

Biweekly Investment Insights: Navigating the energy shock & market implications

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Ongoing fallouts from the Middle East conflict

- Largest oil supply disruption driving oil prices & inflation expectations higher, pushing back Fed rate cut expectations to mid-2027
- Historical U.S. equity sector performance is mixed 3-months following a 25% or more rise in national gas price average. But also important to understand the context during each episode
- Equity valuations have compressed further—supported by solid corporate earnings—leaving them closer to 10-year medians. Sustained higher oil prices could lower earnings estimates

Summary

The Iran war has resulted in the largest oil supply disruption in history per the International Energy Association (IEA). The conflict is impacting 7.5% of global oil supply and the IEA estimates that the flow of crude oil and related products passing through the Strait of Hormuz are down by more than 90% versus a year ago. J.P. Morgan estimates that oil and oil-product supply cuts to be more than 10% of global daily demand. As of this writing, Brent and WTI crude oil prices are higher by approximately 70% and 85%, respectively, year-to-date, and by around 56% and 45%, respectively, since the start of the Iran war on February 28th. With prices currently oscillating in the \$95/bbl to \$115/bbl range, these are the highest levels since mid-2022 on the heels of Russia invading Ukraine.

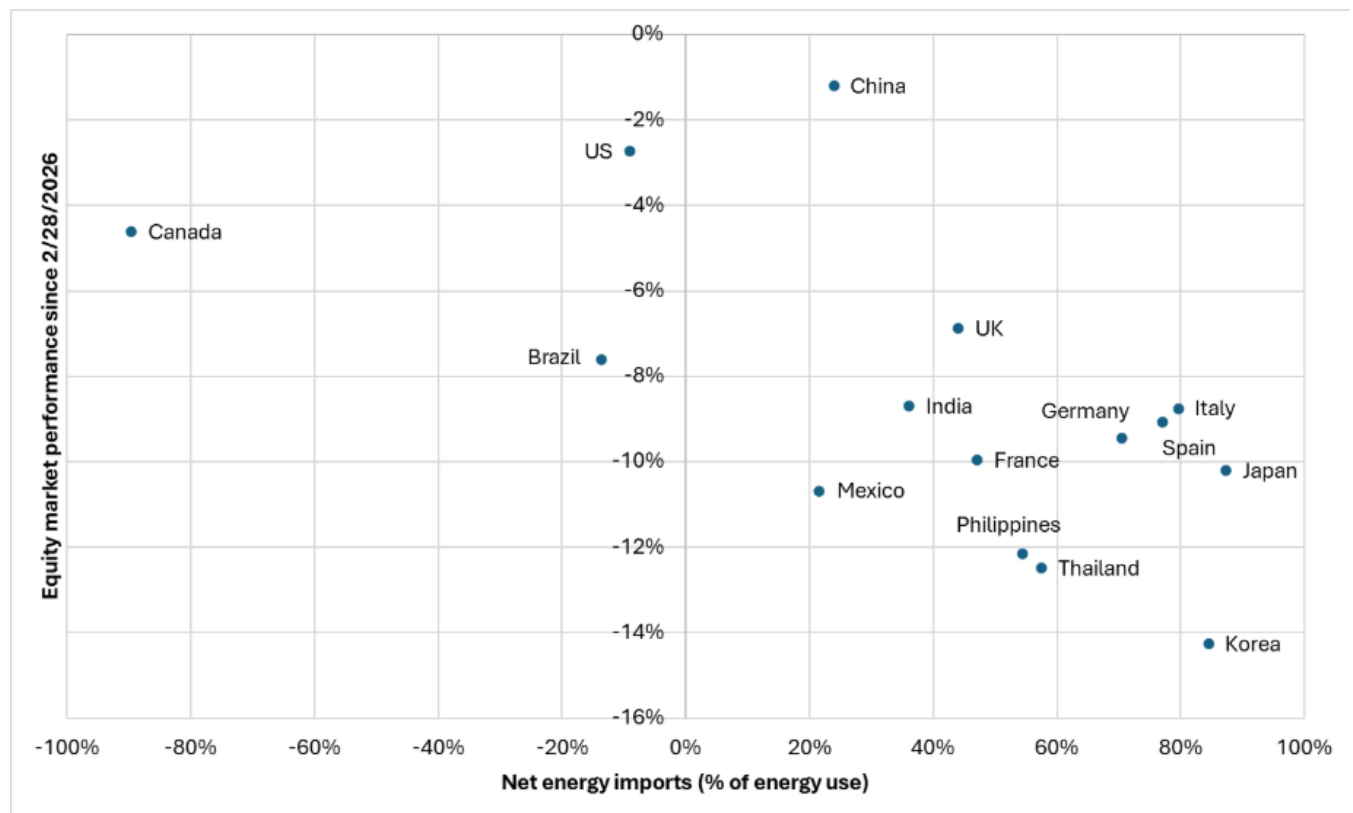
J.P. Morgan estimates that each \$10 incremental move higher in oil prices can reduce GDP estimates by 0.15% to 0.20%, while a \$10 increase in oil prices can push inflation up by 0.35% (per the Fed's inflation model). However, as the U.S. is a net energy exporter, the U.S. equity market has been amongst those Nasdaq country indexes which have outperformed since the onset of the war. U.S. inflation expectations have moved higher which have pushed back market pricing of the next Federal Reserve cut to July 2027 from September 2026 since March 10th. Expectations of a more hawkish Fed amidst stagflation concerns have led to a stronger USD and a sell-off in emerging market equities (coupled with key emerging market economies being net energy importers)—though after a strong run over the past year.

While forecasters and the markets are clearly focused on the trajectory of oil prices, U.S. consumers will feel the first-order impact at the pump as the daily national average is higher by more than 35% over the past two months. In analyzing U.S. equity sector performance three months after gas prices rise by at least 25% in a two-month time frame, it is important to understand the "why" in terms of the drivers of the increases (e.g., whether it is a supply- or demand-driven move).

Appreciating the risk of investor complacency in the near-term as the equity sell-off has not been severe and as U.S. corporate credit spreads are higher but within recent ranges, the headlines and market volatility can be dizzying. That is why focusing on the longer-term signals through the

noise remains paramount. Investors change their outlooks when the information change is significant enough to warrant a shift in a respective investment thesis. Therefore, staying rooted in long-term drivers such as looking for any shifts in earnings dynamics on account of sustained higher oil prices, while searching for opportunities as market valuations have compressed since the start of the year, will likely suit investors over the longer-term.

Biweekly Charts in Focus: Energy dependence has tended to match up with equity market performance since start of Iran war



Source: World Bank, Bloomberg. Notes: performance based on Nasdaq country index returns. In USDs. As of March 17, 2026.

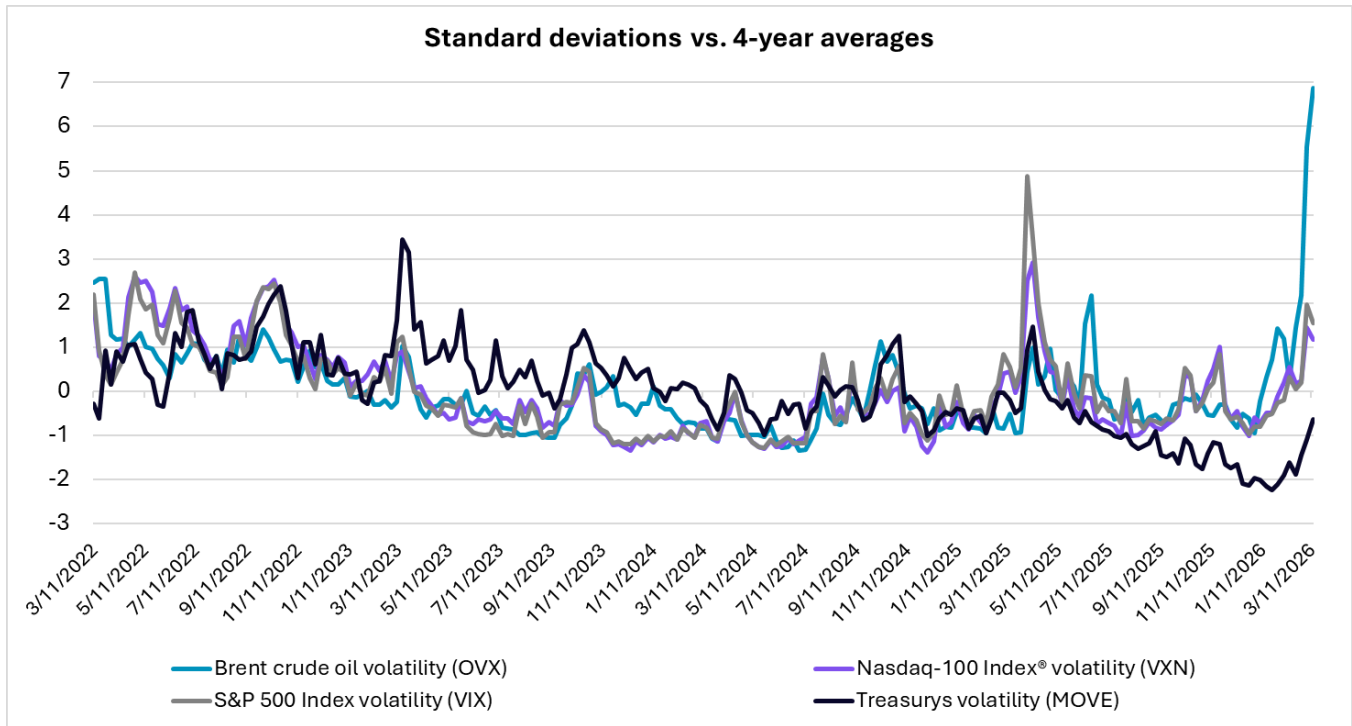
Details

Oil supply shock sets the tone for financial markets

The varying scenarios and outcomes of the conflict (e.g., duration of the war and effective closure of the Strait of Hormuz, what the off ramps look like for both sides) will impact the outlooks for global financial markets and economic forecasts. In the meantime, there have been notable knock-on effects:

- Per the Biweekly Chart in Focus above, the relative winners and losers across [Nasdaq country equity indexes](#) tend to line up with the net energy importers versus energy exporters.
- Refreshed from our [prior Biweekly](#), cross-asset volatility has moved even higher (Figure 2)—unsurprisingly, led by oil market volatility as it neared a +7 standard deviation move relative to its 4-year average. This was accentuated by a record 32% intraday swing in Brent crude on March 9th.

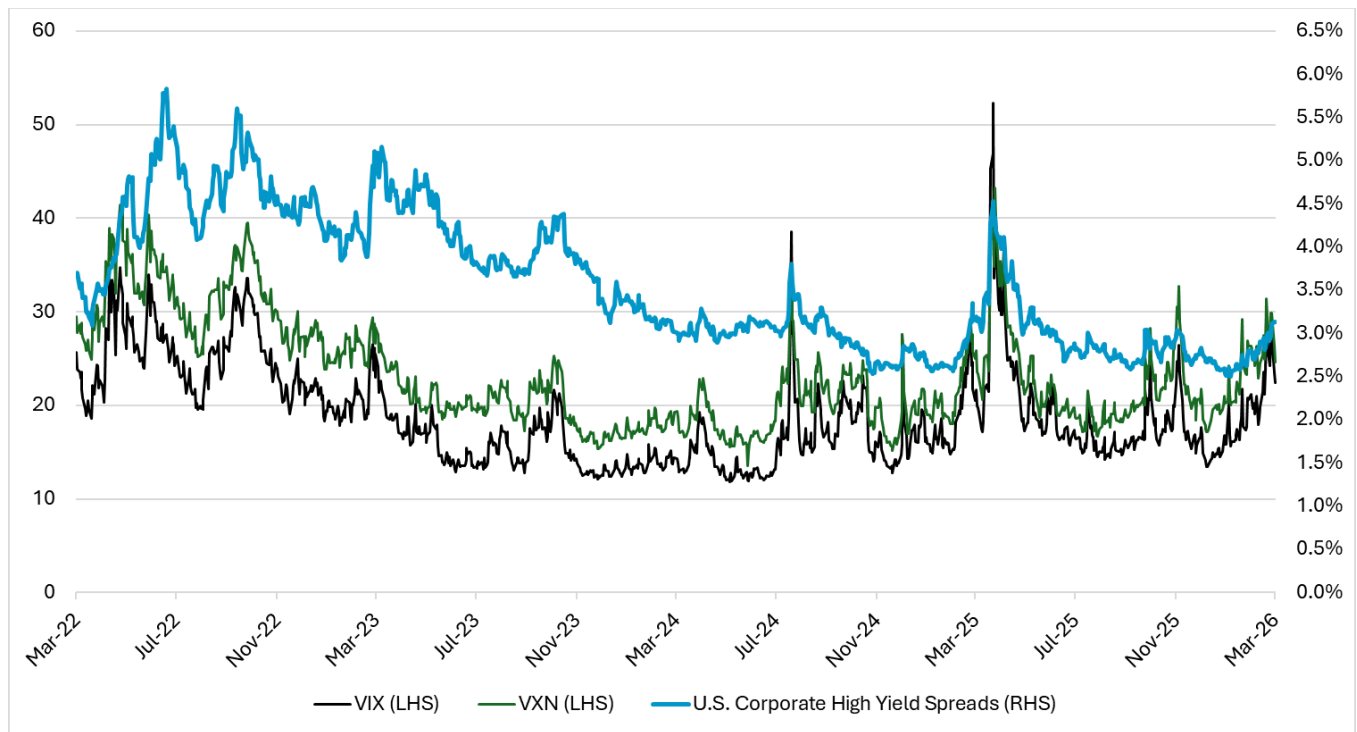
Figure 2: Updated cross-asset volatility measures



Source: Bloomberg. As of March 13, 2026.

U.S. corporate high-yield spreads have moved higher along with U.S. equity volatility, widening to 310 basis points relative to Treasuries (Figure 3). This brings corporate spreads to their highest levels since early June 2025. However, 1) this is from a low of 250 basis points—the tightest levels since June 2007 at the outset of the credit crisis—and 2) they remain far below the wides of the tariff tantrum in April 2025, and the Fed aggressively raising rates in 2022 and 2023. The fundamental outlook for U.S. corporates remains steady given the earnings complex (more on this later). Credit spreads are a key market indicator for investors to monitor for potential market complacency should the conflict persist, and higher oil prices and geopolitical uncertainties begin to severely impact the corporate outlook.

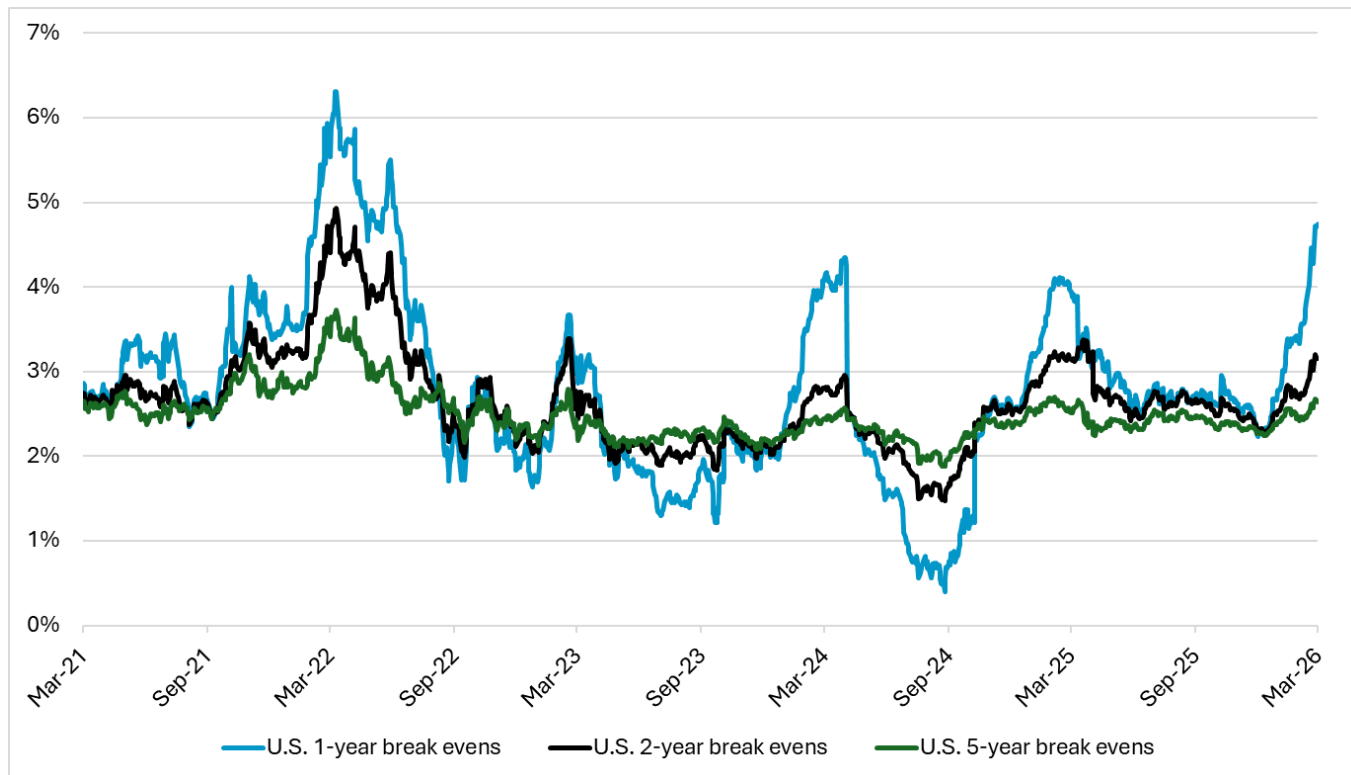
Figure 3: U.S. corporate high yield spreads have widened off their lows along with equity volatility increasing. For now, remain broadly in-check



Source: Bloomberg. As of March 17, 2026.

Short-term U.S. inflation expectations—e.g., U.S. 1-year break evens (1-year nominal Treasury yield less the 1-year TIPS yield)—are at their highest since mid-2022 following the start of the Ukraine war (Figure 4). Higher inflation expectations have pushed the year-to-date total returns for 10-year Treasury bonds to 0.62% as of March 16th after having returned a very healthy 2.35% as of the end of February. The Treasury weakness leaves the USD as the standout safe haven asset (further below).

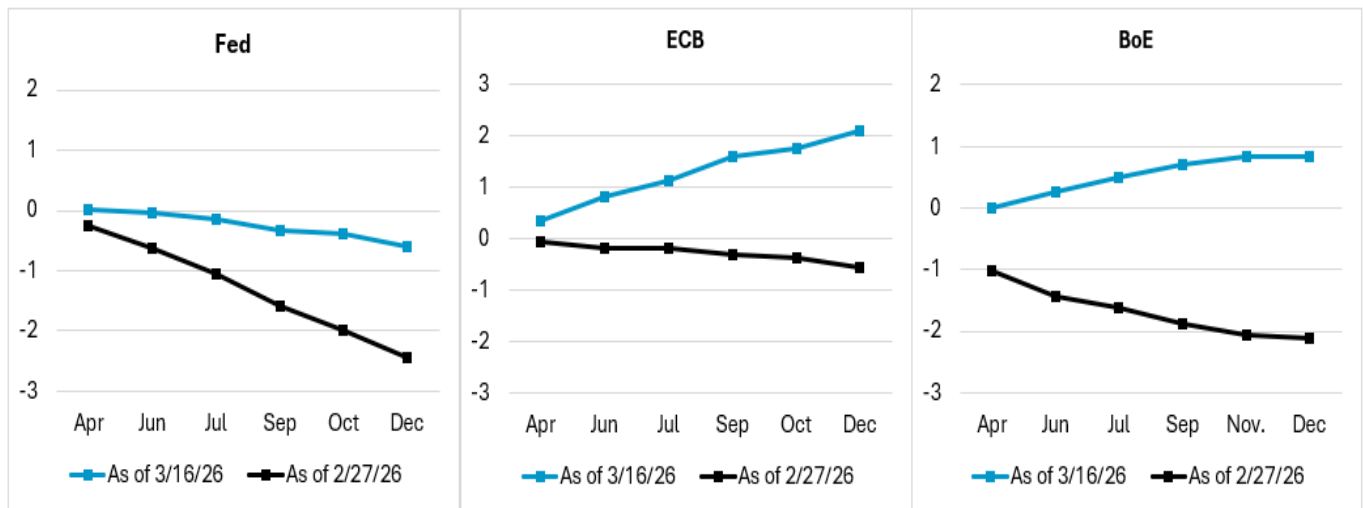
Figure 4: Shorter-term market-based inflation expectations have surged higher



Source: Bloomberg. As of March 16, 2026.

With inflation expectations moving higher, as of March 18th and following the FOMC's latest meeting, Fed funds futures are now pricing in the next Fed rate cut in July 2027; markets were pricing in the next Fed rate cut in September 2026 as recently as March 10th. Market pricing has completely shifted away from at least two rate cuts by the end of 2026 prior to the Iran war (Figure 5). A similar story has played in European Central Bank (ECB) and Bank of England (BoE) rate expectations where economies are more reliant on imported energy relative to the U.S. Easing monetary policies have been a key underpinning for risk assets. Therefore, market expectations of central bank moves will be a key component for risk assets as rate pricing remains volatile.

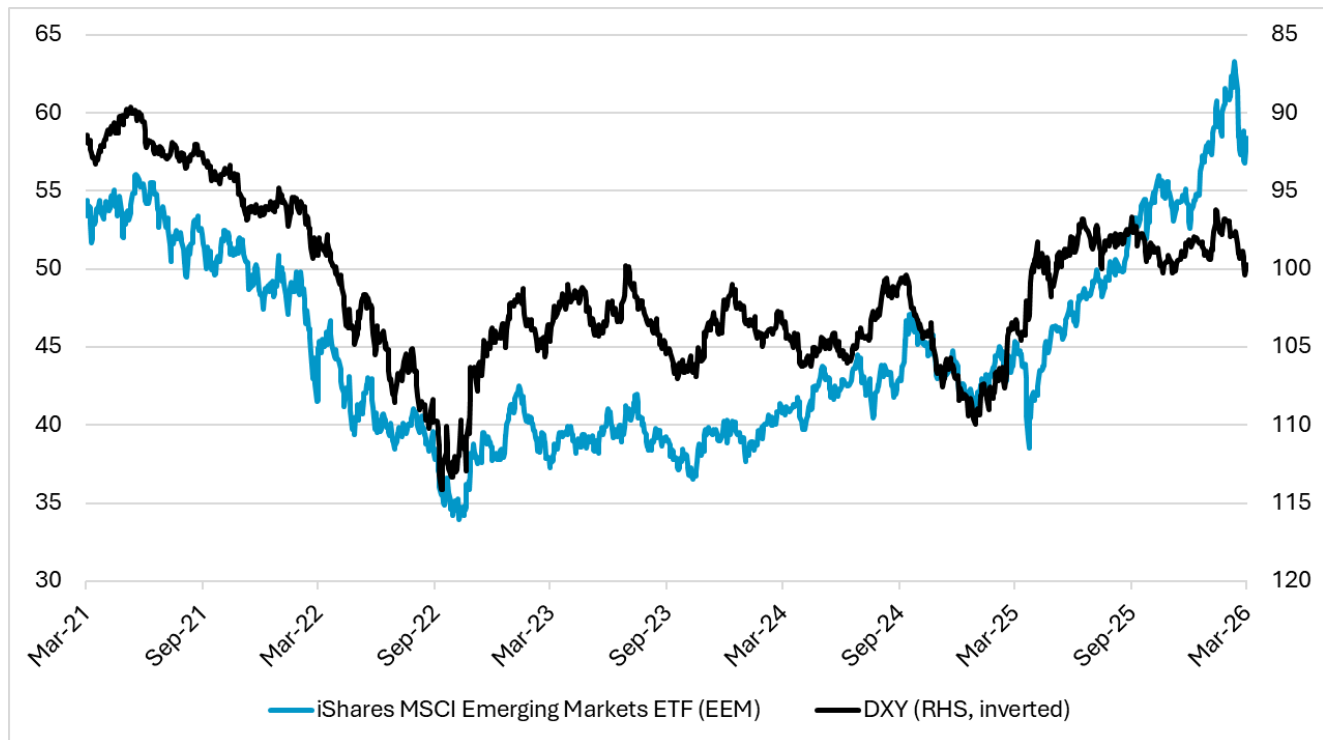
Figure 5: Number of 25 basis point rate hikes or cuts priced in for 2026 prior to Iran war vs. today



Sources: Financial Times, Bloomberg. As of March 18, 2026. Notes: based on Fed funds futures & overnight index swaps (OIS).

The combination of being the go-to safe haven during the Iran war, market expectations for a more hawkish Fed, and the U.S. economy seen as benefitting, to some degree, as a net energy exporter, the USD index (DXY) is at its highest since May 2025. The stronger USD has been a headwind for emerging market (EM) equities recently after benefiting from a declining USD since January 2025 (Figure 6). As a byproduct, the iShares MSCI Emerging Markets ETF (EEM) saw its largest outflows since October 2023 on March 16th as investors pulled more than \$700 million, per Bloomberg (total AUM of around \$27 billion). However, EM equities are coming off of a strong starting point given the rally over the past couple of years.

Figure 6: EM equities have sold off recently as the USD has strengthened



Source: Bloomberg. As of March 16, 2026.

A look at U.S. sector performance following AAA gas spikes

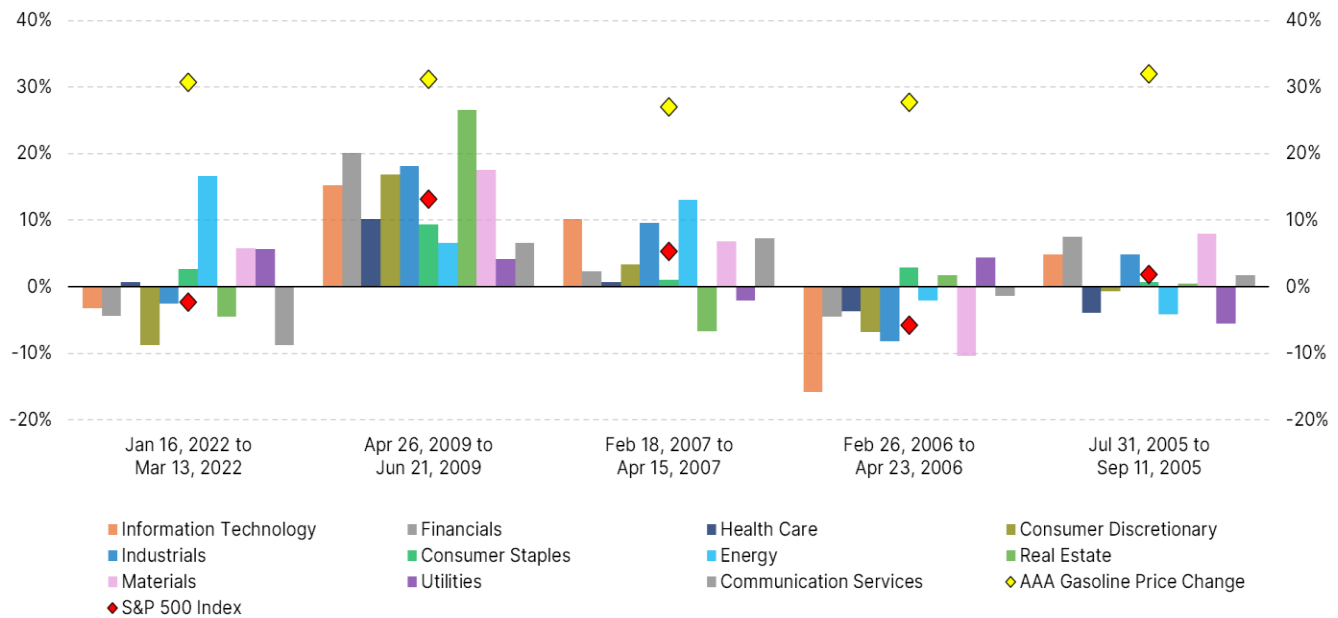
Our [prior piece](#) discussed how, since World War II, U.S. equities were higher, on average, six months following the start of major U.S. military actions. Focusing on the present, as oil is a key input in numerous consumer and manufactured goods and services (e.g., various direct input costs, jet fuel, fertilizer, transportation), and can also impact U.S. household spending, its price is a vital component of inflation and economic outlooks. However, as the U.S. is a net exporter of energy and given the fiscal impulse coming from last year's tax cut legislation, this *could* help to soften the impact relative to previous oil price shocks.

The counter is that the cushion from the tax cuts could be mitigated by sustainable higher gas prices which can impact discretionary spending for a country where 70% of its economy is consumer driven.

Appreciating that the spike in oil prices globally has been dictating the recent price performance at both a country and sector level, in the short-term, a spike in oil prices will be felt by U.S. consumers first and foremost at the pump. As such, we analyzed prior instances when AAA daily national average prices for regular unleaded gasoline have risen by at least 25% in a 2-month time frame (they are currently higher by around 31% over the past two months).

There have been five prior such periods since this data began in March 2004. We then examined the 3-month forward returns of broader U.S. equities and S&P 500 sectors. Admittedly, this is a small sample size. But aside from consumer staples being the only sector with positive returns over the ensuing three months during each of these five prior periods, there does not seem to be a consistent pattern (Figure 7).

Figure 7: S&P 500 sector performance 3-months after at least a 25% increase within 2 months in U.S. gas prices



Source: FactSet, Bloomberg.

However, it is always important to put the periods into context and to think through the “why”:

- January to March 2022: Supply-driven oil price shock given the Russian invasion on Ukraine in February 2022. This was also leading into the onset of the Fed’s most aggressive rate-hiking cycle since the early 1980s.
- April to July 2009: Demand-driven oil price move coming out of the depths of the Global Financial Crisis. The risk-on backdrop was led by cyclicals and real estate and following the Fed announced a major expansion of its quantitative easing program in mid-March 2009.
- February to April 2007: Despite the housing market beginning to worsen as subprime mortgage delinquencies rose and signs of the impending credit crisis mounted, economic activity remained solid which fueled demand. This was coupled with idiosyncratic refinery constraints which impacted supplies.
- February to April 2006: Demand slowed amidst Fed tightening, interest rate uncertainty, and a broader slowdown in U.S. economic activity. This hit the technology sector particularly hard as their valuations are heavily based on future earnings, which are discounted when interest rates rise. However, equities ultimately rebounded in the second half of the year as the Fed paused its rate-hiking cycle and corporate profits were strong.
- July to September 2005. Supply-driven oil price increase stemming from Hurricanes Katrina and Rita hitting oil production, refining, and pipeline infrastructure in the Gulf of Mexico.

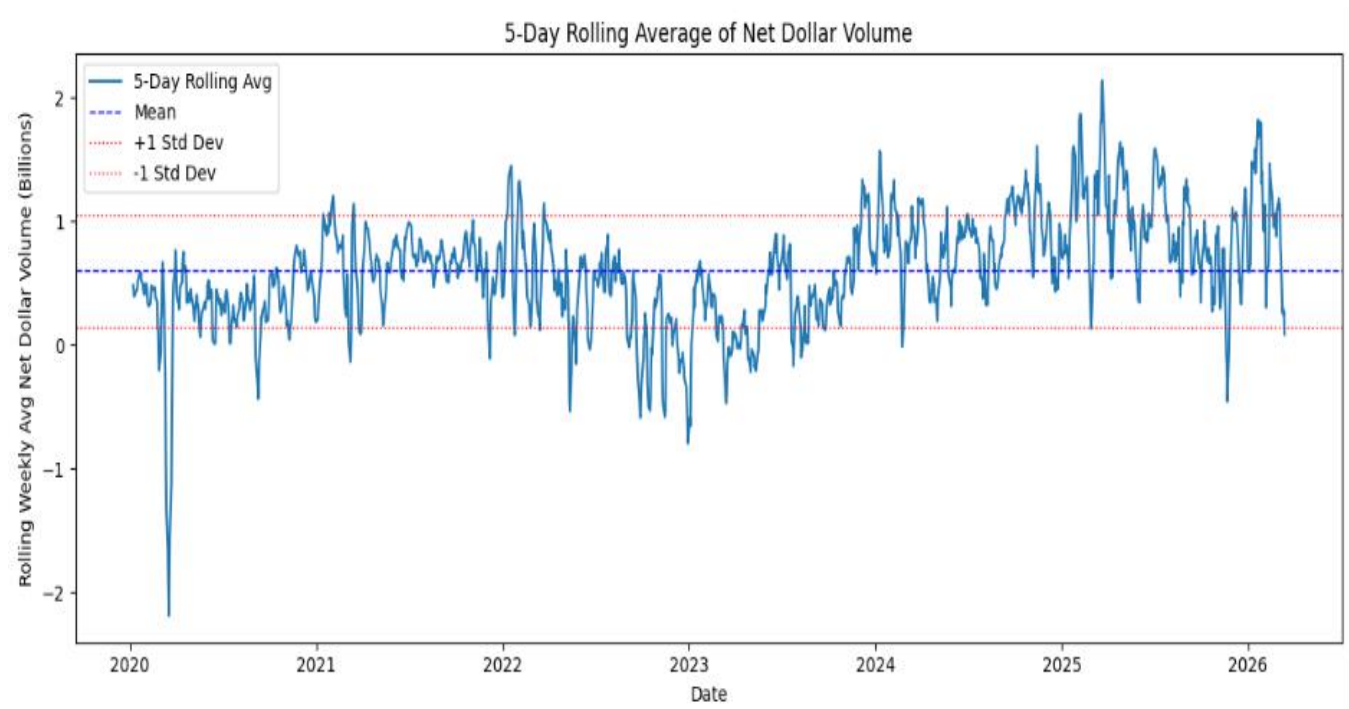
The point of the analysis above is to illustrate that it is rare that periods exactly mirror each other despite similar gas price spikes in a short time frame. The closest analogue to today’s military-induced developments is the oil supply shock due to Russia invading Ukraine in early 2022. However, as this spike in oil prices only fueled what was already bubbling inflation coming out of Covid, the narrative for equities quickly shifted to the fall-out from the Fed taking interest rates from 0.25% in March 2022 to 5.50% by July 2023. Again, it is informative to always consider the complete mosaic when analyzing historical equity returns.

Staying focused on the fundamentals

The amazing thing to us over the past six months is the ferocity of the shifts in the market headlines and narratives. We went from concerns over U.S. equity mega cap tech concentration and elevated valuations driven by the AI capex frenzy, to a series of geopolitical developments (e.g., Venezuela and Greenland) to the spike in gold and silver. Then the ensuing sell-offs in precious metals to those AI tailwinds turning into acute sector sell-offs from what now have become AI disruptive-headwinds, onto the reversal of the Trump administration’s tariffs by the Supreme Court, increasing private credit worries, and attempting to scenario plan the outcome of the Iran war.

For a sense of retail investor trends and sentiment amidst these shifting narratives, we examined trading activity based on [Nasdaq Data Link’s U.S. Retail Equities Flow \(UREF\)](#) data. This tracks over \$30 billion of daily retail flows, providing investors with a daily measure of retail buying and selling volume for over 10,000 U.S. traded stocks, ADRs, and ETPs. Figure 8 shows the 5-day rolling average of retail net dollar volumes (the difference between buy and sell volume). Net-net: while retail investors have derisked recently, the pullback is still within 1 standard deviation of the historical trend since 2020.

Figure 8: Retail investors have derisked, but the weekly rolling average of net dollar volume activity remains within historical bands



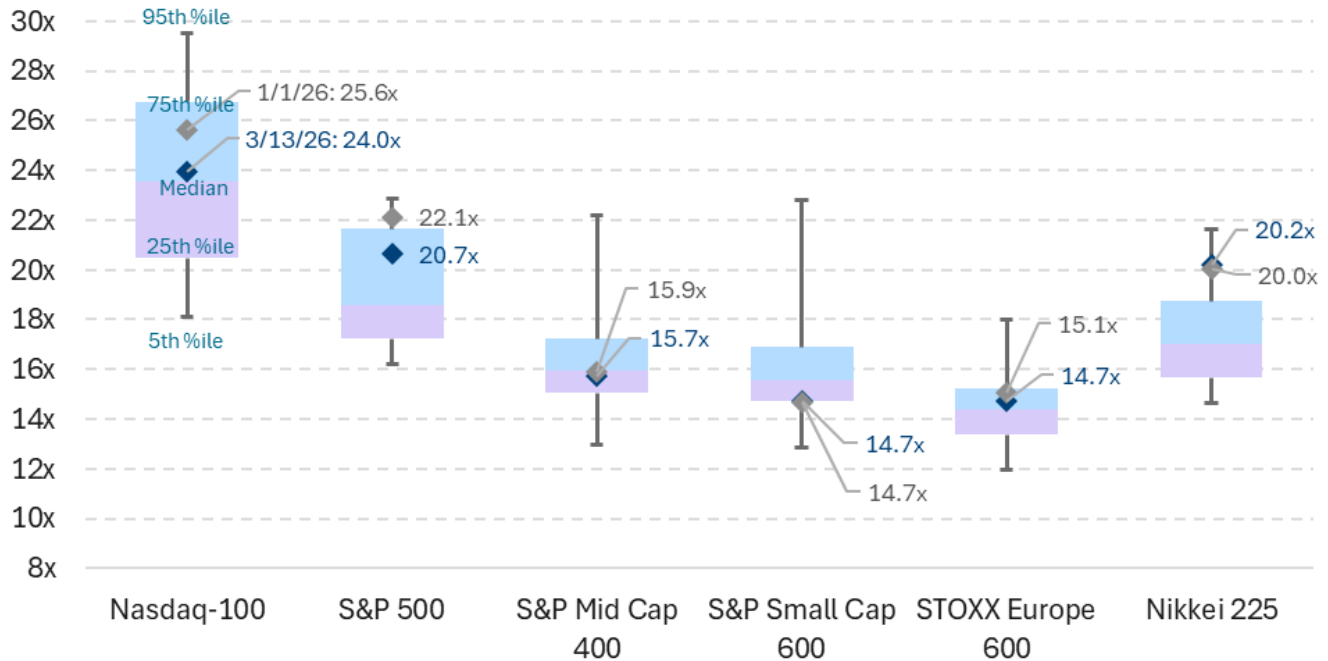
Source: [Nasdaq Data Link](#)

Per Figure 9, U.S. equity next 12-month price-to-earnings (NTM P/E) ratios have compressed since the start of the year. The Nasdaq-100 Index® (Nasdaq-100®) NTM P/E is now effectively back to its 10-year median. While the S&P 500’s is still above its respective 10-year median of 18.6x, at 20.7x it is now trading at an 11% valuation premium versus 19% to begin the year. And although broader U.S. equity markets have sold off between roughly -3% and -5% year-to-date, it has not been a meaningful correction.

Thus, the read through is that the “E” from solid U.S. corporate earnings outlooks has done the heavy lifting and not the “P”. Nasdaq-100 Q4 2025 earnings growth was approximately 16.1% year-over-year versus consensus forecast of 12.6% and S&P 500 Q4 earnings grew by 13.1% annually, marking the fifth straight

quarter of double digit earnings growth (per FactSet). The key for the corporate earnings outlook will be for how long higher oil prices can sustain: J.P. Morgan estimates that if brent crude maintains around \$110/bbl for the rest of the year, earnings estimates for S&P 500 companies could drop by 2% to 5%.

Figure 9: U.S. & international equity market NTM P/E's vs. 10-year medians—current vs. Jan. 1st



Source: FactSet. As of March 13, 2026.

Again, the largest variables are the duration of the conflict, the outcomes including the status of the strait, and the ensuing impact on oil prices which will drive changes to economic and corporate earnings outlooks, as well as the forecast for monetary policies globally. What should investors watch for that could threaten what has been a constructive six to 12-month thesis for risk assets? At a high level, we see the following as being top-of-mind:

- Oil sustaining over \$100 or more for an extended period of time (e.g., multi-month period) which begins to meaningfully impact economic activity and corporate earnings.
- USD strengthening further which tighten financial conditions and becomes a headwind to U.S. corporate earnings as S&P 500 derives 41% of revenues internationally (per FactSet).
- Fed rate cuts pushed out even further or do not materialize, and/or concerns around rate *hikes* in the scenario of sustained, elevated oil prices impacting already sticky inflation trends.

Note: The next Biweekly Investment Insights will be on April 10, 2026.

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