THE SHORT AND LONG

Weekly Bulletin

U.S.-Iran resolution remains challenging to handicap

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TAKEAWAYS

- Conflict in the Middle East continues to roil markets, pushing investors back into quality, growth-oriented assets, particularly in the U.S. We expect volatility is likely to persist until markets see clearer signals of a durable resolution, which we see as unlikely in the near-term.
- Sharply higher oil prices raise the risk of stagflation across global economies. However, today's environment differs materially from prior petroleum supply shocks given structural changes in global growth and energy markets.
- Amid rising uncertainty and market disruptions, many of the world's major central banks meet next week. Oil price volatility and stagflation risks complicate the policy outlook.

This week in charts

FIGURE 1: Current labor market indicators relative to range since 2024

*Initial jobless claims are inverse scale for consistency

Source: Haver Analytics as of March 10, 2026.

Looking closer

The decline in the February employment report was not corroborated by other labor market data. Initial jobless claims and employer survey data show a more positive view of the labor market, and consumers viewing jobs as "plentiful" increased in February. A complete picture of the labor market requires a broad set of indicators.

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U.S.-Iran conflict driving market volatility with near-term resolution difficult to forecast

As expected, market volatility across asset classes remains elevated as investors constantly reassess the duration, magnitude, and impact of the conflict. While recent headlines suggest the U.S. is focused on a quick resolution, we believe the market will find this difficult to handicap. The durability of the early-year rotation toward non-U.S. equities and smaller companies remains challenged, with higher yields and positioning unwinds strongly impacting the latter.

Despite concerns around increasing leverage for Tech companies, AI impacts on software, and private credit contagion driving violently flat U.S. equities year-to-date, the S&P 500 has now outperformed non-U.S. markets by ~350bps over the last five trading days[1].

This aligns with our view that U.S. assets still serve as a foundational anchor for resilient investment portfolios, supported by high-quality corporate fundamentals across depth and liquidity for both equity and debt markets. We remain convicted in U.S. large-cap equities as a core holding given their historical secular advantage and outperformance during periods of stress.

Looking ahead, we are monitoring key developments around the potential for the conflict to widen to other Middle East nations, the durability of any disruption to the Strait of Hormuz, the potential effects on energy transport, and the degree of permanent damage to the oil infrastructure in the region. We continue to believe that a protracted impact on the energy complex filtering into higher energy prices and therefore inflation is a key risk to markets. A sustained period of elevated energy prices would directly impact consumers through a negative shock to disposable income. Further, global central banks may need to pivot to tightening policy as higher headline inflation challenges accommodative stances to date. This combination of consumer pressure and a shift in policy rates may shorten the duration of the recently positive global macro trajectory.

We continue to evaluate levels at which adding duration could become attractive if sharply higher yields trigger a cyclical slowdown. For now, we maintain an underweight position in duration given continued upward pressure on rates.

Bottom line: Our base case remains that the market feed-through of geopolitical risk will fade over time, consistent with the temporary market impact of historical geopolitical shocks. However, we cannot rule out a protracted entanglement in the region that leads to a sustained period of higher energy prices that has larger market and economic implications. We maintain exposure to assets such as gold with the potential for uncorrelated return and hedge properties to geopolitical risk.

The evolution of oil and the economy

Surging oil prices driven by negative supply shocks can create a challenging outlook for global growth, particularly in the scenario of a protracted Middle East conflict.

In addition to the major supply shocks of the 1970s – the Arab oil embargo of 1973 and the Iranian revolution in 1979 – oil markets were also disrupted by the Iran-Iraq War in the 1980s, the Persian Gulf War following Iraq's invasion of Kuwait in 1990, and sanctions following Russia's invasion of Ukraine in 2022.

The 1973 oil embargo had particularly negative outcomes. The U.S. experienced a deep recession, the UK restricted business energy consumption to three days per week at the start of 1974, Japan's real GDP declined for the first time since the end of World War II, and West Germany's unemployment rate rose from 1.0% in 1972 to 3.2% at the end of 1974.

However, these historical episodes occurred in a macroeconomic environment that differed meaningfully from today. In the early 1970s, many advanced economies were already experiencing elevated inflation before the oil shock arrived. Wage indexation was common, central bank credibility was weaker, and monetary policy frameworks were less focused on inflation targeting. As a result, higher oil prices fed quickly into broader inflation pressures, reinforcing a wage-price spiral and forcing central banks to tighten policy sharply once inflation accelerated.

[1] The S&P outperformance over the last five days is as of March 9, 2026.

Additionally, economies were significantly more energy intensive than they are today. Manufacturing and heavy industry represented a larger share of economic activity, while energy efficiency was lower across transportation, industry, and residential consumption. As a result, oil price increases transmitted more directly into production costs, consumer prices, and economic activity.

While the jump in oil prices following the latest conflict in the Middle East raises downside risks to global growth, there are important differences between the environment today versus that of 50 years ago.

First, global growth is less dependent on oil as economies shifted to being oriented more toward the provision of services rather than the production of goods, and as manufacturing became more energy efficient. We calculate that for every metric ton of oil consumed globally, the world created approximately $21,100 of real GDP in 2024 versus $8,900 in 1980 (in constant U.S. dollars).

This is similar to the work published by Columbia University's Center on Global Energy Policy[2], which noted: "The efficiency of oil use has improved, in other words oil intensity has declined, over the years and decades. In 1973, for example, when oil intensity was at its zenith, the world used a little less than one barrel of oil to produce $1,000 worth of GDP (2015 prices). By 2019 (the last data set before Covid) global oil intensity was 0.43 barrel per $1,000 of global GDP—a 56% decline. Oil has become a lot less important and humanity has become more efficient in making use of it."

Second, the 1970s oil crises provided a catalyst for the creation of strategic petroleum reserves. The International Energy Agency was founded in 1974 to help coordinate a global response to future oil market shocks, including holding reserves of oil. The U.S established its Strategic Petroleum Reserve in 1975, and the 2000s saw the emergence of petroleum reserves in China and India. During the oil embargo of 1973, only a handful of countries had emergency response measures in place for oil supply disruptions. Using consumption levels at the time, readily available oil would last 61 days, assuming no further production. Today, 60 countries have implemented response measures, and oil reserves would last 85 days at current consumption levels.

Bottom line: The current Middle East crisis likely raises the risk of a larger disruption to the global oil supply than previous negative supply shocks. While stagflation risks have increased, global growth is less dependent on oil than during prior supply shock episodes, and strategic petroleum reserves provide an additional buffer. The ultimate economic impact will depend on the duration and scale of supply disruptions.

Central bank meetings amid rising oil prices and a weaker U.S. jobs report

If Middle East tensions push global economics toward stagflation, central banks would face a difficult policy environment. Most central banks focus primarily on maintaining price stability, and policymakers often attempt to 'look through' temporary energy prices shocks.

However, many central banks shifted toward easier policy from 2024-25. History suggests that policymakers must remain cautious. Many economists view the accommodative response to the oil shocks of the 1970s as a key driver of the inflation surge that followed.

If stagflation pressures emerge, we do not expect central banks to respond with additional monetary easing. However, prior policy easing may increase the risk that higher energy costs feed more broadly into inflation.

The challenge with stagflation is that it complicates policy decisions because central banks must weigh inflation risks against slowing economic growth. The Federal Reserve has an explicit mandate to seek maximum employment. Last week's U.S. employment report for February might challenge the assessment of some Fed officials that the labor market has stabilized.

[2] Center on Global Energy Policy at Columbia University, "Oil Intensity: The Curiously Steady Decline of Oil in GDP," September 9, 2021.

However, we must be careful not to read too much into any single economic data report. The weakness in the February employment report—including a 92,000 decline in nonfarm payrolls and a rise in the unemployment rate to 4.4% from 4.3%—was not corroborated by other labor market data. For example, initial claims for unemployment benefits were little changed in February at a historically low level, which suggests that layoffs remained subdued. The Institute for Supply Management (ISM) manufacturing and services employment indexes rose in February to the highest level in about a year. The Conference Board's survey featured a strengthening in consumers' assessment of the labor market in February. Nonetheless, the stability of the labor market is less certain following the February employment report, and the economy now faces a headwind from higher oil prices.

Bottom line: Rising oil prices create a difficult policy backdrop for global central banks. Stagflation is not our baseline view. However, lower oil intensity in the global economy, prior policy easing, and inflation still above many central bank targets may encourage policymakers to focus more on inflation risks than on potential growth weakness.

	What happened	What's ahead
ECONOMIC DATA	**U.S.** Employment fell 92K in Feb, well below +130K gain in Jan and +55K estimates (two-month revisions –69K). Unemployment rate rose to 4.4%. Retail sales fell –0.2%, a bit better than estimates. ISM Manufacturing printed above 50 two months in a row for the first time since 2022, while Services was firmer with new orders and employment showing strength. **Global** Eurozone GDP revised down, flash CPI a bit hotter than expected and retail sales weaker.	**U.S.** Consumer Price Index (CPI) for February Personal Consumption Expenditures (PCE) for January Job Openings and Labor Turnover Survey (JOLTS) report for January
POLICY	**U.S.** Trump administration considering requiring semi makers to obtain permits for global sales. Administration also considering insurance guarantees and naval escorts through Strait of Hormuz.	**U.S.** Possible trade embargo threat against Spain Ongoing tariff refund debates (estimates ~$180B)
	Global No signs of Middle East conflict resolving a week in with over a dozen countries now involved. As expected, China lowered annual growth target to 4.5-5%.	**Global** Potential de-escalation negotiations between Iran, U.S., and Israel Strait of Hormuz traffic flow
MARKETS	**U.S.** Some flight to USD amid Middle East conflict, U.S. outperforming international shares. Yields swinging on inflation expectations and conflict resolution headlines.	**U.S.** Notable tech earnings ~98% of the S&P has reported earnings: blended growth rate stands at 14.1% (compared to +8.3% expectations). Fifth straight quarter of double-digit earnings growth.
	Global Fluctuating oil prices amid near-halt of Hormuz traffic.	**Global** All eyes on how protracted the Middle East conflict becomes. Energy import reliant countries and industries more at risk.

Source: Bloomberg as of March 9, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

RELATED READING

March 2, 2026 | CIO Update: Iran, Markets and Portfolio Resilience
Following activity in the Middle East, we emphasize maintaining resilient client portfolios with a focus on quality and risk management in response to geopolitical stresses, while also highlighting the role of gold as a portfolio ballast and noting the varied impacts on different market segments.

March 3, 2026 | CIO Bulletin: Global Volatility, Energy Risks, and Market Resilience in Focus
In last week's Bulletin, we looked at how global volatility rose as investors assessed geopolitical risks around energy supply routes, particularly the Strait of Hormuz. Despite the uncertainty, resilient fundamentals and structural advantages continue to position the U.S. equities as a core anchor for diversified portfolios.

The Short and Long: Q1 Macro Investment View
Citi Wealth's new quarterly report offers investors data-driven guidance to help navigate complex markets. The report projects a constructive macroeconomic environment for early 2026, with corporate profitability and global growth encouraged by favorable money and fiscal policy.

Global Investment Committee
The Citi Wealth Global Investment Committee met December 8, 2025, and added to U.S. Large Cap Equities and Gold. Emerging Markets Asia ex-China equities and Developed Markets High Yield were trimmed to fund the moves. These tilts seek to capture a seemingly stronger macro backdrop while being selective on risk and maintaining diversification.

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Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

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