underscoring that elevated rates continue to suppress transaction activity even as builders cautiously expand supply.

Energy-driven inflation shocks place the Fed in a familiar dilemma. Monetary policy is poorly suited to address supply disruptions in commodity markets. Central banks traditionally "look through" such shocks, focusing instead on underlying inflation trends—particularly core PCE, which excludes food and energy. However, the persistence of inflation above the Fed's 2% target since 2021 has made policymakers cautious. Rising oil prices have already nudged inflation expectations higher, prompting futures markets to scale back rate-cut expectations for 2026. Whereas markets once priced 50 basis points of easing, expectations now hover around a single 25-basis-point reduction.

Our view remains that the energy shock will delay but not derail the broader disinflationary trajectory. Labor-market conditions have softened modestly from historically tight levels, productivity growth remains strong, and service-sector inflation continues to moderate. These factors should allow the Fed to resume its easing cycle once the temporary energy pressures subside.

The Underlying Strength of the Global Economy

Despite the turbulence, the global economy entered this period with considerable momentum.
Corporate earnings expectations remain robust. Analysts project S&P 500 earnings growth of roughly 15% in 2026, while international equities are expected to grow even faster, approaching 17%.
Consumer fundamentals also remain supportive. The Internal Revenue Service reports that tax refunds are running more than 9% above last year's levels, providing an additional cushion for U.S. household spending at a time when higher gasoline prices may otherwise pressure consumption. That cushion appears to be finding its way into the labor market as well: job openings on the most recent JOLTS report rose to 6.946 million from 6.55 million the prior month, a meaningful rebound that suggests firms remain committed to hiring even as the broader environment grows more uncertain. Personal income growth of 0.43% month-over-month reinforces this picture of a household sector that, for now, retains spending capacity.
Labor markets, while gradually cooling, remain far from recessionary territory. Initial jobless claims fell to 213,000 for the week ending March 13, down modestly from 214,000 the prior week, and well below the 30-year historical average of more than 300,000. Housing starts' monthly gain of 7.21% adds a further constructive data point, as residential construction activity creates direct employment and broad multiplier effects across the economy. The natural gas storage drawdown of 132 billion cubic feet for the week—larger than the prior week's 52 billion cubic feet—reflects continued industrial and heating demand that, while creating near-term supply tightness, also signals an economy still running at a productive pace.
Global business activity surveys tell a similar story. The S&P Global Composite PMI remains in expansion territory across the United States, Europe, and Asia. Japan and China even recorded their strongest readings since 2023 earlier this year, underscoring the momentum that existed before the latest geopolitical shock.

The Final Word: Maintaining Discipline in Uncertain Times

Geopolitical shocks inevitably test investor discipline — and they do so precisely because they arrive with a false sense of clarity. The headlines seem unambiguous. The trajectory seems obvious. The right move seems self-evident. That is exactly when the greatest errors are made.
History offers no shortage of moments when investors, strategists, and policymakers were certain they understood what was coming next. The Tanker War of the 1980s would permanently destabilize Gulf oil flows — it did not. The oil shock of 2022 would keep crude above $100 indefinitely — it did not. Each episode felt decisive in the moment, and each rewarded those who resisted the impulse to act on that certainty.
The current environment is no different in structure, even if it is significantly larger. Headlines arrive faster than facts. Markets react before clarity emerges. Short-term volatility obscures longer-term fundamentals with remarkable consistency. Yet the discipline of maintaining diversified portfolios aligned with strategic objectives has historically proven far more valuable than trading on every geopolitical headline — including this one.
Beneath the turbulence, the underlying engines of economic growth remain firmly in place. Productivity gains, technological investment, resilient consumers, robust earnings expectations, and expanding global business activity did not disappear when crude approached $120 per barrel. They are still there, doing the quiet, compounding work that drives long-term returns.

The Strait of Hormuz will eventually reopen to normal traffic. Energy prices will recalibrate. The Federal Reserve will resume its easing cycle. Investors who maintained their discipline through the fog will be positioned to benefit from the clarity that follows.

The most dangerous moment, as Henry Kissinger observed, is when you think you know what is coming next. The second most dangerous moment is when uncertainty feels so total that you abandon the strategy you built precisely for times like these. Both failures — the overconfidence and the capitulation — have the same remedy: the patient, principled, evidence-based discipline that has always defined sound investing.

Markets do not grade on intent. They price outcomes—and the outcome of treating a historically predictable risk as a remote contingency is now visible in crude prices, equity volatility, and the Federal Reserve's narrowing room to maneuver.

For investors willing to look beyond the immediate noise, the long-term trajectory of global markets remains constructive — not in spite of this moment, but tested and proven by it.

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