Basis Points | March 11, 2026

Navigating Uncertainty

1. Contending with geopolitical risk

As the war in the Middle East approaches the two-week mark, global financial markets remain intact with volatility still concentrated in the energy sector. US stocks have declined by less than those in Europe and Asia, where exposure to energy disruptions from the Persian Gulf is greater. Geopolitical risk appears to have moved structurally higher this decade[i] with investors more often contending with elevated uncertainty and geopolitics-driven market volatility. That said, one of our core investment views is that a well-balanced portfolio can weather even significant geopolitical events. We think the long-term investor is better served by staying the course rather than attempting to time markets, especially during periods of extremely heightened uncertainty (Figure 1).

2. Energy markets are key

Energy-price volatility has been off the charts. Oil prices skyrocketed 30% in the first four hours of trading Sunday night (March 8) but retraced by even more on Monday and Tuesday. Since the war broke out, oil has surged 25% and is up 50% year to date, one of the fastest increases in the last 40 years.[ii] Natural gas price swings have been even more extreme, particularly in Europe where prices surged by as much as 75%. The energy sector is likely the primary transmission line between this conflict and the global economy and markets, and this extreme volatility is a sign investors are weighing significant tail risks in both directions.

Markets appear priced for an optimistic outcome that looks possible but not guaranteed. The world consumes about 100 million barrels of oil per day, about 20 million of which transit the Strait of Hormuz, the narrow channel connecting the Persian Gulf to the open ocean. Previous oil-price shocks like the 1979 energy crisis and 1990 Gulf War constrained a smaller share of global supply and delivered higher oil-price surges than we have seen so far to date. Markets will be watching for good news on Middle East energy infrastructure and transit, but energy prices are likely still exposed to the risk of prolonged constraints to Gulf energy supply.

The speed of the oil price surge is perhaps more remarkable than the new price itself. At the start of the year, analysts saw oil markets as oversupplied, and prices were at 5-year lows. Now at $90 per barrel, oil prices are close to their highest level since 2022, but after adjusting for inflation, the oil price is still well below recent averages. Global leaders are also pledging to intervene further against further disruptions to oil markets. Now a net exporter of energy, the services-driven US economy is also more insulated against foreign oil-price shocks than in past decades.[iii]

3. Fundamentals still matter

In a departure from last year's trend, US equities have not crossed an all-time high in six weeks, but in that time the S&P 500 also has not sold off by more than 3.5% from the January 27 peak. With corporate earnings still looking solid, the modest pullback on the price is

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allowing the valuations to catch up a bit with fundamentals. In another bright spot, we are encouraged by the broadening in US equities this year. Although the S&P 500 index is roughly flat on the year, it is being dragged down by the largest names while stocks outside the top 10 outperform. Further, small caps are outperforming the S&P 500 by about 3% year to date. Even though the headlines are dominated by the conflict in the Middle East, investors are still concentrating on fundamentals and adapting to a new reality where artificial intelligence technologies may disrupt existing business models.

4. Growth masks labor softness

Forecasters continue to expect the US economy to expand at an above-trend pace, with growth in business investment and household spending supporting economic activity. That said, the recent payrolls report was weak, and job growth has stalled over the last three months to a pace of just 6,000 per month vs an average of 57,000 over the past 2 years. However, at 4.4% the unemployment rate remains well below its historical averages. With aggregate layoff rates fairly low and relatively few workers filing for jobless claims, the labor market remains in a low-hire, low-fire setting.

5. Steady yields, credit concerns

US Treasury yields have stayed in a tight range, but the recent surge in uncertainty and oil prices has helped push 10-year yields about 20 basis points higher to 4.20%, a level still below the 2025 average of 4.29%. Credit spreads have remained relatively tight but have moved up since the start of the year as investors price more credit risk. Investors are also seeing more risk in the private credit space, where redemption limits and AI-driven disruption are prompting a shift toward investor caution.

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[i] The Geopolitical Risk Index, which tallies mentions of geopolitical risk in major newspapers, has remained above its long-term average since 2022. Source: Caldara, Dario and Matteo Iacoviello (2022), “Measuring Geopolitical Risk,” American Economic Review, April, 112(4), pp.1194-1225.

[ii] Source: Bloomberg. The only other times oil prices rose faster since our daily spot price dataset begins in 1988 are in 1990, 1991, 2008, and 2020.

[iii] In December 2025, gasoline and motor fuel accounted for 1.8% of household spending, the lowest share on record since 1960 outside of the Covid-19 pandemic. Source: Bureau of Economic Analysis.

Figure 1: US equities typically rally – sometimes sharply – a few months after geopolitics shocks

Stock Market Performance Around Geopolitical Events

Event	Event date	Time to bottom (trading days)	Size of selloff (%)	3-months from bottom	6-months from bottom	12-months from bottom
WW-II Germany annexes Czechoslovakia	3/15/1939	22	-20.5	8.5	23.2	18.9
WW-II Germany attacks France	5/9/1940	22	-25.8	17.1	18	9.2
WW-II Pearl Harbor	12/7/1941	17	-10.8	-3.8	-1.1	15.3
N. Korea invades S. Korea	6/24/1950	17	-12.9	19.2	29.2	31.4
Suez Crisis	10/29/1956	17	-6.8	-1.4	6.2	-6
Berlin Wall Built	8/13/1961	25	-3.9	8	6.2	-14.6
Cuban missile crisis	10/14/1962	7	-6.6	22.7	30	36.5
Assassination of President Kennedy	11/22/1963	2	-2.8	11.5	16	23.9
Authorization of military in Vietnam	8/7/1964	15	-3.2	4.8	7.3	5.8
Six Day Israel Arab war	6/5/1967	20	-6.5	6.5	7.7	13
Assassination of Martin Luther King Jr	4/4/1968	2	-0.6	8.2	11.2	7.9
Israel Arab war/oil embargo	10/16/1973	27	-17.1	5.6	-2	-28.2
President Nixon impeachment proceedin	2/6/1974	9	-6.6	0.9	-10.8	-13.3
Shah of Iran exiled	1/16/1979	9	-4.6	1.9	8.7	19.7
Iranian hostage crisis	11/4/1979	24	-10.2	16.4	7.3	29.3
Soviet invasion of Afghanistan	12/24/1979	12	-3.8	-2.9	11.6	29.6
Invasion of Grenada	10/25/1983	22	-6.3	-3.7	-0.8	4.3
Bombing of Libya	4/15/1986	20	-4.9	6.2	5	23.5
First Gulf War	10/2/1990	50	-15.9	6.7	27.8	29.1
President Clinton impeachment proceedi	12/19/1998	6	-3.9	13.4	13.4	23
Kosovo bombing	3/24/1999	4	-4.1	5.6	1.4	21
9/11 Attacks	9/11/2001	6	-11.6	18.5	19.4	-12.5
Iraq war	3/20/2003	7	-5.3	15.8	20	32.8
Arab spring (Egypt)	1/25/2011	2	-1.8	6.6	1.9	3.1
Intervention in Libya	3/19/2011	18	-6.4	0.9	-3.3	11.7
Ukraine conflict	3/1/2014	6	-2	5.2	7.8	11.5
Intervention in Syria	9/22/2014	21	-7.4	8.4	13	9.1
Brexit Vote	6/23/2016	14	-5.6	8	13.4	20.9
Airstrike on Syrian Airbase	4/7/2017	32	-2.8	5.1	9.6	14.1
Russia-Ukraine War	2/24/2022	9	-1.3	-0.9	-3.2	-2.7
"Liberation Day" tariffs	4/2/2025	5	-12.1	20.8	36.0	-
Median		**15.0**	**-6.3**	**6.6**	**8.7**	**13.6**
Average		**15.1**	**-7.6**	**7.7**	**10.6**	**12.2**

*Gray denotes recession

Source: Bloomberg.

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