

Market and Economic Update

March 2026

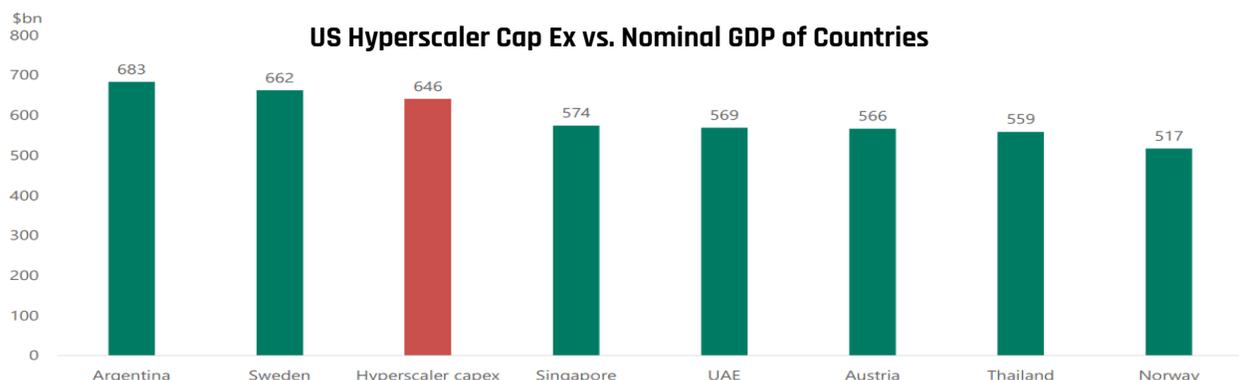
The U.S.-Israeli military campaign against Iran, which commenced February 28, has introduced the most significant near-term macro shock since our last update. Brent crude has surged above \$92/barrel, driven by the near-shutdown of the Strait of Hormuz and disruptions to key Gulf production infrastructure. Our Geopolitical Intelligence Group (GIG) believes the U.S. will seek an off-ramp in the near term. We therefore treat the current oil price spike and associated inflationary impulse as transitory, not structural. A prolonged disruption pushing prices toward \$100+ would shift the policy calculus materially, and we are monitoring closely.

The AI discussion is increasingly becoming a macro debate. On one side, concerns are growing that more than \$3 trillion in planned AI capital investment may represent an overallocation, raising questions about returns and potential overcapacity. On the other, the fear that AI displaces jobs on a scale that collapses consumer spending is equally present in market narratives. Our view sits in the middle. Each wave of technological transformation brought disruption and entirely new categories of work simultaneously. If AI eliminated all jobs, there would be no economy and therefore the feedback loop is self-limiting. Citadel Securities has highlighted that Indeed.com software engineering postings have risen rapidly since May 2025. AI productivity gains argue for disinflation and rate cuts; the displacement scenario argues for demand contraction. One market view will be wrong. Our base case leans toward the productivity and disinflation outcome, but the transition period warrants close monitoring.

February's employment report signaled a meaningful slowdown. Nonfarm payrolls declined 92K, far below consensus, with December revised to -17K and the three-month average near zero. The unemployment rate edged up to 4.4%. Transitory factors contributed, including the Kaiser Permanente strike and severe winter weather, but the underlying picture is concerning. Federal employment fell another 10K, extending cumulative DOGE-related losses of 330K since October 2024. The household survey tells a starker story: employed persons have declined roughly 850K since November. Average hourly earnings rose 3.8% year-over-year, constructive for consumption but complicating the disinflation narrative.

The Supreme Court's ruling invalidating IEEPA-based tariffs reshuffled trade policy. The Administration pivoted to Section 122 authority, imposing a temporary 10%-to-15% global tariff while deploying Section 232 and 301 to rebuild a more durable framework. USMCA-compliant imports were exempted and autos received a carveout. The pattern of escalation followed by targeted relief is consistent with tariffs as negotiating leverage rather than permanent policy. The average effective rate has declined from its Liberation Day peak of roughly 27% to approximately 13.7%.

Headline CPI fell to 2.4% year-over-year in January with core at 2.5%. That constructive trend is now at risk from the Iran-driven energy spike and potential tariff pass-through. The path of least resistance for the FOMC is patience given the geopolitical backdrop. We anticipate Kevin Warsh will frame any rate cuts around an AI productivity narrative with a QT-for-cuts approach. Powell's anticipated continued service as a Governor represents a moderating influence. Our base case remains 100 basis points of easing in 2026, back-loaded to the second half, though we recognize the risk for fewer cuts as inflation concerns persist and Jerome Powell retains influence within the FOMC.



Market Update

Product Views

Rates: On a YTD basis, rates are largely unchanged, with only the front end higher as rate-cut expectations have been priced out of the market. However, over the past month, 2- through 10-year Treasuries have moved roughly 20 bps higher in the first few days of March. We view this recent backup, driven by the Iran conflict, as an opportunity. If the conflict resolves within weeks, consistent with our GIG base case, the transitory inflation narrative should reassert itself and rates could rally. Even if oil remains elevated, we note that oil shocks are initially inflationary but historically become growth-destructive if sustained, which would likely prompt markets to rally Treasuries as recession concerns outweigh inflation pressures.

Credit: Public credit is facing a double headwind from rising stagflation concerns and negative headlines surrounding private credit. Recent reports, including BlackRock noting a private loan marked down from 100 to zero cents on the dollar, underscore the risks we have highlighted in private credit. The self-marking of loans can create an appearance of stability that masks building stress in the system, a dynamic reminiscent of conditions preceding the LIBOR and subprime mortgage crises. We therefore maintain an underweight stance in investment-grade credit, while favoring selective exposure to higher-quality issuers.

Securitized: Agency MBS remains our preferred allocation within fixed income and has been the strongest-performing sector in the Agg year to date (1.05% vs. 0.51% for corporate credit). We continue to favor MBS given stronger policy support and more attractive risk-adjusted carry. In this environment, security selection and collateral analysis are becoming increasingly important.



12 month high
Current
12 month low