

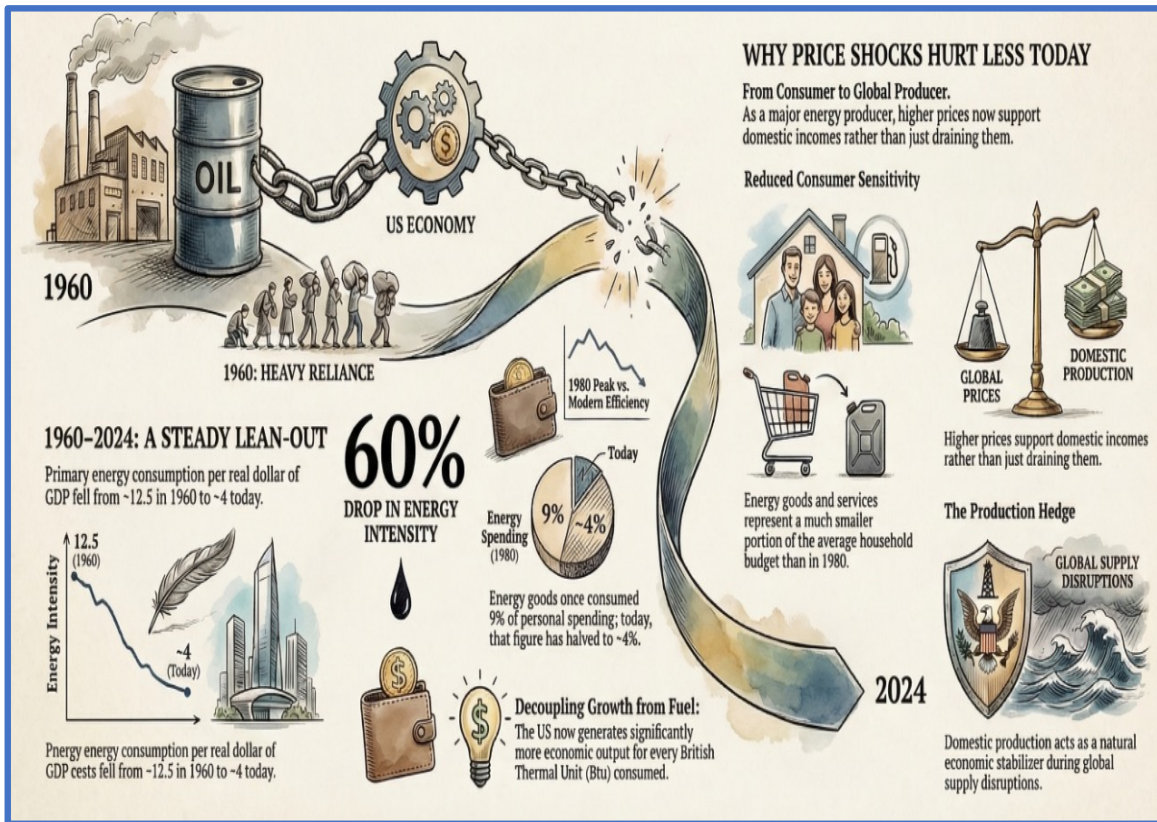
Source: What is Next for Markets Podcast

Managing risk in the current market environment is particularly challenging because market movements are being driven largely by a single variable: oil. In conditions like this, traditional frameworks such as valuation, sentiment, and economic fundamentals become far less influential. Instead, the dominant factor determining market direction is simply the trajectory of oil prices.

Michael Kantowitz recently highlighted an important point in his weekly podcast: the duration of elevated oil prices matters more than the absolute peak price. A brief spike in oil prices tends to be far less damaging economically than a sustained period of moderately high prices. When higher prices persist, they begin to embed themselves in both consumer behavior and economic data.

U.S. markets have remained relatively resilient. One likely reason is that oil futures six months out are priced significantly lower than the current spot price. This suggests investors largely expect the disruption to be temporary rather than structural.

Importantly, prior to the recent spike in oil prices, global manufacturing surveys were signaling improving economic momentum. Given that backdrop, shifting portfolios too aggressively into defensive positioning may be premature—particularly if the U.S. begins to signal a potential path toward de-escalation of the current hostilities.

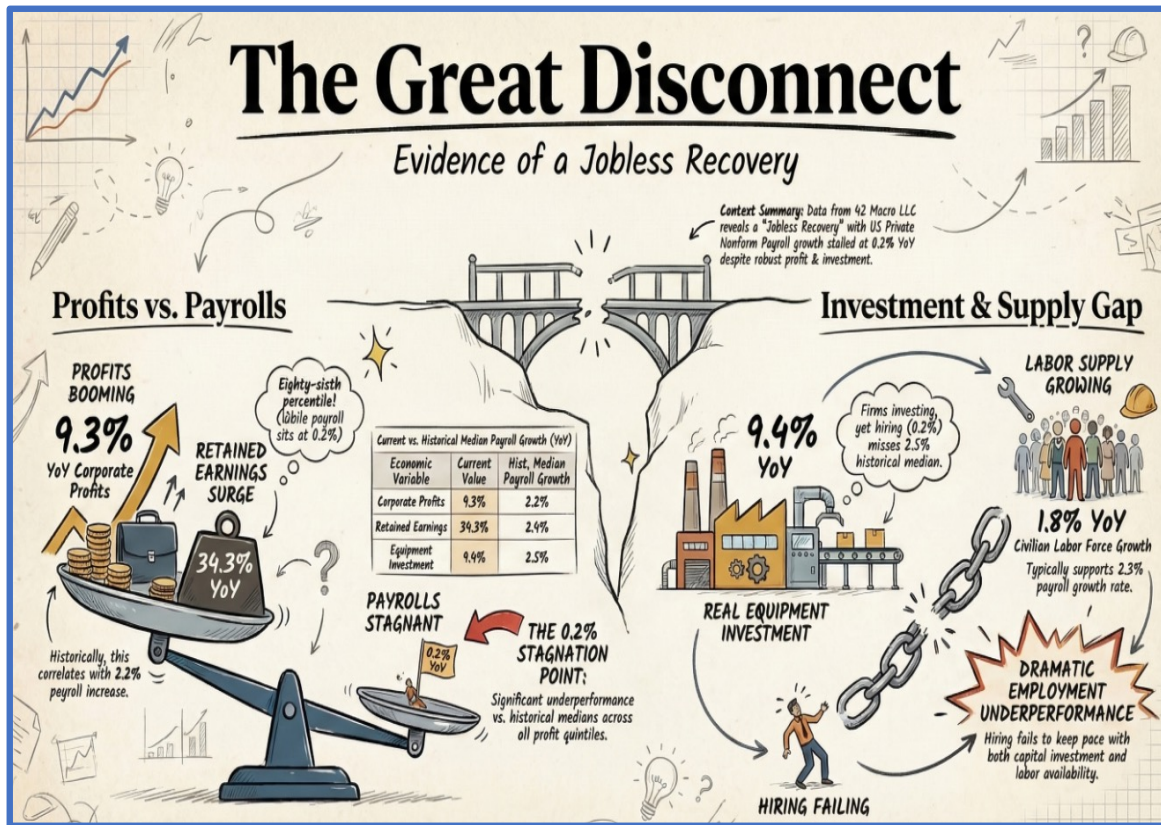


Source: @bobEUnlimited

Energy costs are a critical input to the U.S. economy. When energy prices rise, they increase operating costs for many manufacturing and industrial businesses. Higher energy costs also reduce consumers' discretionary income, leaving households with less to spend on other goods and services.

In addition, rising energy prices tend to push inflation higher, which can influence how the Federal Reserve approaches monetary policy decisions.

However, it is important to recognize that the structure of the U.S. economy—and its relationship with energy—has changed significantly over the past 50 years. Today, the United States is a major producer of oil and energy. This shift means that higher energy prices can also generate economic benefits by supporting domestic production, employment, and income within the energy sector. As a result, the overall economic impact of rising energy prices is more balanced than it was in earlier decades, when the U.S. was far more dependent on imported energy.



Source: 42Macro

The February 2026 jobs report came in significantly weaker than economists had anticipated. The U.S. economy lost 92,000 jobs, far below the consensus expectation of a 50,000 gain. The unemployment rate rose from 4.3% to 4.4%, and revisions to the previous two months reduced payrolls by an additional 69,000. Taken together, the data suggest that the recent “no-hire, no-fire” labor market dynamic may now be shifting more decisively toward “no hire.”

Prior to the conflict in the Middle East, our expectation was that economic growth would accelerate with the labor market experiencing a form of jobless recovery. This report is broadly consistent with that view. In fact, the underlying data had already been pointing in this direction.

Over the past twelve months, payroll growth has increased by only 0.2% despite strong corporate fundamentals, including robust profits, rising retained earnings, and solid capital expenditures. Year-over-year corporate profits are up 9.3%, which historically would imply job growth of roughly 2.2%. Retained earnings have risen 34.3% year over year, historically consistent with about 2.4% job growth. Meanwhile, real investment in equipment has increased 9.4% year over year, a pace that has typically corresponded with approximately 2.5% job growth.

Corporations appear far less willing to expand payrolls than historical relationships would suggest. Is AI already beginning to influence hiring decisions and labor demand.

The Energy Chokepoint: Asia's Reliance on the Middle East

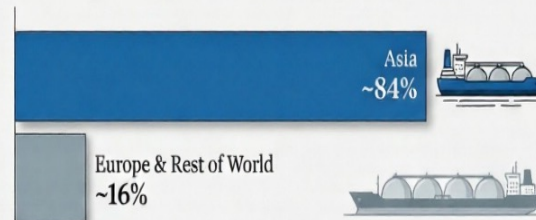
While U.S. stock indices remain resilient, Asian and European markets face significant risks due to their cyclical nature and extreme reliance on Middle East energy. Disruption in the Strait of Hormuz represents a critical threat to these energy-dependent economies.

The Dependency Gap: Oil Transiting Hormuz



Asia claims the overwhelming majority of crude oil and condensate flowing through this critical naval passage.

LNG Exports (Qatar and UAE)



The vast majority of Liquefied Natural Gas from Qatar and the UAE is destined for Asian markets.

Economic Vulnerability

Market Cyclicity

Foreign indices are more cyclical than U.S. markets, making them more sensitive to energy supply shocks.

The Hormuz Risk Factor

Reduced traffic or closures in the Strait of Hormuz directly impact Asian economic stability and market performance.

While U.S. stock indices have remained relatively resilient, the same cannot be said for many foreign markets. One reason is the more cyclical composition of non-U.S. indices compared with the U.S. market. Another key factor is energy dependence: Europe—and especially many Asian economies—rely heavily on energy exports from the Middle East. As a result, the disruption and sharply reduced traffic through the Strait of Hormuz pose a significant concern for these economies and their financial markets.

Source: Bloomberg

Disclosure

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