



FOCUS POINT

RESEARCH | MACRO

Macro Thoughts
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Thought to ponder...

“In the choir of life, don’t be a diva. Lower your voice and revel in the harmony. On the dance floor of life, make room for the other dancers and let your partner shine. Try to be aware of your natural impulse to ask, what’s in it for me, and make room instead for what the people around you need for the journey we’re all in together.”

Russ Roberts
Wild Problems



The View from 30,000 feet

Last Week's Macro Events

Thoughts on the Iran conflict	The market impact to the Iran conflict depends less on the war itself and more on the pain threshold of Trump and how long the conflict lasts
The Fed – not to the rescue	With inflation risks rising, the Fed is sidelined and quietly becoming more hawkish, removing hopes of the policy safety net markets relied on.
Largest risks – one-two punch	Energy prices hit low-income households, while falling equity prices hit high-income households, both struggling with the impact of higher rates
Is gold still a geopolitical hedge?	Gold is pressured in the short-term by rising real yields and forced selling, but supported in the long-term by geopolitical uncertainty
Gauging market health	Markets are weaker than war history suggests, but internals are approaching levels consistent with prior tradeable lows

What the *Bulls* are saying

- **Positioning has been flushed.** Hedge fund exposures have fallen, markets are over hedged, peak war fear is near or has passed and internals are ripe for a rally/squeeze.
- **The impact to oil prices are exaggerated.** Already 80% of the flow through the Strait of Hormuz has been re-routed, making the inflationary impacts overblown.
- **Markets are misreading the Fed.** The Fed is on hold because of energy prices, not raising rates, and as far as private credit goes, the Fed has shown they come to the rescue.
- **Valuations provide support.** You have to go back to the trough in 2022, or in some cases further to buy some of the bellwether market leaders at valuations seen today.

What the *Bears* are saying

- **The history is clear – oil shocks start recessions.** 1973, 1979, 1990, 2008 and 2022 are all cases where a spike in oil prices cratered the economy.
- **The Fed is stuck.** Classic central bank theory says the Fed should look through supply shocks, yet here we are and the Fed is stuck in wait and see mode.
- **The consumer is in an arm bar getting ready to tap out.** Increasing prices, falling asset values, low savings, rising unemployment and increased delinquencies – cooked.
- **Private credit is the new sub-prime.** As the economy deteriorates and AI impacts software companies, aggressive lending to poor credits will manifest as financial instability.



Putting it all together

For better or worse, markets trade on dominant narratives. Right now, there are two:

- An Iran conflict with no clear end in sight
- Private credit concerns colliding with an inflationary spike and a slowing economy tied to the conflict

Neither of these are particularly friendly for risk assets. The days of accelerating earnings growth, astronomical AI capex, and fiscal incentives acting as economic fuel are not only in the rearview mirror, but are now being reframed by the bears as future problems rather than current tailwinds.

Last week did little to help the bull case. While there was occasional rhetoric from Washington and Tel Aviv suggesting objectives were nearing completion, those comments were offset by escalating actions against energy infrastructure, ultimatums, and threats that made the duration of the conflict feel longer, not shorter. Investors did what investors always do in the face of uncertainty — they de-risked. And when investors de-risk in a leveraged system, they sell what they can, not what they want to. That helps explain why gold fell, why equities fell, and why correlations moved toward one.

If the operative word for the Iran conflict is duration, the operative word for equity markets right now is dispersion. There are 55 stocks in the S&P 500 down more than 20% this year, with the average loser down 26.5%. That group is populated largely by software companies — increasingly viewed as businesses where AI may compress margins rather than expand them — and financials, where investors fear private credit problems may eventually surface. On the other side of the ledger, there are 53 stocks up more than 20%, with the average winner up 40.3%. Those winners are dominated by energy companies, clear beneficiaries of higher oil prices, and technology companies building the infrastructure that AI actually requires. These tidy groupings tell you almost everything you need to know about this market: we are living through a market driven less by broad earnings growth and more by macro narratives and capital flows.

Even the Fed is not immune from this narrative-driven environment. Last week's meeting went largely as expected — the Fed did nothing and, like the rest of the market, is effectively waiting to see how the Iran conflict evolves and what it means for inflation. But the meeting was overshadowed by the ongoing political pressure campaign against Chair Powell and the uncertainty surrounding the potential nomination of Warsh as the next Fed Chair. Markets now have to handicap not just inflation and growth, but also the future reaction function of the Federal Reserve.



Putting it all together

The result of all of this is a market that is oscillating between positive and negative narratives, and we are firmly in a negative narrative regime, where good news is dismissed for not being sustainable and bad news is treated as confirmation of something worse ahead. That is the type of environment where volatility rises, correlations rise, and markets overshoot in both directions.

The key question from here is whether this period of uncertainty and higher energy prices begins to slow consumption enough to flow through to earnings. If it does, the market will have to contend with not just a narrative problem, but an earnings problem — and that is when bear markets tend to become more durable.

At the same time, it is worth noting that while the macro backdrop is deteriorating, market internals are beginning to approach levels that have historically been associated with tradeable lows. Markets bottom on selling, not on news, and several of our internal indicators are now at or approaching levels that have marked prior tactical opportunities. That does not mean the macro problems are solved — it simply means the market may be getting closer to pricing them in.

In short, the market today is pricing the inflation shock from the war, but it has not yet decided whether the ultimate outcome is slower growth or persistent inflation. Until that question is answered, volatility and narrative-driven markets are likely to remain the defining features of this environment.



Thoughts on the Iran conflict

Main Takeaway: The key variable for markets, oil, and the macro outlook is not the conflict itself, but its duration and collateral damage done while the conflict plays out. The constraints that determine how long it lasts are becoming clearer, increasing market anxiety.

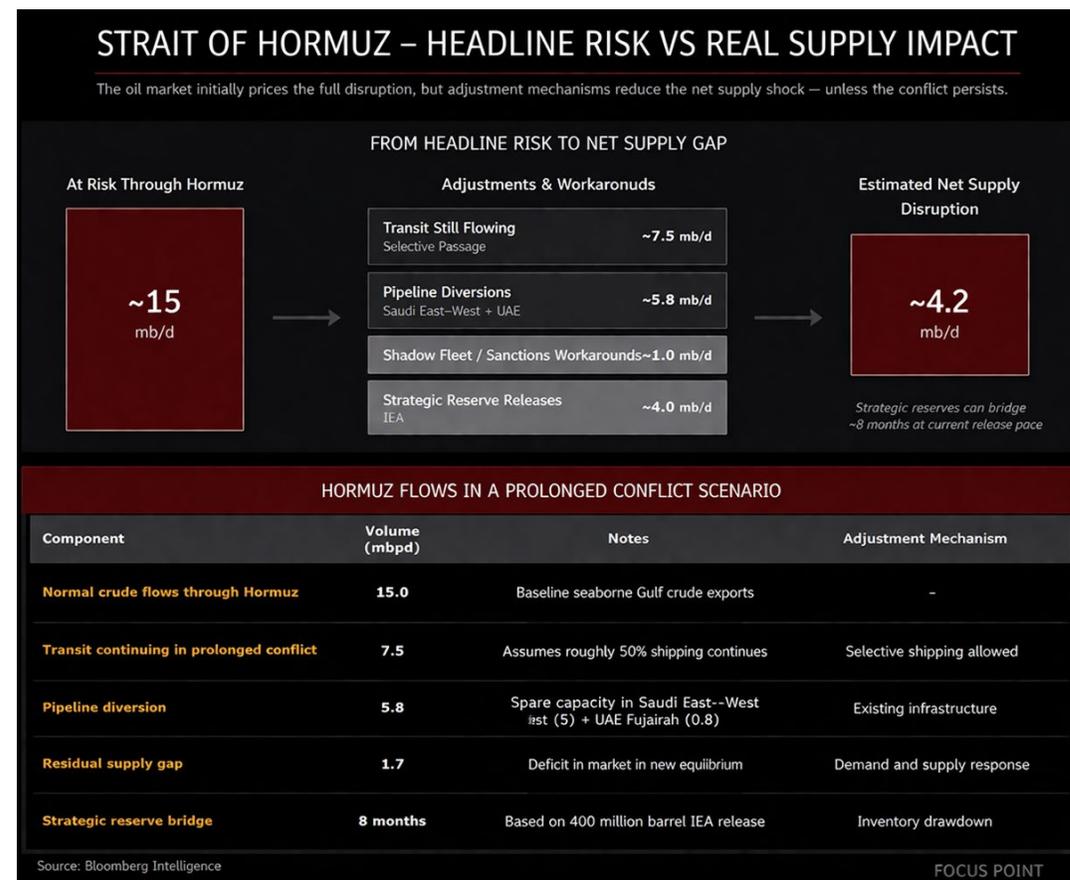
What Determines Duration

- Last week we outlined three pressure points that could force a “mission accomplished” moment:
 - Oil:** Sustained Brent above \$120
 - Equities:** 10% S&P500 drawdown
 - Political base:** Republican approval rating below 70% on war
- This framework was reinforced this week when, Brent surged to \$119 and the Dow fell 500 points intraday. Within hours, rhetoric shifted toward de-escalation from Israel and ruling out ground troops by Trump.
- Markets are reacting not just to war headlines, but to changes in expected duration.*

Constraints That May Limit Duration

- Energy escalation:** In the last week, both sides began targeting energy infrastructure, with even larger threats over the weekend, raising global economic stakes.
- Hormuz workarounds:** Of 20mb/d at risk, rerouting and reserves reduce the net supply gap to 4.2mb/d may prove the strait is less relevant
- Gas market shock:** Damage to Qatar and South Pars gas infrastructure could take years to normalize, increasing pressure for resolution.
- Logistics:** Reports suggest U.S. precision munitions inventories are being depleted.
- Politics:** Trump’s \$200b funding package proposed last week may face resistance.

Bottom Line: Markets are not pricing the war — they are pricing how long it lasts, and right now, duration is being constrained by oil prices, markets, logistics, and politics — but complicated by the fact that the timeline is not controlled by one actor alone.





The Fed – not to the rescue

Main Takeaway: The Fed is signaling that it is not prepared to cut rates into the energy supply shock, and markets are beginning to adjust to a higher-for-longer reality driven by inflation risk favored over labor market concerns.

What Changed After the FOMC Meeting

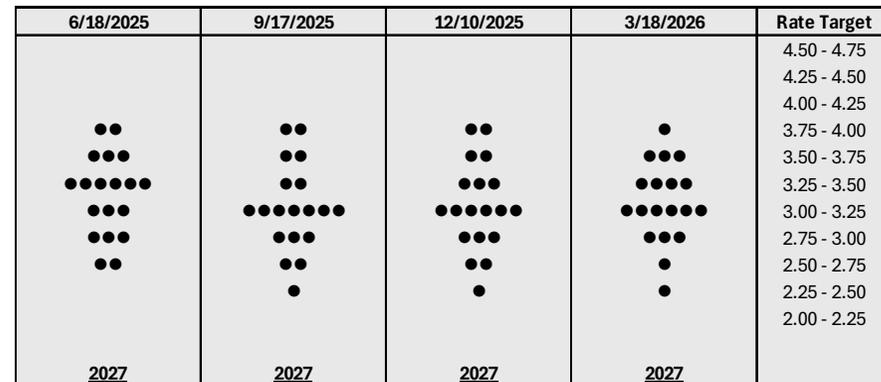
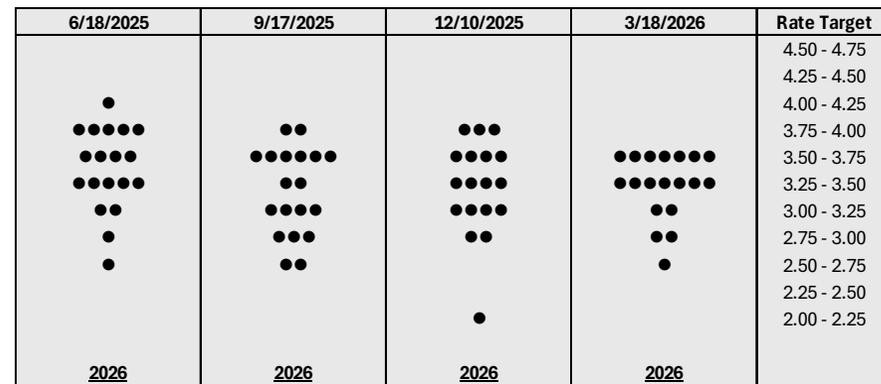
- Markets sold off during Powell's Q&A as the tone shifted more hawkish than expected.
 - Powell noted core goods disinflation has stalled, due to tariffs.
 - He warned that repeated supply shocks — pandemic, tariffs and oil — could begin to impact inflation expectations.
 - Powell also suggested the labor market may be near equilibrium with very low or even zero job growth, meaning: Any rise in initial jobless claims could translate more directly into a rising unemployment rate.
 - Powell made a full-frontal assault on Trump, noting he had no intent of stepping down until the charges against him were dropped and even quipping that the Fed's oversight is by Congress.
- Markets focused more on the inflation risk discussion than the labor market discussion.

Market Reaction – Rate Cuts Pushed Further Out

- Following the meeting, markets removed rate cuts in 2026.
- First full rate cut is now being priced to Q42027 – likely an overreaction.
- The Fed dot plot continues to drift higher, including from uber-dove Miran — suggesting the committee is becoming more concerned about inflation persistence than growth risks.

Market Implication: In past geopolitical or growth shocks, markets expected the Fed to step in with rate cuts. The Fed has historically been the market's shock absorber. The Fed sounded guarded this shock could turn out to be inflationary, making markets fear Fed may instead become the constraint, similarly to 2022.

FED DOT PLOT SHOW CENTER OF GRAVITY SHIFTING HIGHER EVEN UBER-DOVE MIRAN HAS DRIFTED HIGHER IN 2026



Source: Federal Reserve



Largest risks – one-two punch

Main Takeaway: Markets are increasingly pricing a two-sided consumer shock: higher energy costs are hitting lower-income households, while falling asset prices threaten the wealth effect supporting higher-income spending. With savings low and rates high, both ends of the consumer are now exposed at the same time.

The Two Transmission Channels

Lower-income consumer → Inflation shock

- Gasoline prices have surged, and a majority of households report fuel costs are already hurting finances.
- Lower-income households spend a much larger share on essentials, meaning energy and food inflation quickly crowd out discretionary spending.

Higher-income consumer → Wealth effect shock

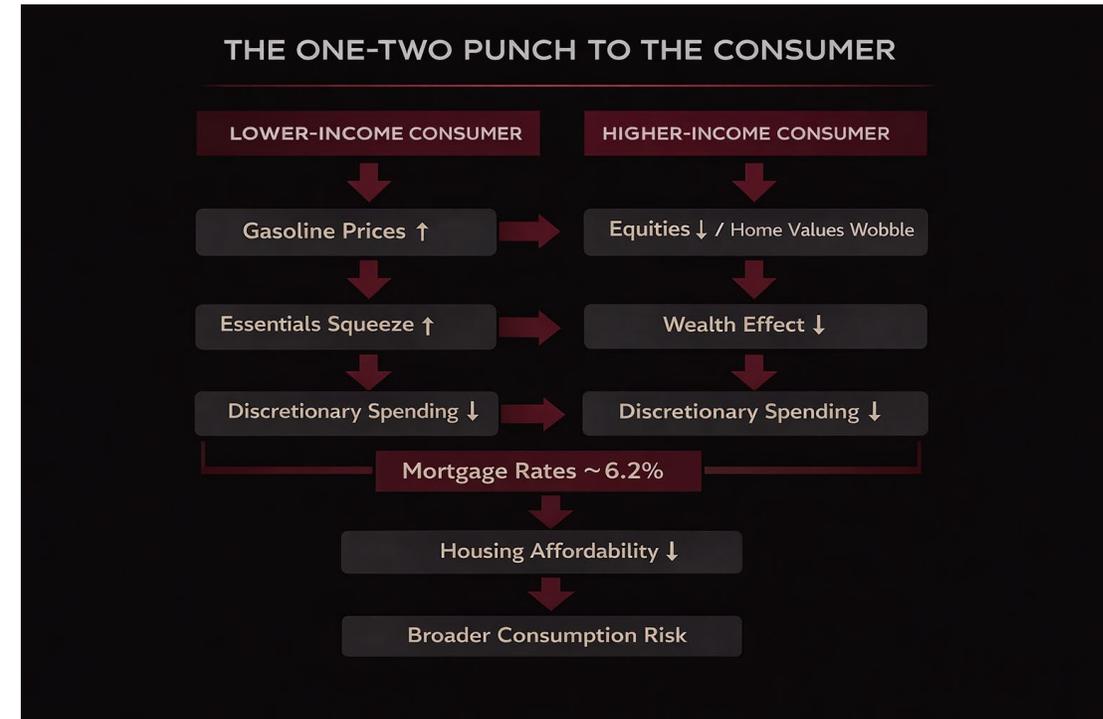
- The top 10–20% of households now drive a disproportionate share of total consumer spending.
- Stock market gains have been supporting consumption; historically, each \$1 of equity wealth adds 2.8 cents to spending — which works in reverse if markets fall.

Rates hit both groups through housing

- Freddie Mac's 30-year mortgage rate averaged 6.22% on March 19, up from 6.00% two weeks earlier, keeping affordability under pressure.
- Even small rate moves materially change affordability, leaving housing highly rate-sensitive.

Consumers have less cushion than in prior cycles

- Savings rates around 4% are roughly half the long-term average.
- Pandemic excess savings are largely gone.
- Consumer sentiment remains weak.





Is gold still a geopolitical hedge?

Main Takeaway: Gold's safe-haven role is not broken — but in inflationary wars, gold often loses the short-term battle to rising real yields and a stronger dollar before winning the longer-term macro war.

Why Gold Is Falling Now

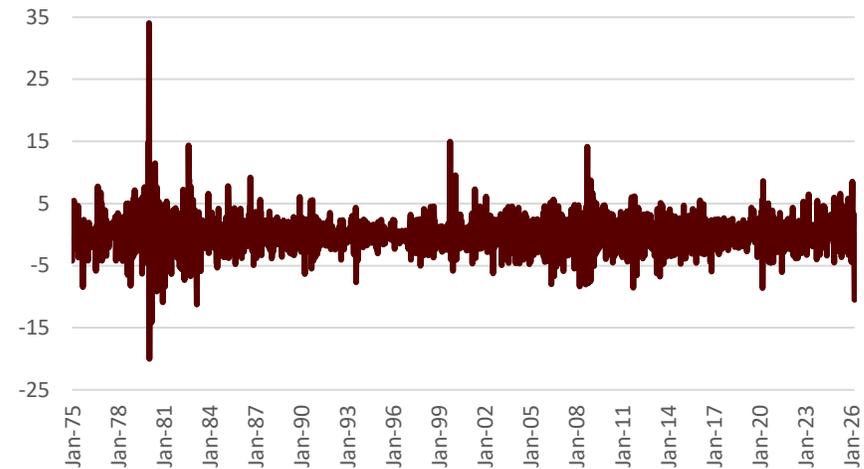
- Real yields are the binding constraint. The oil shock is pushing inflation expectations higher and delaying Fed cuts, lifting real yields and the dollar — a headwind for gold.
- Gold is acting as a liquidity valve. In multi-asset selloffs, investors sell what they can, not what they want to — and gold is one of the most liquid assets.
- Positioning is being flushed. ETF outflows, falling open interest, and oversold technicals suggest forced liquidation rather than a change in the long-term thesis.

Why the Structural Case Is Still Intact

- Central banks continue to buy gold at historically high levels, creating a structural demand floor.
- The long-term relationship between gold and real yields has weakened in recent years due to central bank buying and de-dollarization flows.
- Historically, in inflationary geopolitical shocks, gold often sells off first during the inflation/rates spike, then rallies later as growth slows and real yields fall.

Bottom Line: Gold is not failing as a geopolitical hedge — it is early in the cycle. The market is pricing the inflation shock first, not the deflationary consequences that typically follow. *If the war continues or ends, both paths likely lead to lower real yields, which should ultimately be supportive for gold.*

**GOLD POSTS ITS WORST WEEKLY RETURN SINCE 1983
GOLD TRADES LIQUIDITY FIRST, FEAR AND POLICY SECOND**



Source: Bloomberg



Gauging market health

A HISTORY OF MARKET BEHAVIOR FOLLOWING MAJOR U.S. OFFENSIVES SINCE WWII

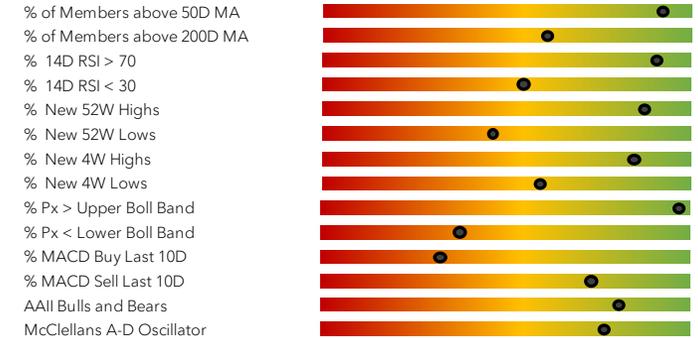
Conflict / Operation	Start Date	End Date	Calendar Days	President	1d	5d	20d	60d	180d	360d	S&P Return During Conflict
Korean War	6/25/1950	7/27/1953	1,129	Truman	-1.10%	-2.60%	-4.86%	6.07%	19.49%	27.39%	32.91%
Vietnam War (major US involvement)	11/1/1955	4/30/1975	7,121	Eisenhower	0.17%	5.51%	7.26%	2.89%	16.72%	5.94%	106.48%
Dominican Republic Intervention	4/28/1965	9/21/1965	147	Johnson	-0.08%	0.80%	-0.79%	-5.54%	4.90%	-14.26%	0.91%
Cambodia Bombing / Incursion	3/18/1969	8/15/1973	1,612	Nixon	0.73%	1.19%	2.33%	0.16%	-6.64%	-21.17%	4.59%
Grenada Invasion	10/25/1983	12/15/1983	52	Reagan	-0.65%	-1.70%	0.22%	-0.16%	-9.88%	7.85%	-2.88%
Panama Invasion	12/20/1989	1/31/1990	43	G.H.W. Bush	0.57%	2.28%	-1.08%	0.20%	-5.67%	10.11%	-4.01%
Gulf War (Desert Storm)	1/17/1991	2/28/1991	43	G.H.W. Bush	1.30%	2.08%	11.05%	16.23%	17.23%	23.08%	11.92%
Kosovo War	3/24/1999	6/10/1999	79	Clinton	1.69%	1.40%	7.11%	5.85%	10.66%	18.90%	2.70%
Afghanistan War	10/7/2001	8/30/2021	7,268	G.W. Bush	-0.54%	2.59%	3.80%	9.68%	-8.37%	-21.57%	326.26%
Iraq War	3/20/2003	12/18/2011	3,196	G.W. Bush	2.30%	-0.82%	2.05%	15.42%	22.16%	25.18%	39.28%
Libya Intervention	3/19/2011	10/31/2011	227	Obama	-0.36%	0.91%	0.52%	-2.54%	-3.18%	8.87%	-3.47%
War vs ISIS	8/8/2014	3/23/2019	1,689	Obama	0.28%	1.22%	3.62%	4.46%	9.48%	-2.14%	45.00%
Average			1,884		0.36%	1.07%	2.60%	4.39%	5.58%	5.68%	46.64%
Median			678		0.23%	1.21%	2.19%	3.68%	7.19%	8.36%	8.26%
Positive Percent					58%	75%	75%	75%	58%	67%	75%
Iran Invasion (Epic Fury)	2/28/2026		9	Trump	-1.33%	-2.02%					

Source: Bloomberg, FPLMI Calculations

What War History Suggests

- Markets have historically traded higher 20–60 days after US offensive military actions since WWII with a relatively high probability.
- Currently, the S&P500 is down -5.4% since the start of the invasion of Iran (Operation Epic Fury), if this were day 20 (it's now day 15), it would be the worst 20-day performance following any US military offensive.
- We noted in our analysis when this data was presented earlier in the month, the conflicts can generally be bucketed into two categories: Short-Duration Conflicts (weeks to months) and Prolonged Conflicts (years). Markets are clearly bucketing this in the second category.

FOCUS POINT MARKET TRENDS AND INTERNALS



What Market Internals Are Saying

- Several Focus Point Market Internals are at or near tradeable low trigger levels.
- Historically, a tradeable bottom forms when the majority of indicators trigger. While we are approaching these levels, we are not there yet.
- A steep decline from current levels may trigger a tradeable low, and this may also coincide with our framework for judging when the conflict ends, a drawdown of greater than -10% in the S&P500.
- The S&P500 currently sits at a 6.8% drawdown, suggesting further downside to trigger both market internals and our framework for when Trump will likely feel pressure to end the conflict.

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