

Stocks Tumble as Oil Surges and Middle East Tensions Weigh on Risk Assets

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by Francisco Rodríguez-Castro
frc@birlingcapital.com

The U.S. and European stock markets closed sharply lower, as a renewed surge in oil prices and escalating geopolitical tensions in the Middle East triggered a broad risk-off move across global equities. **Investor sentiment deteriorated throughout** the session as markets weighed conflicting signals on Iran negotiations against rising concerns about energy supply disruptions.

On Wall Street, selling pressure intensified as higher crude prices fed directly into inflation expectations and interest rate repricing. Brent crude surged approximately 5% to trade above \$108 per barrel, while WTI crude advanced to a similar magnitude, moving above \$94. The spike in energy prices acted as a catalyst for weakness in equities, particularly in rate-sensitive sectors.

Simultaneously, U.S. Treasury yields rose sharply, with both the 10-year and 2-year notes rising as markets reassessed the trajectory of Federal Reserve policy. The move reflects growing concern that energy-driven inflation could delay or limit the scope of near-term rate cuts.

The U.S. dollar strengthened modestly, supported by safe-haven flows and higher yields, while global equities mirrored the U.S. downturn, with European markets declining and Asian markets closing mixed to lower.

U.S. Markets

U.S. equities closed sharply lower, as a surge in energy prices and escalating geopolitical tensions drove a broad-based risk-off move across Wall Street. Selling pressure intensified into the close, with all major indices posting significant declines and growth sectors bearing the brunt of the drawdown. The Dow Jones Industrial Average fell 469.38 points, demonstrating relative resilience but still reflecting widespread weakness across cyclical components. The S&P 500 declined 114.74 points, as losses broadened across sectors, while the Nasdaq Composite dropped 521.74 points, highlighting pronounced pressure on technology and rate-sensitive equities.

The market's decline was driven primarily by the sharp rise in oil prices, which amplified inflation concerns and triggered a parallel increase in Treasury yields. This combination tightened financial conditions and weighed heavily on equity valuations, particularly in high-growth segments.

Geopolitical developments remained the central catalyst. Statements from Donald Trump emphasized urgency in negotiations, while conflicting signals from Iranian officials added to the uncertainty. At the same time, coordinated responses from Gulf nations regarding regional energy security reinforced concerns that the conflict could expand, sustaining upward pressure on crude prices.

Despite the session's losses, market direction remains closely tied to developments in energy markets and the evolving geopolitical landscape, both of which continue to shape investor sentiment and near-term asset pricing.

European Markets

European markets closed decisively lower, reversing the prior session's gains as geopolitical ambiguity surrounding the Iran conflict unsettled investor positioning and reignited a broad-based risk-off tone. The Stoxx Europe 600 declined approximately 1.2%, with selling pressure evident across all major bourses and sectors.

The retreat was led by cyclical and growth-sensitive segments, as mining and technology stocks fell sharply—down roughly 3.4% and 2.3%, respectively—highlighting the market's sensitivity to both commodity volatility and global growth expectations. The pullback reflects a rapid unwinding of optimism seen earlier in the week, as investors grappled with conflicting signals regarding the trajectory of Middle East peace efforts.

Corporate developments provided selective divergence but failed to offset the broader decline. Shares of Next plc advanced after the company reported stronger-than-expected full-year results and upgraded guidance. However, management struck a cautious tone, emphasizing that prolonged instability in the Middle East could dampen international demand, pressure input costs, and introduce pricing volatility across its operating footprint.

In contrast, Hennes & Mauritz underperformed following softer-than-expected first-quarter sales, reinforcing concerns that consumer demand across Europe remains uneven. Market participants interpreted the update as an early signal that macro uncertainty—particularly energy-driven inflation risks—may begin to weigh more heavily on discretionary spending.

At the macro level, the session was dominated by conflicting narratives out of Washington and Tehran. While U.S. officials pointed to ongoing diplomatic engagement, Iranian authorities denied direct negotiations, instead signaling a more rigid stance that includes strategic demands tied to control of critical energy transit routes. This divergence has increased uncertainty around the probability and timing of any de-escalation.

Investors also monitored developments from the G7 Foreign Ministers Meeting, where geopolitical tensions—including both the Iran conflict and the war in Ukraine—remain central to the policy agenda. The inclusion of key global stakeholders underscores the crisis's growing international dimension and its potential implications for energy markets, trade flows, and global growth. In sum, European equities reflected a market recalibrating risk in real time, with geopolitical uncertainty once again asserting itself as the primary driver of cross-asset price action.

Why This Is Not a 1970s-Style Energy Crisis

Although the current environment features a sharp rise in oil prices, the structural conditions differ significantly from those that defined the stagflationary era of the 1970s.

Energy today represents a much smaller share of consumer expenditures—approximately **2% versus nearly 6% in the 1970s**—meaning the direct impact of higher oil prices on household purchasing power is materially reduced. Additionally, the United States has become a net energy exporter, providing a level of insulation from external supply shocks that was absent during prior crises. Equally important is the evolution of the global economy itself. Over the past several decades, energy intensity has declined substantially, with approximately **70% less energy required to generate a unit of GDP than in 1950**. This reflects efficiency gains and the increasing dominance of the services sector, both of which dampen the transmission of energy shocks into broad-based inflation. In this context, while oil price volatility remains a key market driver, its capacity to trigger sustained stagflation is significantly more limited.

Broadening Leadership Defines 2026

One of the most important market developments this year has been the clear rotation away from narrow, growth-led leadership toward a more diversified performance profile.

The **energy sector** has emerged as the standout performer, advancing more than **35% year-to-date**, driven by higher commodity prices and tightening supply conditions. Strength has also extended to **industrials, materials, utilities, and consumer staples**, each posting gains of more than 5%, signaling increased investor preference for cyclicals and defensive exposures.

Meanwhile, traditional leaders—**technology, communication services, and consumer discretionary**—have lagged, each declining more than 5%. This divergence is reflected in style performance: the **Russell 1000 Value Index** has posted gains of over 2%, while the **Russell 1000 Growth Index** has declined by approximately 9%.

Importantly, this rotation reflects positioning and valuation adjustments rather than a deterioration in long-term fundamentals. Growth sectors are still expected to deliver **earnings expansion exceeding 20% in 2026**, supported by continued innovation and capital investment.

Strategic Positioning: Discipline and Diversification

The current market regime reinforces the importance of balance. With volatility elevated by geopolitical and energy-driven shocks, portfolios should avoid concentration risk and instead emphasize diversified exposure across styles and sectors.

Maintaining a balanced allocation between **growth and value** remains appropriate, while selectively favoring **industrials and consumer discretionary** offers exposure to economic resilience and demand normalization. Conversely, a tactical underweight in **consumer staples and utilities** may be warranted given valuation considerations and sensitivity to rising rates.

Ultimately, while geopolitical developments will continue to influence near-term price action, the combination of economic durability, earnings strength, and structural efficiency gains supports a constructive medium-term outlook for equities.

Economic Data:

- **Kansas City Fed Manufacturing Production Index:** rose to 11.00, up from 10.00 last month.
- **30 Year Mortgage Rate:** rose to 6.22%, compared to 6.11% last week.
- **Natural Gas Storage Change:** fell to -54.00B, down from 35.00B last week.

Eurozone Summary:

- **Stoxx 600:** closed at 580.59, down 5.90 points or 1.17%.
- **FTSE 100:** closed at 9,972.17, down 134.67 points or 1.33%.
- **DAX Index:** closed at 22,581.67, down 376.01 points or 1.64%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 45,960.11, down 469.38 points or 1.01%.
- **S&P 500:** closed at 6,477.16, down 114.74 points or 1.74%.
- **Nasdaq Composite:** closed at 21,408.08, down 521.74 points or 2.38%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,014.29, up 5.38 points or 0.13%.
- **Birling Capital U.S. Bank Index:** closed at 8,492.90, up 61.02 Points or 0.72%
- **U.S. Treasury 10-year note:** closed at 4.42%.
- **U.S. Treasury 2-year note:** closed at 3.96%.

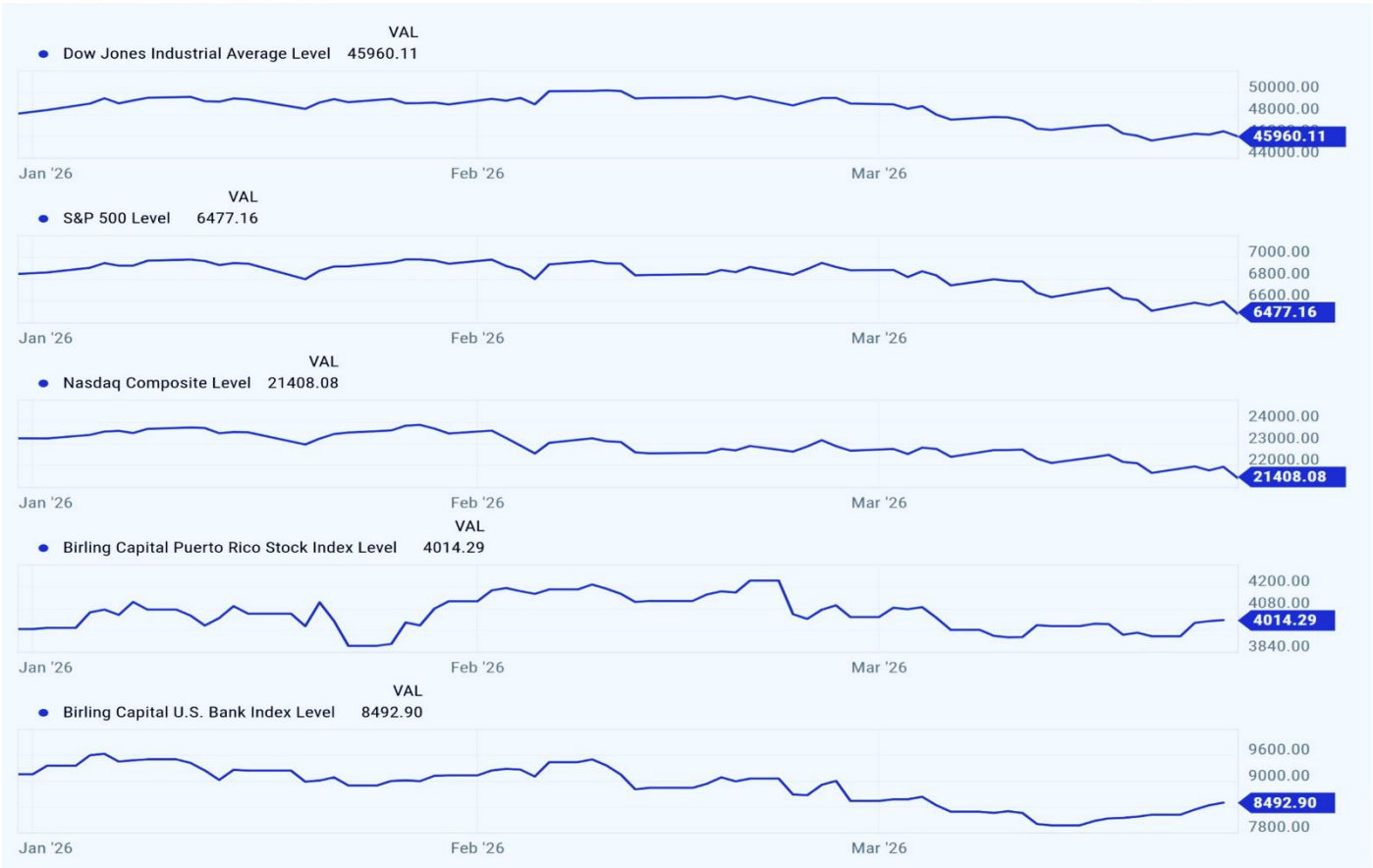
Kansas City Fed Manufacturing Production Index; 30 Year Mortgage Rate & Natural Gas Storage Change





Wall Street Recap

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