

THE SHORT AND LONG

Weekly Bulletin

Markets shifting policy pricing amid ongoing energy shock

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AUTHORS



Kate Moore
Chief Investment Officer



JP Coviello
Head of Portfolio Strategy



Conrad Dequadros
Head of Economics



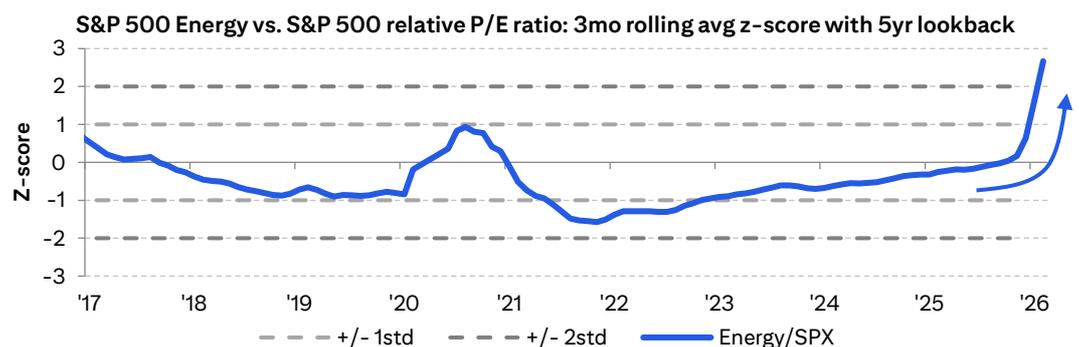
Jeff Puckette
Macro Portfolio Strategist

TAKEAWAYS

- Monetary policy meetings are scheduled this week for all G7 central banks. These meetings take place amid a high level of geopolitical uncertainty. Market pricing for policy rates has shifted materially following the onset of the Middle East conflict.
- Daily headlines will continue to move markets as investors attempt to price in a near-term Middle East resolution, a scenario that would support a constructive macro backdrop for equities. However, the conflict's trajectory remains difficult to handicap, and investors should stay focused on long-term allocations to quality assets during periods of volatility.
- In December, [we highlighted a positive macro inflection entering 2026](#), driven by an AI-led supply crunch, which we expected to benefit Natural Resources and Energy equities. Given recent price moves and ongoing uncertainty tied to the Iran conflict, we now view Energy equities as stretched and close our positive stance in relevant exposures.

This week in charts

FIGURE 1: Energy valuations surging on oil price spikes



Source: Bloomberg as of March 17, 2026. Z-score is a statistical measure that quantifies how many standard deviations a particular data point is away from the mean of a dataset. Standard deviation is calculated to indicate the extent of deviation for a group as a whole. 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. The arrow shows the recent surge higher in energy valuations relative to the S&P 500.

Looking closer

Energy price action is following oil price swings as the Middle East conflict prolongs. Meanwhile, U.S. energy companies' earnings have been revised higher by only 1.4% over the last week, reflecting uncertainty around supply shocks and potential demand destruction and falling oil prices as supply comes back online. This combination of risk and strong outperformance in Energy since December supports considering profit-taking and reassessing tactical positioning in the sector.

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Central banking amid geopolitical uncertainty

The Federal Reserve, European Central Bank (ECB), Bank of Japan (BoJ), Bank of England (BoE), and Bank of Canada (BoC) all meet this week. Sweden's Riksbank, the Swiss National Bank, and the Reserve Bank of Australia also convene. The backdrop for these policy meetings is one of elevated geopolitical uncertainty, upside risk to headline inflation rates from rising oil prices, and core inflation rates that generally remain above central bank targets.

Geopolitical uncertainty, which intensified over the last week, is often difficult for central banks to navigate. With respect to the current events, rising oil prices put upward pressure on inflation but can also provide a headwind to growth. Unlike the Federal Reserve's maximum employment mandate, most central banks do not have explicit growth objectives. However, policymakers tend not to disregard developments related to the real economy. This creates a challenge when circumstances cause growth and inflation to pull monetary policy in opposing directions.

History offers a clear lesson. In the 1970s, central banks eased policy in response to oil-driven shocks. Just prior to the 1973 oil embargo, the inflation-adjusted fed funds rate was 2.2%, and the real BoE bank rate was 2.1%. One year later, these real policy rates declined to negative 2%. Because central banks accommodated the rise in oil prices, these higher prices fed into underlying inflation. U.S. CPI excluding Energy—already elevated at 6.7% in the third quarter of 1973—rose sharply to 11.2% in the fourth quarter of 1974. The monetary policy response to rising oil prices in the 1970s is widely judged as misguided.

Today, central banks face a similar challenge but from a different starting point. Core inflation already exceeds central bank targets in most major economies prior to the conflict. U.S. core Personal Consumption Expenditures (PCE) inflation was reported last week at 3.1% year-over-year for January, Eurozone core Consumer Price Index (CPI) was 2.4% in February, and U.K. core CPI was 3.1% in January—the Fed, ECB, and BoE all target 2% inflation. Given above-target inflation and an upside risk to prices, markets have repriced expectations for policy rates. Interest rate futures are priced for only 25 basis points of Fed rate cuts by December versus 61 basis points of cuts prior to the conflict. The ECB is priced for 41 basis points of rate hikes now versus 14 basis points of cuts at the end of February, while the implied BoE bank rate for December rose to 3.90% from 3.20%.

Bottom line: Inflation was already sticky prior to the conflict. Recent developments add upside risk and have pushed expected policy rates higher. Policymakers will likely remain in wait-and-see mode until there is greater clarity on the duration of the conflict and its impact on growth and inflation.

Markets attempt to price in a near-term U.S.-Iran resolution

Markets began the week pricing a more de-escalatory path for the conflict between the U.S., Israel, and Iran. Oil prices and longer-term yields have eased, supporting a rebound in equities. Despite the year-to-date rotation favoring small caps over large and non-U.S. over U.S. in performance, the Monday bounce can be found across both legs of the rotation.

As previously discussed, investors continue to bid U.S. assets during this period of stress despite ongoing AI-disruption and private credit fears. We view this as a positive sentiment indicator for U.S. assets, particularly around the U.S. economy's more favorable energy position as an exporter of both oil and natural gas relative to the energy-importer position of other developed and emerging market economies (Europe, Japan, etc.).

We believe the backdrop for global equities remains constructive in the event of a near-term resolution. The well-behaved nature of risk assets amid the multitude of headlines reflects this view. However, we continue to express humility around the conflict's trajectory from here. Disruptions to the energy supply chains may persist for some time beyond any U.S. declaration of victory given the differing stances of both Israel and Iran at that point. The odds of demand destruction from higher energy prices increases the longer the Strait of Hormuz remains compromised, and the full reopening is challenging to forecast.

In this environment, investors should remain focused on long-term positioning rather than attempting to trade short-term market moves.

Bottom line: Current market resilience reflects optimism around a near-term resolution. This outcome would support risk assets and reinforce a constructive macro backdrop. However, conditions can shift quickly, and we continue to emphasize long-term discipline as the conflict evolves.

Taking profits in Energy equities amid uncertain fundamentals

In December, we highlighted that our positive macro outlook entering a cyclical inflection point combined with bottlenecks related to the AI capex boom required investors to incorporate natural resources-oriented expressions into portfolios. Energy equities featured prominently in that recommendation as investor flows began rotating toward cyclical assets.

With geopolitical risk largely driving the recent crude rally, the duration and trajectory of the conflict have become central questions for investors positioning for what comes next. Importantly, the absence of a durable (i.e., longer than 12-month) shift in oil supply-demand fundamentals reinforces the need for disciplined risk management around energy complex exposures—particularly during sharp, sentiment-driven moves such as the one currently unfolding across oil and energy equities.

Crude oil remains above \$90 to start the week and up over 40% since the Iran conflict began, while U.S. Energy equities are following suit with a +2 to +3 standard deviation move across 5-year z-scores for most valuation metrics (see Figure 1). The rolling 65-day Sharpe ratio of U.S. Energy equities also breached a +3.5 level, a move consistent with relative underperformance over the next three months based on historical data.

Meanwhile, analysts have only revised up earnings estimates for U.S. energy companies by 1.4% over the last week, reflecting the uncertainty for fundamentals around supply shocks as they can quickly turn into a situation of demand destruction and falling oil prices as supply comes back online. On this risk and dramatic outperformance of Energy since December, we see this as an opportunistic time to take profits in the sector and close the tactical trade.

Bottom line: Energy prices may remain elevated in the near term, but uncertainty around the duration of the Iran conflicts limits upside. Given the crosscurrents impacting fundamentals, we view this as a potential opportunity to consider profits in Energy equities from our tactical exposure recommendation in December.

	What happened	What's ahead
ECONOMIC DATA	<p>U.S.</p> <p>February CPI came in largely as expected (core at 2.5% Y/Y). PCE rose as expected for Q4, bringing core PCE inflation to 3.1% Y/Y.</p> <p>January job openings jumped above estimates while layoffs rate fell. Quits and hire rates are stable.</p> <p>Global</p> <p>China inflation hotter than expected, imports and exports surprised higher.</p> <p>UK GDP was flat in January, highlighting weakness prior to Middle East conflict.</p>	<p>U.S.</p> <p>Federal Open Market Committee (FOMC) March meeting</p> <p>Energy prices to feed into future inflation readings</p> <p>Producer Price Index (PPI) for February</p> <p>Global</p> <p>ZEW survey for March</p> <p>Eurozone trade balance for January</p>
	<p>U.S.</p> <p>U.S. temporarily approves of Russian oil cargoes already at sea.</p> <p>U.S. Trade Representative launched Section 301 trade investigations to reinstate tariffs on 60 countries.</p> <p>Global</p> <p>Iran's new leader Motjaba Khamenei vowed to keep Strait of Hormuz closed. He also remains defiant on negotiations to end the war.</p>	<p>U.S.</p> <p>Ongoing tariff refund debates (estimates ~\$180B)</p> <p>Trump administration balancing nuclear threat risk and oil prices amid affordability push before midterms</p> <p>Global</p> <p>Potential de-escalation negotiations between Iran, U.S., and Israel.</p> <p>Strait of Hormuz traffic flow</p> <p>Bank of Japan (BOJ), ECB meetings</p>
	<p>U.S.</p> <p>Equities selling off broadly and yields climbing, giving investors little space to hide. Oil prices fluctuate around \$100-mark, dollar seeing some safe-haven strength.</p> <p>Risk-off chalked up to hawkish Iran rhetoric, oil price spikes, inflation expectations.</p> <p>Global</p> <p>Highest bond yields in over two years reflects dramatic repricing from cuts to hikes for European Central Bank (ECB), other global central banks.</p>	<p>U.S.</p> <p>Nvidia AI Conference</p> <p>Markets now pricing in less than one Fed cut this year, down from more than two at the end of February</p> <p>Ongoing private credit mark downs and redemptions</p> <p>Global</p> <p>All eyes on how protracted the Middle East conflict becomes</p> <p>Energy import reliant countries and industries more at risk</p>

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RELATED READING

[March 10, 2026 | CIO Bulletin: U.S.-Iran resolution remains challenging to handicap](#)

In last week's Bulletin, we looked at how escalating tensions between the U.S. and Iran have injected fresh uncertainty into global markets, reinforcing a cautious investor tone and pushing capital toward higher-quality, growth-oriented assets. While geopolitical risks could drive near-term volatility, the ultimate economic and market impact remains difficult to handicap as events continue to evolve.

[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.

[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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Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

¹ The ratings from Aa to Ca by Moody's may be modified by the addition of a 1, 2, or 3, to show relative standing within the category.

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- restrictions on transferring interests in the Fund;
- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- absence of information regarding valuations and pricing;
- complex tax structures and delays in tax reporting;
- less regulation and higher fees than mutual funds; and
- manager risk.

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