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CJ's Weekly Market Memo

The Economy: A Three-Headed Monster Wakes Up

The week that just ended will be studied in business schools for years to come. What began as a continuation of the market's six-month sideways drift was interrupted by a geopolitical earthquake: the US/Israeli strike on Iran that killed the Supreme Leader and dismantled a significant portion of Iran's leadership. The Strait of Hormuz—through which roughly 20% of the world's oil and gas passes—is effectively closed. More than 150 tankers sit anchored in open Gulf waters, unable or unwilling to proceed. And as I write this Sunday morning, the situation is escalating rather than stabilizing: Israeli airstrikes hit Tehran overnight, striking three Iranian oil depots, while NBC News reports that President Trump has privately expressed serious interest in deploying US ground troops inside Iran—focused on a small contingent for specific strategic purposes such as securing uranium stockpiles, not a full-scale invasion, though the White House says no decisions have been made.

The energy picture darkened considerably over the weekend. Kuwait Petroleum Corporation declared force majeure Saturday and began cutting output. Iraq's oil production has collapsed roughly 60%, plunging from 4.3 million barrels per day to approximately 1.7–1.8 million as tanker availability evaporates. The UAE has also started reducing production as storage fills. Saudi Arabia is redirecting crude to Red Sea terminals—shipments surging to 2.3 million barrels per day, about 50% more than any month since 2016—but that is far below the 6 million per day the kingdom had been exporting through the Persian Gulf. And drones were intercepted heading toward Saudi Arabia's 1 million barrel-per-day Shaybah oil field Saturday, a reminder that the threat to infrastructure extends well beyond the Strait itself.

WTI finished Friday above \$91/barrel, up nearly 36% for the week—the biggest weekly spike in crude's history going back to 1985. Oil is now trading more than four standard deviations above its 50-day moving average, the most overbought reading ever recorded. Qatar's Energy Minister Saad al-Kaabi warned Friday in an interview with the Financial Times that all Gulf energy exporters could be forced to declare force majeure within days, predicting oil could reach \$150 per barrel within two to three weeks if the Strait remains impassable. He also forecast natural gas prices rising to \$40 per million BTU. That natural gas call deserves particular attention: the refining process that converts crude into gasoline depends heavily on the cost of natural gas, which is used extensively in refinery operations. The double hit of surging crude feedstock costs and surging refinery energy costs could

accelerate the pain at the pump well beyond the roughly \$0.80/gallon increase Bespoke already projects from current futures pricing. US gasoline prices were already up 11% week-over-week as of Friday.

Bespoke's "three-headed monster" framework—their composite of oil, Treasury yields, and the US dollar—captures the risk neatly. Two weeks ago, all three heads were dozing in the low 30% range of their 52-week ranges. After the Iran attack, the composite surged to 55.2%, now in the 66th percentile of historical readings. That matters because when all three are elevated simultaneously, forward equity returns over the next three and six months have historically been notably below average. Treasury yields backed up sharply—the 2-year up 17 bp to 3.56%, the 10-year up 18 bp to 4.14%—as markets priced in potential inflationary consequences. The Fed's rate cut path has been repriced to roughly 39 basis points of easing through year-end, down from 55 bp a week ago. FOMC voters Kashkari and Williams both suggested the Fed could pause while gaining clarity on energy prices, though Governor Waller played down the inflation impact and warned the Fed should not sit on its hands if the data soften further.

On the employment front, Friday's February nonfarm payrolls report delivered a jarring -92,000 decline against expectations for a +55,000 gain, compounded by -69,000 in downward revisions to the prior two months. The unemployment rate ticked up to 4.4%. While some of the weakness was amplified by a Kaiser Permanente health care strike in California, the broader picture is concerning: permanent job losses climbed to 2.04 million, up 74% from the September 2022 low, and the labor force participation rate dropped to 62.0%—its lowest since 2021. The economy now faces an uncomfortable combination: a labor market that is slowing more than expected, an energy shock that threatens to reignite inflation, and a Federal Reserve that may be stuck between two bad options.

Technical Conditions: Rotation, Decorrelation, and a Possible Washout

The S&P 500 finished the week down modestly—roughly 1.6%—and that number radically understates the violence underneath the surface. This has been a market defined by massive sector rotation, with the index itself trading sideways for six months while individual stocks and sectors move in dramatically different directions. Bespoke's analysis identifies five distinct forces suppressing stock-to-stock correlation: the inherently uneven impact of AI disruption across industries, the binary nature of geopolitical outcomes, tighter risk budgets at multi-strategy hedge funds, a macroeconomy at a policy turning point, and the idiosyncratic nature of tariff impacts on individual companies.

The rotation data is remarkable. Through February, the "AI Doom" trade had punished software stocks viciously—the iShares Software ETF (IGV) was down over 22% in two

months, while Energy, Materials, Industrials, and Consumer Staples rallied. This week, the entire trade reversed. The decile of worst-performing Russell 1,000 stocks through February gained 4.4% this week, while the best performers through February fell 6.1%. Software bounced hard—Intuit up 14%, Trade Desk up 22%, AppLovin up 14.5%—while the year’s winners gave back ground. Bespoke’s AI Implementation basket outperformed the AI Infrastructure basket by the widest margin in its history.

International markets tell an important part of the story. The moment the dollar firmed on the flight-to-safety trade—up 1.4% for its best week since August 2025—international equities that had been dramatically outperforming US stocks this year got crushed. The Pacific region ETF (VPL) dropped 9%, Europe (FEZ) fell 7.9%, and emerging markets (EEM) declined 8.1%. South Korea—the year’s superstar at +55.7% through February—gave back nearly 17% in a single week. Both JPMorgan and Goldman Sachs highlighted significant hedge fund de-risking. I suspect the international selloff was heavily driven by forced selling: institutions and retail investors who had diversified aggressively into international equities in January and February found themselves offside when the dollar reversed, and the rush for the exits became self-reinforcing. US energy independence—we’ve been net petroleum exporters for six years now—is the key reason the S&P held up far better than virtually every other major market.

Was last week’s selling a washout? There are encouraging signs. The S&P 500 held above its Tuesday morning lows even as crude topped \$90 on Friday—three separate trading days opened down 1% or more, yet the market absorbed each blow and bounced. The percentage of oversold stocks (28.4%) now exceeds overbought stocks (17.4%) for the first time in months. The 10-day advance/decline line has turned negative. Investor sentiment, as measured by the AAll survey, shows bullishness at just 33%—roughly neutral, with no froth anywhere in sight. Morgan Stanley’s quantitative desk noted a near-record amount of S&P 500 put protection in place, while corporate buybacks are running at peak levels of \$5–6 billion per day. Markets that want to bounce from here have built themselves a long runway.

Looking Ahead: History Favors the Optimists—But the Road May Be Longer Than Expected

Here is the most important data point I want to leave you with this week: market dislocations from overseas military conflicts have, throughout modern history, overwhelmingly resolved to the upside. Bespoke’s analysis of prior 20%+ weekly oil spikes shows the S&P 500 was higher one year later in six of seven instances, with an average gain of 28%. Morgan Stanley noted that at one, six, and twelve-month time horizons following Middle East geopolitical events, the S&P has averaged gains of 2%, 6%, and 8%

respectively. Wells Fargo pointed out that the S&P rallied 16% during the first Gulf War and 14% in the first three months of the second. As the late Art Cashin used to say: never bet on the end of the world, because if you're right, it only happens once, and there won't be anybody to collect from.

That said, the weekend headlines demand an honest assessment of what could extend the timeline of this disruption. Trump on Friday demanded Iran's "unconditional surrender" and has publicly shown interest in ground troop deployment to secure uranium. US Central Command estimates operations lasting at least 100 days, possibly through September. Offramp hopes have faded: Iran's conditional offer to stop attacking neighboring countries unless they allow US military access is not the kind of concession that ends wars quickly, and Iranian clerics are reportedly near a decision on a new supreme leader—suggesting the regime is reconstituting rather than collapsing. The longer oil stays elevated at these levels, the more the three-headed monster's bite will be felt in equities. Bespoke's data shows that forward three-month and six-month returns are at their weakest when the composite sits in the 60–70th percentile range—exactly where we are now.

Beneath the geopolitics, the AI cycle continues to build. The comparison that frames my longer-term thinking remains Bespoke's overlay of the Nasdaq's post-ChatGPT trajectory against its post-Netscape path from December 1994. Through 818 trading days, the Nasdaq is up 105% since ChatGPT versus 145% at the same point after Netscape—suggesting significant runway remains before we approach anything resembling late-stage euphoria. The AI infrastructure buildout is robust: Broadcom guided for \$100 billion in FY27 AI revenue, Marvell raised its datacenter growth outlook meaningfully, and Anthropic is approaching a \$20 billion annual revenue run rate. The bounce in battered software names last week—driven partly by record short covering and partly by a growing "collaboration over displacement" narrative—may signal that the worst of the AI Doom trade is behind us.

Near-term, I am cautious but not bearish. Bespoke's historical pattern analysis of the S&P's current six-month sideways consolidation found three highly correlated prior periods—May 2006, December 1993, and August 2017—all of which resolved higher after another two to three months of chop. Seasonal patterns also favor equities from March through May. Historically, oil's extreme overbought readings have been followed by average declines of 15% over six months. And the intense selling we witnessed last week—particularly in international markets and the year's biggest winners—has the hallmarks of the kind of washout that clears the decks for the next advance. For the broad market to make a sustained leg higher, the AI infrastructure names, the battered software sector, and the emerging market leaders that carried the first two months of the year all need to rally

together. The road ahead may be bumpier than anyone hoped two weeks ago, but history and the weight of evidence still point up.

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