

SPECIAL Market Update

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Weathering the Strike

The past two days have been the most intense of the Iran conflict. President Trump effectively deescalated his own escalation by extending his last-Friday ultimatum – that Iran reopen the Strait of Hormuz or face major economic damage via destroyed power plants – from 48 hours to the end of this week. In response, equity markets recovered most of last Friday’s significant drop as oil prices fell to \$89/barrel (from \$98/barrel last Friday). Trump’s Liberation Day II sequel appears to be a page right out of the Liberation Day I playbook – set high demands and negotiate to (his side of) the middle. We must be mindful of lingering economic damage from recently elevated oil prices, but the data suggests the U.S. economy can bunker down and survive.

Headline hysteria. Don’t believe everything you read – or at least don’t take what the media speculates as fact. Yes, the conflict rages on – but the U.S. does not appear to be losing the war (in fact, based on the originally communicated timeline of 4-5 weeks, the operation is likely ahead of schedule in meeting its objectives). Yes, ~20% of global oil supplies pass through the Strait of Hormuz – and its closure has resulted in oil prices spiking to a recent market-close high of \$98/barrel and gas prices jumping ~33% to an average \$3.96/gallon – but this does not mean that recession is imminent (especially in today’s less-energy-intensive U.S. economy).

Economic reality. The recent jump in oil prices to nearly \$100/barrel was certainly a shock to the investor base – but it’s important to remember we’ve been here before. Per the **left panel of Exhibit 1**, oil prices breached \$100/barrel in the early days of the Russian-Ukraine War, with a peak (using monthly data) of \$115/barrel (\$124/barrel using daily prices) and remaining elevated for six months – no recession came of it. Prior to that, oil prices averaged \$96/barrel (\$137/barrel in today’s prices) for a full three years from mid-2011 through mid-2014 – also without a recession.

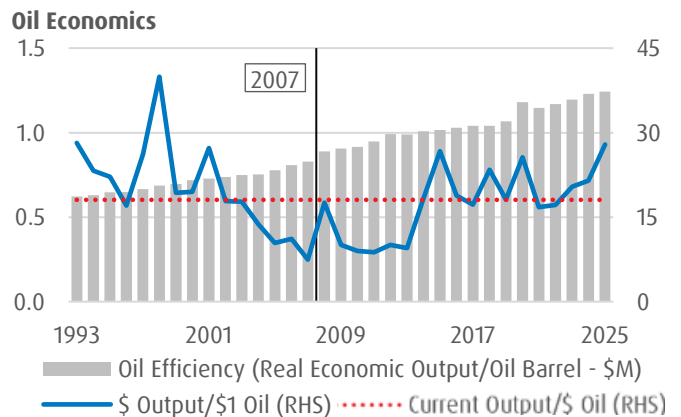
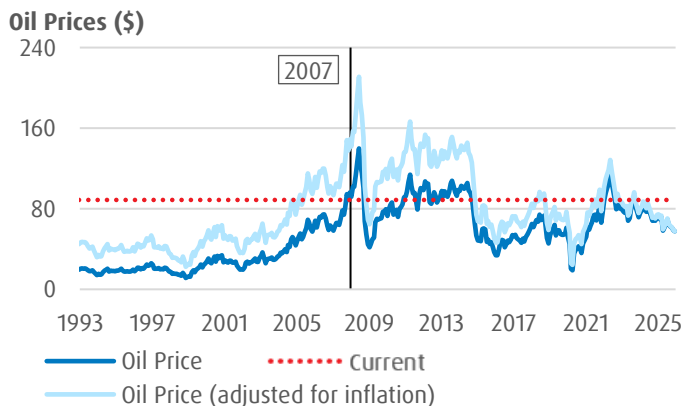
Economic efficiency. A fair counterpoint to the above is the fact that oil prices spiked over 50% in less than a month (even during the Russian invasion, the largest 30-day gain in oil prices was “just”

~45%). To avoid recession, such a quick change in an input cost as vital as oil/energy must be overcome by a relatively quick economic adjustment – either in the form of new oil/energy supply or less oil/energy demand. Luckily, the U.S. economy has become much more flexible on this matter. Per the **right panel of Exhibit 1**, U.S.-economy oil efficiency – the amount of real economic output per barrel of oil – has increased by 50% since pre-global-financial-crisis levels (2007), thanks to greater fuel efficiency and technological advancements. Even at the current \$89/barrel, the U.S. economy produces ~\$18 of output per \$1 of oil – still within the past decade’s range and nearly double that of the mid-2011 to mid-2014 timeframe.

Investors not looking for comfort – just liquidity. Since Iran concerns first surfaced on February 25, the max drop in gold prices was twice as much as that of the S&P 500 (12.5% vs. 6.2%). This suggests recent market movements are less driven by recession fears and more driven by liquidity needs (selling winners, potentially to meet margin calls elsewhere). Meanwhile, Bitcoin – where the 40%+ drop since last October likely served to flush out speculators – is up over the same timeframe (1.4%). At present, the key market barometer is interest rates – the 10-year U.S. Treasury yield’s recent jump to 4.4% similarly suggests little fear of recession, but could also impede any post-Iran rally. We continue to recommend that clients maintain current portfolio positioning – as we wait for the strike to pass.

Exhibit 1: Gauging the economic hit from higher oil prices

Oil prices remain below post-Russian invasion levels and in line with the levels of the early-2010s; greater efficiency reduces economic impact.



Source: Bloomberg L.P. (2026). “Current” as of 3/23/2026. Oil prices based on the West Texas Intermediate spot futures contract.

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