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CJ's Weekly Market Memo

The Economy: Resilient, But the Oil Tax Cometh

The American economy keeps punching above its weight, even as the Iran war hangs over everything like a low ceiling. Friday's March jobs report landed at 178,000 new nonfarm payrolls—nearly three times the consensus estimate of 60,000—with the unemployment rate ticking down to 4.3%. Health care led the way (+76,000), much of it from returning Kaiser Permanente strikers, but construction (+26,000) and transportation/warehousing (+21,000) added real breadth. Average hourly earnings rose a modest 3.5% year-over-year, the slowest pace since mid-2021. Federal government employment continued to shrink (-18,000), extending a decline of 355,000 jobs since October 2024. That combination—strong private hiring with cooling wages—would be ideal in normal times. These are not normal times.

The ISM Manufacturing index posted a new cycle high in March, beating expectations and confirming that the factory sector continues to expand. But the details tell a more complicated story: the prices-paid component surged to its highest reading since 2022, driven by petroleum and metals. Supplier deliveries lengthened as Middle East shipping disruptions begin rippling through the supply chain. The Chicago PMI, while slipping 4.9 points to 52.8, remained in expansion territory for a third straight month, with order backlogs and supplier deliveries providing support even as employment weakened sharply. Meanwhile, Bespoke's Economic Indicator Diffusion Index recently hit 35, a level surpassed only once since 1999 (October 2020, coming out of COVID lockdowns). In plain English: economists got too bearish, and the data has been consistently surprising to the upside.

The elephant in the room is oil. Since the U.S.-Israeli strikes on Iran began February 28, crude has roughly doubled from the mid-\$50s to north of \$110 per barrel. The Strait of Hormuz—through which more than 20% of global oil supply typically flows—remains effectively closed. Gasoline nationally has climbed to \$4.08 a gallon (over \$5 in California), and there is no structured off-ramp in sight. This coming Friday's March CPI report will deliver the first inflation data capturing the war's energy impact. Economists are penciling in a monthly increase of roughly 1%—the sharpest one-month advance since 2022—driven by the approximately \$1 per gallon surge in gas prices. If oil stays above \$100, some forecasters see headline CPI approaching 3.5% by year-end, with airline fares potentially

spiking 20% on jet fuel costs alone. Businesses across the economy face the unenviable choice of absorbing these energy costs or passing them through to consumers.

Initial jobless claims are running at their lowest seasonal levels since 2022, and continuing claims keep trending down—but those are lagging indicators. The St. Louis Fed estimates the breakeven rate of job growth required to lower unemployment is effectively zero, meaning any positive payroll growth is a decent outcome. High-frequency freight data tells a similar story of underlying resilience: intermodal railcar loads are recovering, and trucking van rates have climbed to about \$2.50 per mile—levels surpassed only twice since 2008. The real test comes in the months ahead, as elevated energy costs work their way through the consumer economy. History tells us that oil shocks don't kill expansions overnight; they erode them slowly, like rust.

Market Technicals: Oil Runs the Show

The S&P 500 closed at 6,583 on Thursday before the Good Friday holiday, eking out its first weekly gain since the war began (+3.4%). The Nasdaq gained 4.4% on the week; the Dow about 3%. But perspective matters: the S&P remains roughly 6% below its January 27 all-time high of 7,002 and is down about 4.6% year-to-date. Neither the S&P nor the Nasdaq has reclaimed its 200-day moving average, and both remain in established downtrends dating back two months. The VIX, while not at panic levels, has been grinding steadily higher all year in one of the most persistent advances in recent memory.

The dominant technical story is the extraordinary inverse correlation between equities and crude oil. Bespoke reports that over the 50 trading days ending March 31, SPY and USO moved in opposite directions 38 times—the most inversely correlated 50-day stretch since USO launched in 2006. The only comparable period was August 2008, when crude first crossed \$100 on its way to \$147. In the 15 trading days ending March 30, SPY closed in the upper half of its daily range only once—the most relentless selling pressure in the ETF's entire history since 1993. As of the end of Q1, the S&P had spent 19 consecutive days closing at least 1.5 standard deviations below its 50-day moving average, the longest such streak since October 2008. Notably, the current drawdown from the 52-week high (-7.9%) is far shallower than the average (-17%) at comparable points in prior oversold streaks, which suggests the underlying market structure is not as damaged as the technicals might imply.

Beneath the surface, the market is deeply bifurcated. Energy was the only sector in “extremely overbought” territory at quarter-end; every other sector was oversold or near oversold. The Energy sector gained 37.9% in Q1—its second-best quarter on record, with a 14-week winning streak that ties the longest for any sector since 1990. All nine trillion-dollar mega-cap stocks underperformed the S&P 500 in Q1, with Microsoft down 23%. But

the equal-weight S&P 500 actually gained 0.6% in the quarter, and small caps in the Russell 2000 gained nearly 1%. The “other 491” stocks finished Q1 with an average gain of about 1%. Internationally, Brazil surged 20%, while India fell over 13%. The bond market was eerily calm by comparison—no Treasury-related ETF moved more than 50 basis points for the quarter.

Looking Ahead: The Variable That Matters Most

The near-term outlook hinges almost entirely on the duration of the Iran conflict and the reopening of the Strait of Hormuz. Everything else—earnings season, Fed policy, seasonals—is secondary noise until that variable resolves. And the weekend brought a sharp escalation: President Trump issued an expletive-laden ultimatum Sunday on Truth Social, threatening to strike Iran’s power plants and bridges on Tuesday if the Strait is not reopened. His 10-day deadline expires Monday evening. Meanwhile, Iran’s counterstrikes have hit infrastructure across Kuwait, Bahrain, and the UAE—including putting a Kuwaiti water desalination plant offline. The U.S. rescued a downed F-15 crew member in a dramatic mission deep inside Iranian territory, but three additional aircraft were hit during the operation. Oman is mediating, but no meaningful diplomatic progress has been achieved. Trump holds a press conference with military leaders Monday at 1 PM Eastern. Markets should brace for another volatile open.

The longer oil stays above \$100, the greater the risk that what began as a supply shock hardens into something structural: higher inflation expectations, delayed rate cuts, compressed consumer spending, and capital investment paralysis. Morgan Stanley put it well: the key economic risk is duration. The Fed is boxed in. Chicago Fed’s Goolsbee acknowledged Friday that the oil shock is pushing back the timeline for rate cuts. Markets are pricing in virtually no rate movement through year-end, and the strong March jobs report gives the Fed all the cover it needs to sit tight. The March CPI print on Friday will be the week’s marquee data release, and a 1% monthly surge would be the hottest reading in nearly four years. Don’t expect the cavalry from monetary policy.

That said, there are reasons for cautious optimism on a longer time horizon. History suggests that sudden economic shocks—wars, pandemics, energy crises—tend to be short-lived in their market impact. In Bespoke’s analysis of the ten prior 12-month S&P 500 patterns most correlated to the current one, one-year forward returns averaged about 7.5%, roughly in line with the historical norm, and every instance was followed by positive returns 12 months later. The recent Nasdaq signal—gaining 1%+ on both the last day of Q1 and the first day of Q2—has occurred only nine times since 1971, and every instance was followed by positive returns over the next year, with an average gain near 29%. April seasonal patterns also favor the bulls: since 1990, it has been the second-strongest month

for the S&P (+1.5% average), and in years when the index entered April in negative YTD territory, the average April gain was nearly 2%.

On the secular front, the AI investment story continues to mature in ways worth watching. A Federal Reserve study released this week found that AI adoption is rising quickly but, so far, is not reducing overall hiring—job postings are holding steady or ticking slightly higher at AI-heavy firms. The changes are happening beneath the surface, where some roles are being reshaped while others expand. Meanwhile, Samsung expects a massive jump in operating profit amid an unprecedented memory chip supercycle, and Foxconn reported strong AI-driven demand even while cautioning about volatile geopolitics. Goldman Sachs recently reaffirmed a 7,600 year-end target for the S&P 500, predicated on 12% EPS growth and AI-driven productivity gains broadening beyond mega-cap tech. That’s ambitious from current levels, but not unreasonable if the geopolitical fog lifts.

One area to watch with a skeptic’s eye: private credit. The Wall Street Journal reports that withdrawals are rising and some funds are limiting redemptions after a string of defaults—a reminder that leverage and illiquidity can bite when stress arrives. In a rising-rate, energy-shocked environment, complex fund structures get tested in ways their marketing materials never contemplated.

My own posture remains cautious near-term but constructive on a 12-month horizon. When Middle East tensions ease—and eventually they will—expect a sharp reversal of the patterns we’ve seen: Energy gives back leadership, the oversold majority of sectors catches a bid, and the market remembers that the American economy, for all its challenges, has a remarkable capacity to adapt. As the old saying goes in this business: the cure for high prices is high prices. We just have to be patient enough to get there.

CJ Brott
Chairman Emeritus
Capital Ideas

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