

# Biweekly Investment Insights: Macro & Micro Volatility

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## Key Points:

- Latest Middle East conflict rattles cross-asset markets. But since WWII, U.S. equities are higher, on average, 6-months after major U.S. military actions
- AI disruption narrative continued to hit software & latest private credit market concerns led to the largest daily decline in U.S. banks since April 2025 tariff tantrum
- High U.S. equities' valuation premium—but international equity outperformance has brought relative valuations back to 10-year average

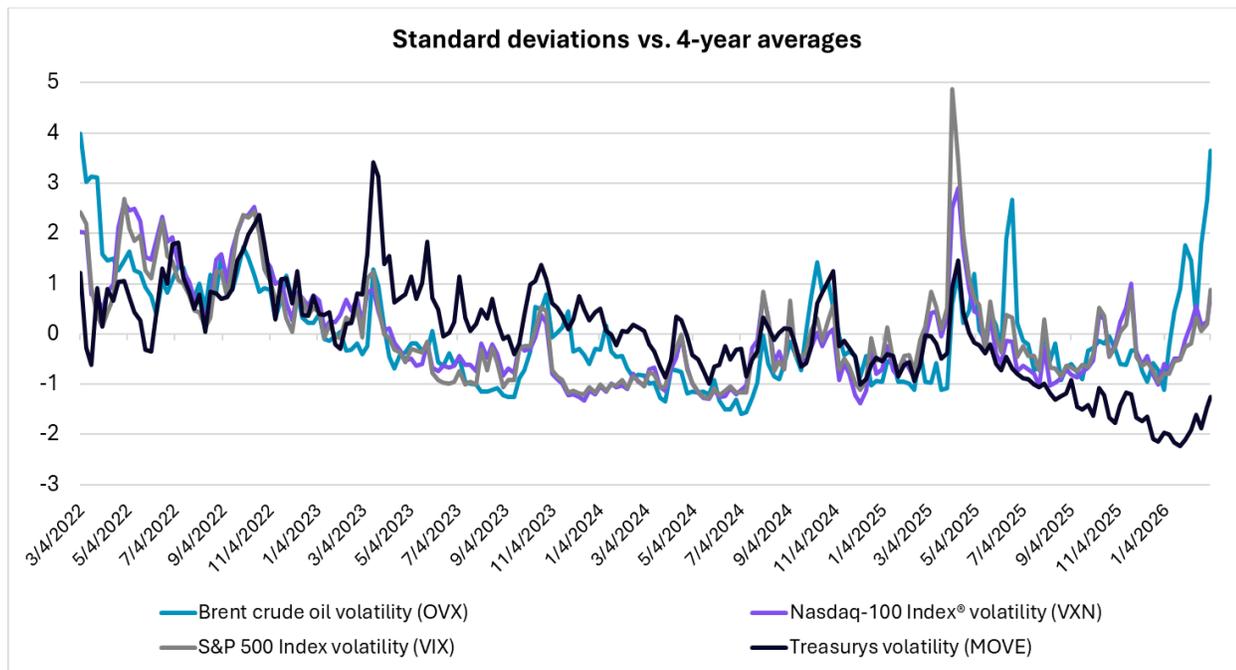
## Summary

Heading into the end of February, the most important macro development had been the February 20<sup>th</sup> ruling by the Supreme Court which overturned the IEEPA-based U.S. trade tariffs. That has clearly been supplanted in the near-term by the strikes on Iran.

The main geopolitical and financial market focus is the strait of Hormuz through which around 20% of all oil supplies and approximately 20% of seaborne gas tankers pass. Per Capital Economics, at the time of publication, the worst-case scenario for the markets would be Brent crude oil heading towards \$100/bbl given Iran has effectively shut down the strait—it is hovering around \$81/bbl at the time of this writing. The longevity of the conflict will be a large factor in terms of oil prices and the knock-on effects on markets, economic activity, and monetary policies—but that's presently a large unknown. Taking a step back, the markets ultimately are driven by fundamentals as since WWII, U.S. equities have risen by 4.7% on average six months following major U.S. military actions.

This latest macro headwind follows the recent AI disruption and private market credit concerns which have quickly been priced into the likes of software and financial equities, among others. With the shifting AI narratives, the megacap tech-heavy U.S. benchmark indices had continued to underperform international equities year-to-date. Notwithstanding the near-term headwinds for international equities due to the Middle East conflict, U.S. equities still maintain a hefty relative valuation premium—though that is back to the 10-year average given the strong run in international equities over the last 12 to 18 months.

## Biweekly Chart in Focus: Cross-asset volatility rises



Source: Bloomberg. As of March 3, 2026.

### Details

#### Iran strikes cascade onto financial markets

A cross section of asset class volatility metrics moved higher following the U.S. and Israeli attacks on Iran per our Biweekly Chart above. Brent crude oil volatility spiked to +3.6 standard deviations relative to its 4-year average. Although U.S. equity volatility has risen, it is relatively better behaved at less than +1 standard deviations relative to its 4-year average.

From an economic perspective, key byproducts of higher oil prices over an extended time frame could be:

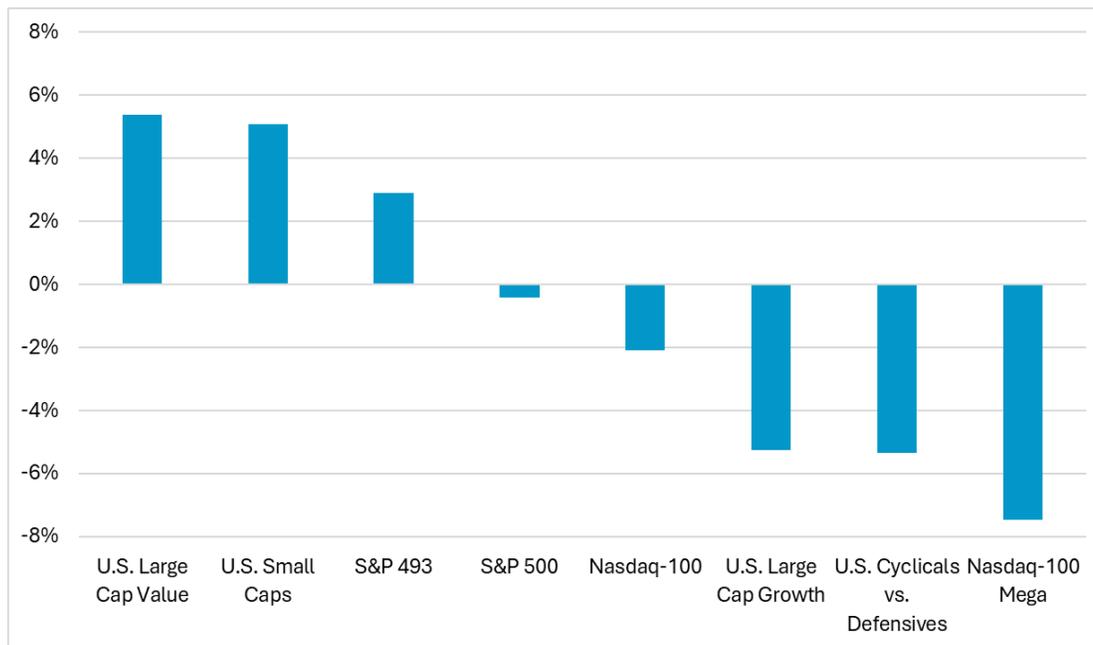
- 1) Impact on inflation expectations which can move Federal Reserve rate cut market pricing. Capital Economics estimates that a "prolonged" conflict affecting supply potentially could add 0.6% to 0.7% to global inflation (based on the aforementioned \$100/bbl).
- 2) Economic impact via higher prices at the pump which can eat into consumers' discretionary spending. If the conflict is shorter in duration, it shouldn't move the needle too much; however, if it is longer, it will impact economic activity. Again, this is a large unknown at this point.

For equity markets, here are some of the key indicators/developments we are monitoring:

- The aforementioned shift in the market pricing of Fed rate cuts due to higher oil and energy prices—accommodative financial conditions have been a key pillar of the pro-risk equity markets the past couple of years. Fed funds futures were pricing in a full 25 basis point rate cut for the July 29<sup>th</sup> meeting; this has now been pushed to the September 16<sup>th</sup> meeting.

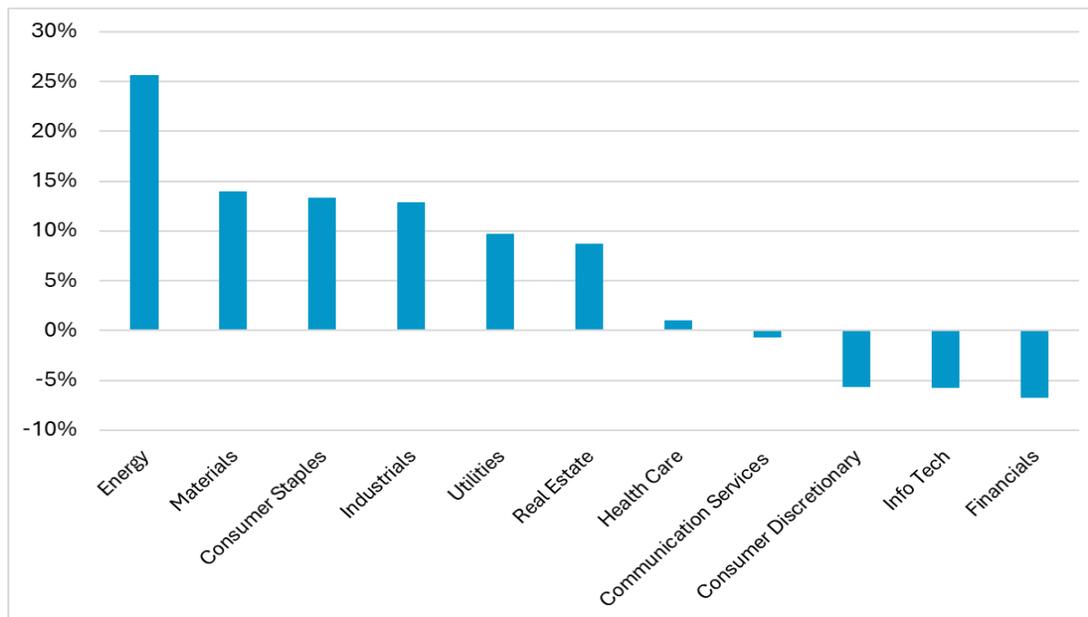
- U.S. small caps, large cap value, and traditional U.S. defensive sectors and bond proxies such as consumer staples and utilities have outperformed cyclicals and large cap growth areas year-to-date (Figures 2, 3). Defensives have been driven by Treasury 10-year yields retreating from nearly 4.30% at the end of January to 3.94% at the end of February given the risk-off market sentiment due to the Middle East concerns, AI disruptions, and private credit concerns. Yields are now hovering around 4.07%. Should inflation expectations trend higher in the interim pushing yields higher, this could be a near-term headwind for bond proxies.
- The base case of steady U.S. economic growth remains, underpinning a healthy earnings construct for U.S. equities—e.g., Citi’s U.S. Economic Surprise Index is at 36 even after falling from around 53, which was its highest reading since November 2023 (greater than 0 mean more upside surprises versus estimates). Appreciating these surveys were prior to the attacks on Iran, over the past week we saw two key manufacturing and services confidence readings come in above expectations: February ISM Manufacturing is still in expansion territory and hovering near its highest since August 2022 while February ISM Services is at its highest since July 2022. February nonfarm payrolls are due March 6<sup>th</sup>, after this writing goes to print.

Figure 2: U.S. value, small caps & defensives outperforming 2026 YTD



Source: Bloomberg. As of March 3, 2026.

Figure 3: Commodity-related & defensive S&P 500 sectors outperforming 2026 YTD



Source: Bloomberg. As of March 3, 2026.

While the near-term environment remains fluid and likely volatile, stepping back, Figure 4 shows that six months after a major U.S. military action, U.S. equities, on average, have risen by 4.7% as investors ultimately refocus on the fundamentals.

Figure 4: S&P 500 returns following major U.S. military actions

Event	Date	Trading Day	+20 Trading Days	+65 Trading Days	+125 Trading Days
Pearl Harbor	12/7/1941	-3.8%	0.3%	-10.5%	-5.6%
Korean War	6/25/1950	-5.4%	-4.9%	7.2%	10.0%
Bay of Pigs	4/17/1961	0.5%	0.2%	-3.0%	2.0%
Vietnam War	3/8/1965	0.0%	-0.3%	-2.1%	0.9%
Panama	12/20/1989	0.1%	-1.1%	-1.5%	4.7%
Gulf War	1/17/1991	3.7%	11.1%	16.2%	16.2%
Kosovo	3/24/1999	0.5%	7.1%	3.7%	3.1%
Afghanistan	10/7/2001	-0.8%	3.8%	8.9%	5.2%
Iraq War	3/20/2003	0.2%	2.0%	12.1%	17.2%
Libya	3/19/2011	1.5%	0.5%	-0.9%	-6.3%
<b>Average</b>		<b>-0.4%</b>	<b>1.9%</b>	<b>3.0%</b>	<b>4.7%</b>

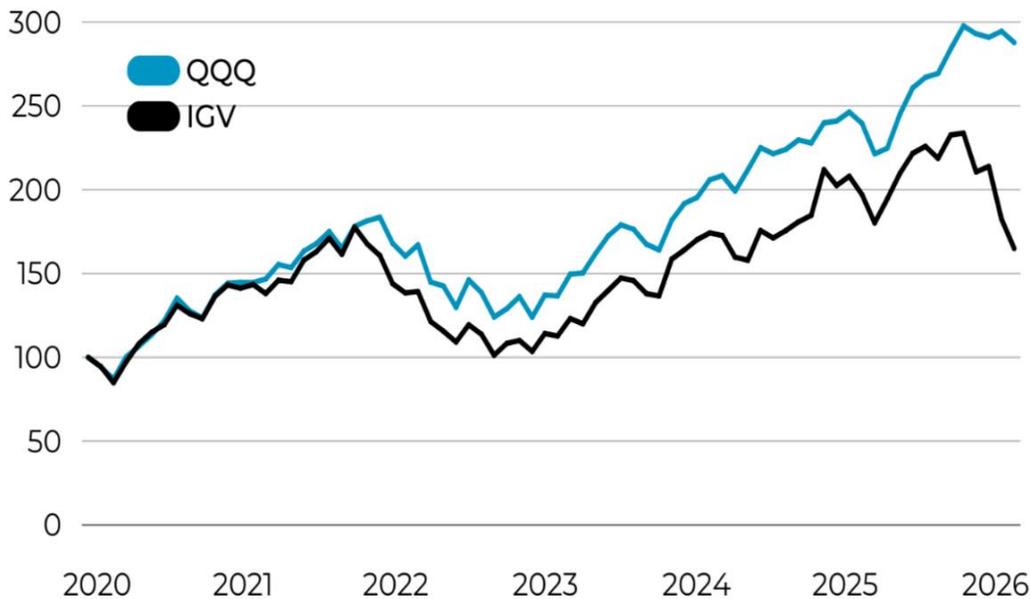
Source: Strategas

### AI disruptions & private credit concerns

The latest software downdraft came from a Substack post by Citrini Research which detailed a dire hypothetical macro and micro scenario on account of the AI disruption (we discussed the most recent AI narratives in our prior piece [here](#)). There has been a myriad of push back to this piece from both a top-down and bottom-up perspective. Yet the market remains in a “shoot first, ask questions” later mentality—

Figure 5 shows the iShares Expanded Tech-Software Sector ETF (IGV) back to its lowest since May 2024 on a normalized basis relative to the Invesco QQQ ETF (QQQ).

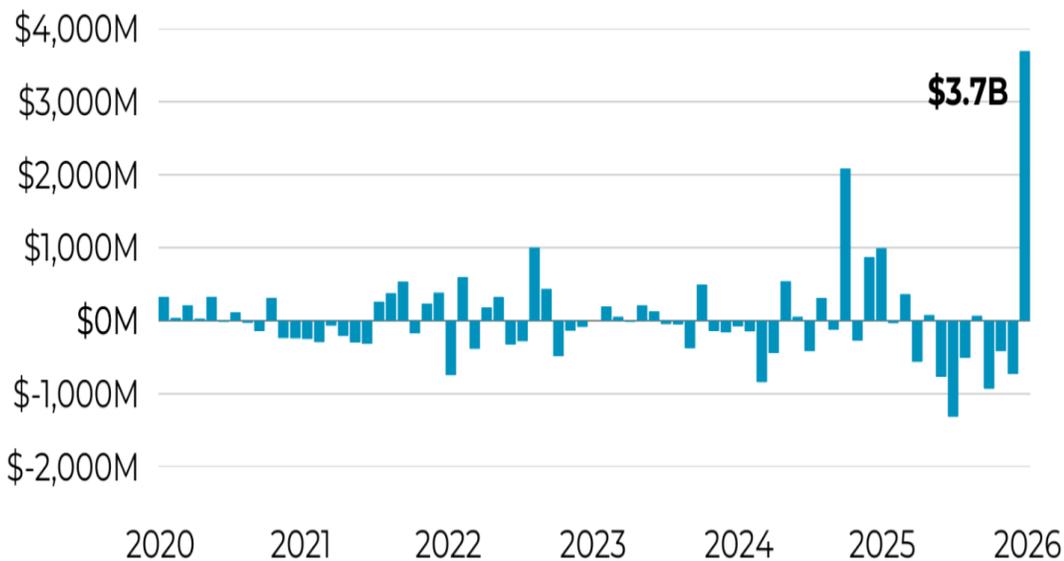
Figure 5: IGV vs. QQQ (indexed to 100 in January 2020)



Source: Nasdaq ETF Market Intelligence. As of February 28, 2026.

Given the market’s knee-jerk reactions to the latest AI disruption headlines, there are likely companies with strong fundamentals which are now trading at a discount following the sell-off in the software space. Consequently, there is evidence of dip buying as shown in Figure 6 as IGV had, by far, its largest monthly inflow of the past six years.

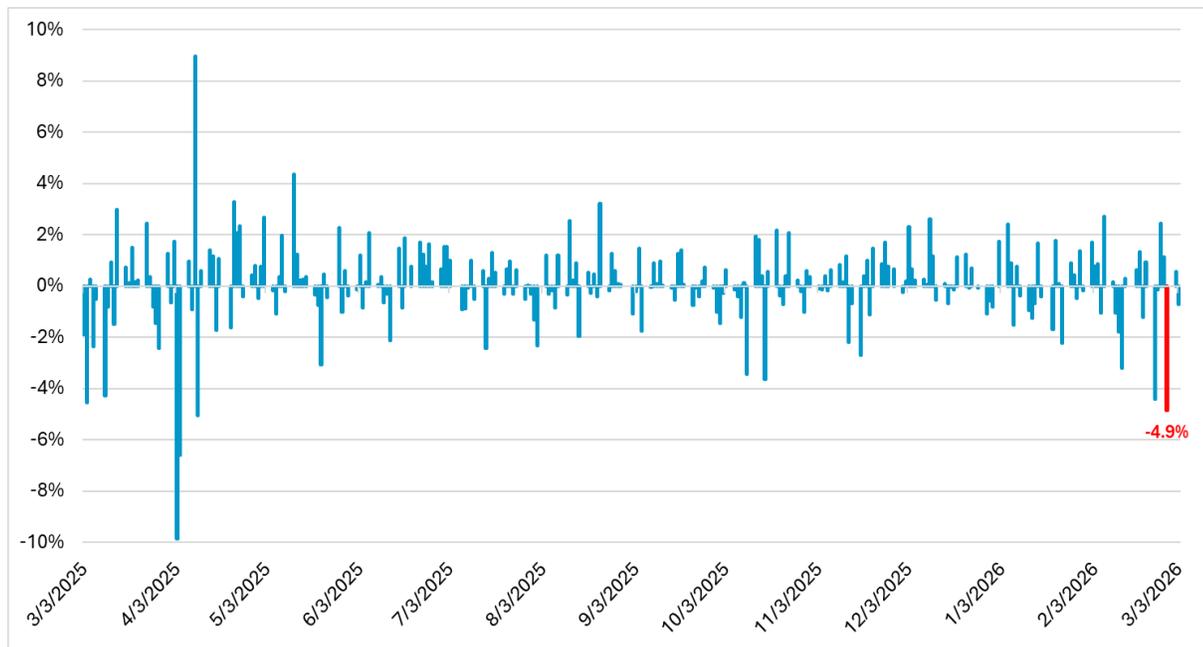
Figure 6: Dip buying as IGV 1-month flows spike?



Source: Nasdaq ETF Market Intelligence, Morningstar as of February 28, 2026.

Concurrently, private credit concerns persist following Blue Owl saying that it would sell \$1.4 billion in assets across three funds and that it would limit investor redemptions in the smallest fund. While a small amount for an alternative asset manager with more than \$300 billion in AUM, it nonetheless rattled investors given several high-profile loan defaults in 2025, the recent collapse of a UK financing company and questions around exposures to software companies which have come under pressure as cited earlier. Concerns around the banking industry's private credit risk exposure sent the KBW Nasdaq Bank Index lower by -4.9% on February 28<sup>th</sup>—its largest daily drop since last April's tariff sell-off (Figure 7).

Figure 7: KBW Nasdaq Bank Index daily % returns



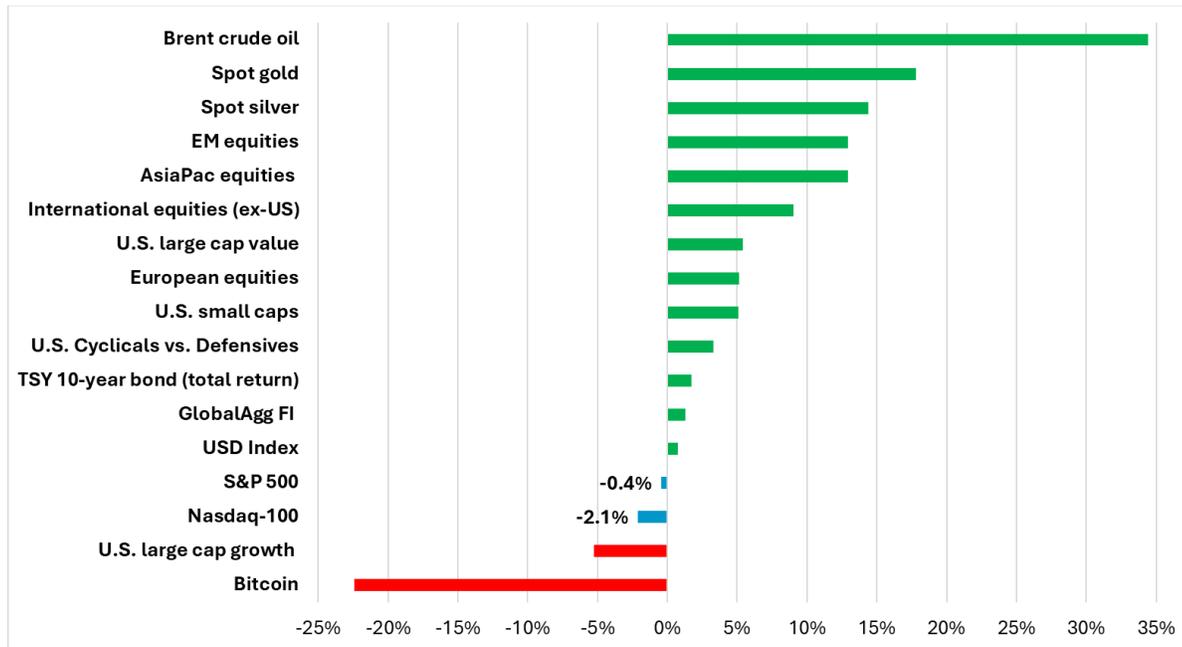
Source: Bloomberg. As of March 3, 2026.

## International equity thoughts & observations

Amidst the AI disruption concerns contributing to a shift in leadership in U.S. equities, foreign equities have continued to outperform U.S. equities thus far in 2026 (Figure 8). Appreciating the near-term cross currents from the Iran war which have been a headwind for international equities since the conflict began (e.g., higher energy prices, USD strength), key macro and micro drivers include:

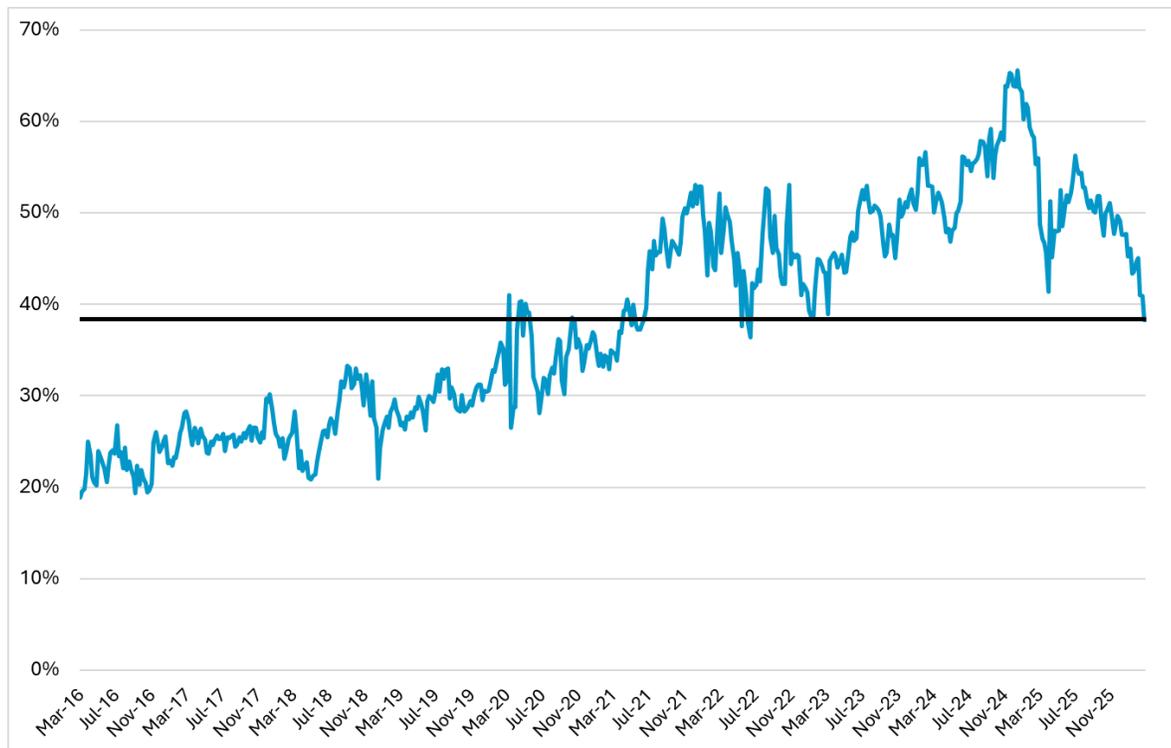
- A relatively stabilized macroeconomic backdrop post the original tariff tantrum in April 2025.
- A broadly weaker USD kept financial conditions accommodative—notable for EM equities.
- A moderate but steady growth trajectory for global economies with fiscal stimulus not only in the US, but also in Europe and Japan, and ongoing targeted stimulus in China.
- The AI theme underpinning equity markets such as China, Korea (despite the recent correction), and Taiwan.
- Improving earnings growth stories globally.
- Relatively cheaper valuations versus U.S. equities. While U.S. equity next 12-month P/E's are still at a hefty premium of 38% relative to international equities, they are now in-line with the 10-year average (Figure 9). So, international equities are still attractive on a relative valuation basis—just not as inexpensive as they have been.

Figure 8: Cross-asset YTD returns (USDs)



Source: Bloomberg. As of March 3, 2026.

Figure 9: U.S. equity NTM P/E vs. international equities still at a high premium of +38%...but back to 10-year average



Source: Bloomberg. As of March 3, 2026. Notes: MSCI U.S. & MSCI ACWI ex-U.S. indices

In the extremely near-term, given the spike in not only Brent oil but also in European natural gas prices (+70% on March 2<sup>nd</sup> and March 3<sup>rd</sup>), investors are differentiating between those economies and financial markets given their energy reliance and the construct of their benchmarks. For example, below are the weights of energy and basic materials sectors (risks of supply disruption in this area as well) in the [Nasdaq UK Index™](#) and [Nasdaq Spain Index™](#). Not surprisingly, the UK index outperformed the Spain index on March 2<sup>nd</sup> and March 3<sup>rd</sup>, -5% versus -8.8% (in local currency terms).

- Nasdaq UK Index
  - Energy: 9.2%
  - Basic Materials: 9.5%
- Nasdaq Spain Index
  - Energy: 3.5%
  - Basic Materials: 0.4%

Similar to how we have previously shown global sectors’ sensitivities to moves in Treasury 10-year yields, Figure 10 below shows the correlations of monthly equity and Brent crude returns. It can be challenging for investors to position accordingly amidst geopolitical events and military conflicts given the inherent unknowns—that is why focusing on the fundamentals through such turbulence remains essential. But from a risk management perspective, data such as in Figure 10 can be informative in evaluating portfolio exposures when these events unfold.

Figure 10: Correlations of monthly changes in regional equity sectors with Brent crude monthly changes

	S&P 500	MSCI Europe	MSCI Japan	MSCI EM	MSCI EM Asia	Average
<b>Index Sector</b>	<b>0.30</b>	<b>0.32</b>	<b>0.30</b>	<b>0.37</b>	<b>0.29</b>	<b>0.32</b>
Communication Services	0.14	0.12	0.17	0.21	0.13	0.15
Consumer Discretionary	0.18	0.21	0.26	0.26	0.22	0.23
Consumer Staples	0.12	0.09	0.08	0.29	0.21	0.16
Energy	0.62	0.53	0.48	0.50	0.45	0.52
Financials	0.23	0.29	0.28	0.34	0.27	0.28
Healthcare	0.13	0.04	0.13	0.16	0.22	0.14
Industrials	0.29	0.31	0.35	0.34	0.30	0.32
Info Tech	0.21	0.14	0.25	0.24	0.22	0.21
Materials	0.34	0.42	0.28	0.45	0.34	0.37
Real Estate	0.17	0.30	0.34	0.12	0.03	0.19
Utilities	0.11	0.19	-0.08	0.27	0.16	0.13

Source: Bloomberg. Notes: As of February 2026, based on monthly equity & Brent price changes. MSCI Europe Index data begins in December 1998.

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