Week in Review

Equity Markets:
The new war with Iran shocked markets with multiple new volatilities that culminated with a broadly negative week for the major indices. The S&P 500 came down -1.99% while the Dow Jones Industrial Average recognized a decline of -2.92% and the Nasdaq lost -1.22%.[1] Last Friday, the Forward 12-month Price/Equity Ratio for the S&P 500 contracted to 21.2, still notably above both its 5-year average (20.0) and its 10-year average (18.8).[2]

This new Middle East war, pitting Iran against the United States and Israel, has spurred new volatilities across the global economy. Oil volatility is at the heart of these concerns, having risen from $67 a week ago to $91 on Friday afternoon, then spiking to $110 by this morning's open.[3]

Fixed Income Markets:
Geopolitical risks also were the overwhelming factor in fixed income markets and the pricing of bonds last week. The spike in crude oil prices, up more than 35% last week, were the primary factor for why yields on 10-year Treasurys spiked a full 20 basis points. In the process, the 10-year Treasurys recognized their steepest selloff since the "Liberation Day" announcement of the White House's tariff regime last April.[4]

Comparable losses were recognized across bond classifications. Prices for Municipal bonds came down by an average of -0.77% across durations. Investment-grade Corporates declined by -0.95% while High-yield bonds fell -0.44%.

Economic Updates:
The Nonfarm Payrolls report showed 92,000 jobs were lost in February, which ticked the Unemployment Rate up to 4.4%. That conflicted with the ADP Private Payrolls, which showed 63,000 new hires last month. Initial Jobless Claims, totaling 213,000 last week, were below estimates, and the Challenger Layoffs report showed a sharp decline in February's total. This all leaves the employment market considerably muddled.[5]

The ISM Manufacturing Index, with a February reading of 52.4, reflects its second month of expansion, and the ISM Services Index rose 2.3 points to score 56.1, beating estimates.

Looking Ahead

Equity Markets:
This war's progression, particularly its ending, is perhaps the most important stock market metric. Oil, both its pricing and availability, has become the most important economic consideration globally and has directly contributed to stock market volatility.[6] Indeed, the last week saw the biggest weekly gain for crude oil since 1983.[7] The closing of the Strait of Hormuz, at the mouth of the Persian Gulf, has cut off 20-25% of the world's oil supply.[8] Potential exists that this passageway can be restored through US naval escorts and new reinsurance sponsored by the US government, both of which the White House introduced at the end of last week.[9]

Fixed Income Market
It is too soon to have any certainty regarding the potential emergence of a new oil shock. However, it's reasonable to forecast that inflation will rise if current prices hold, perhaps contributing as much as an additional 0.75% to headline inflation this calendar year.

Investors can anticipate increased risk volatilities being experienced in the equity markets. These will likely lead to increased allocations towards the fixed income markets, which could further bond pricing from higher demand. Very much, developments are yet to manifest regarding the war and the price of oil. Should this conflict endure for a relatively short term, then it's possible to resume the fiscal path we have been upon and anticipate interest rate cuts as the year progresses. Time will tell.

Economic Updates:
This upcoming week will see the Consumer Price Index announced Wednesday and January's Personal Consumption Expenditures announced Friday. These reports will reflect the true state of domestic inflation. Core PCE is largely considered the Federal Open Market Committee's preferred metric for gauging domestic inflation and will likely be the most important data released this week.

Other reports to be announced this week include Gross Domestic Product for the 4th Quarter; the US Trade Balance; Existing Home Sales; New Housing Starts; Capital Goods orders; Durable Goods orders; and January's Job Openings and Labor Turnover Survey (JOLTS).

**** *See Important Disclosures on following page*

Sources:

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