

International Markets Reprice Risk as Escalating Gulf Conflict Intensifies Energy Shock

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The U.S. and European stock markets declined sharply as intensifying energy disruptions and geopolitical escalation in the Gulf prompted a broad repricing of risk. Rising oil prices, firmer inflation expectations, and a stronger U.S. dollar tightened financial conditions, increasing uncertainty around the Federal Reserve's rate-cut trajectory and weighing on global equities.

U.S. Markets: Dow Closes Down 400 After 1,200-Point Swing as Energy Risk Rises

U.S. equities endured another highly volatile session on Tuesday, with early panic selling giving way to partial stabilization after President Donald Trump signaled that the U.S. Navy would escort tankers through the Strait of Hormuz if necessary to ensure the free flow of energy.

The Dow Jones Industrial Average closed down 403.51 points (-0.83%), after being down more than 1,200 points at its intraday low. The S&P 500 declined 0.94%, while the Nasdaq Composite fell 1.02%. At their respective lows, the S&P 500 had dropped 2.5% and the Nasdaq nearly 2.7%, underscoring the degree of headline-driven instability.

Energy: From Shock to Partial Reversal

Crude oil remained the transmission mechanism for the day's turbulence. Brent and WTI were each up roughly 2% by the close—well off session highs after both benchmarks had surged more than 9% intraday and gained approximately 6% in the prior session.

The initial spike in oil sent Treasury yields higher as investors priced in the risk of renewed inflation pressure, just as markets had been positioning for additional Federal Reserve rate cuts. As crude retreated from its highs, yields similarly pared gains, reflecting a temporary easing in inflation fears. The catalyst for the early selloff was escalation rhetoric, including statements from Iranian military officials declaring the Strait of Hormuz closed and threatening shipping through the corridor. Given that roughly 20% of global oil supply transits that route, markets reacted swiftly to the prospect of sustained supply disruption.

President Trump's afternoon remarks pledging military protection for energy shipments helped temper the most acute fears, triggering a broad intraday rebound from session lows.

Sector Breakdown: Broad-Based Pressure

Risk appetite was notably fragile. All major S&P 500 sectors closed lower except financials. Materials and industrials led declines, reflecting their sensitivity to higher input costs and tighter financial conditions.

Large-cap technology names that had powered Monday's rebound—including NVIDIA—pulled back as investors trimmed exposure to high-multiple growth assets amid rising macro uncertainty. U.S. memory-chip stocks followed weakness in South Korean semiconductor peers, highlighting the global nature of the tech repricing.

Alternative asset managers also faced pressure. Shares of Blackstone fell after reports of significant net outflows from one of its private credit funds, amplifying concerns about liquidity in more opaque segments of the capital markets.

Interestingly, gold retreated after Monday's gains, suggesting that some investors opted to raise cash rather than rotate exclusively into traditional hedges. The CBOE Volatility Index remained elevated, reflecting continued demand for downside protection.

Europe Markets: Equities Close Deeply Lower as Energy Risk Escalates

European equities finished decisively lower on Tuesday, extending the global risk-off move amid the widening U.S.–Iran conflict, which heightened fears of sustained energy disruption and renewed inflationary pressure.

The STOXX Europe 600 closed down 3.2%, building on Monday's 1.6% decline and marking one of the most pronounced two-day pullbacks of the year. The selloff was broad and conviction-driven, reflecting a repricing of macro risk rather than sector-specific weakness.

Financials led to the downturn. Banking stocks fell 4.3% as investors reassessed growth expectations and credit conditions amid higher oil prices and rising inflation uncertainty. Insurance shares declined 3.6%, pressured by capital-market volatility and heightened geopolitical exposure. Utilities, often treated as defensive, dropped 4.4%, suggesting that rising bond yields and inflation expectations are overwhelming traditional safe-haven characteristics.

Even the STOXX Europe Aerospace & Defense index, which had outperformed earlier in the week, ended nearly 3% lower. The reversal underscores how quickly tactical positioning can unwind when volatility accelerates, and investors move to reduce overall risk exposure.

Travel and leisure shares fell roughly 2% as airspace closures across parts of the Middle East forced airlines worldwide to cancel thousands of flights. The operational disruption compounds already rising fuel costs, creating immediate margin pressure.

Country-level indices showed the same level of risk aversion. Germany's DAX and Italy's FTSE MIB posted some of the steepest declines, highlighting Europe's structural sensitivity to global trade flows and imported energy shocks.

At the center of investor concern remains crude oil. Prices climbed for a second consecutive session as fears intensified that the expanding conflict could disrupt production, infrastructure, and shipping lanes. Statements from Iranian officials regarding the closure of the Strait of Hormuz—through which roughly one-fifth of global crude supply transits—have significantly raised the geopolitical risk premium embedded in energy markets.

Cross-asset flows confirmed the defensive posture. Gold surged, the U.S. dollar strengthened, and both U.S. and Asian equities declined, reinforcing the global nature of the repricing.

In sum, European markets are adjusting to a higher-uncertainty regime driven by energy risks and spillovers from inflation. Whether this episode proves temporary or evolves into a more durable macro headwind will depend on the duration of supply disruption and the trajectory of escalation in the Gulf. Until clarity improves, volatility is likely to remain elevated, and risk premia sustained.

Energy Markets

Oil markets remain the central transmission channel of risk.

WTI crude has risen approximately \$10 per barrel since late last week, driven by supply disruptions tied to attacks on energy infrastructure and transportation constraints.

Of particular significance is the closure and rerouting of shipments through the **Strait of Hormuz**, a maritime chokepoint that facilitates roughly 20% of global oil flows. Delays affecting both crude and liquefied natural gas shipments have tightened near-term supply expectations.

While spot prices have reacted sharply, history suggests that sustained oil spikes typically require prolonged physical supply destruction rather than temporary transport dislocations. Markets are currently pricing a risk premium; whether that premium persists will depend on the duration and scope of disruption.

Fixed Income & Policy Expectations

Treasury yields moved higher for a second consecutive session, with the 10-year yield at 4.06%. The

rise appears to be driven primarily by higher inflation breakevens rather than real yields. Inflation expectations embedded in the Treasury Inflation-Protected Securities (TIPS) market have increased by roughly 10 basis points since late last week, reflecting the pass-through of higher energy prices into headline CPI.

Policy expectations have adjusted accordingly:

- Markets are now pricing **two Fed rate cuts later this year**, bringing the policy rate into a projected range of 3.00%–3.25%.
- No additional cuts are currently priced for next year.
- This trajectory remains modestly more accommodative than the Federal Reserve's own forward guidance, which anticipates a slower pace of easing.

In effect, bond markets are signaling a tension between slowing growth momentum and re-emerging inflation risk—a classic late-cycle crosscurrent.

GDPNow Update:

- The GDPNow for the first quarter of 2026 was updated today and remains unchanged at 3.00%.

Economic Data:

- **US Retail Gas Price:** rose to \$3.072, up from \$3.057 last week, up 0.49%.
- **Euro Area Money Supply M3:** rose to 17.34T, up from 17.21T last month.
- **Japan Consumer Confidence Index:** rose to 37.90, up from 37.20 last month.

Eurozone Summary:

- **Stoxx 600:** closed at 604.44, down 19.19 points or 3.08%.
- **FTSE 100:** closed at 10,484.13, down 295.98 points or 2.75%.
- **DAX Index:** closed at 23,790.65, down 847.35 points or 3.44%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 48,501.27, down 403.51 points or 0.83%.
- **S&P 500:** closed at 6,816.63, down 64.99 points or 0.94%.
- **Nasdaq Composite:** closed at 22,516.69, down 232.16 points or 1.02%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,083.14, up 51.77 Points or 1.28%
- **Birling Capital U.S. Bank Index:** closed at 8,571.25, up 37.60 Points or 0.44%.
- **U.S. Treasury 10-year note:** closed at 4.06%.
- **U.S. Treasury 2-year note:** closed at 3.51%.

GDPNow

First Quarter 2026

Date	GDPNow 1Q26	Change
2/20/2026	3.10%	Initial Forecast
2/24/2026	3.10%	0.00%
2/27/2026	3.00%	-3.23%
3/2/2026	3.00%	0.00%

US Retail Gas Price; Euro Area Money Supply M3 & Japan Consumer Confidence Index



	VAL
● US Retail Gas Price (I:USRGP)	3.072
● Euro Area Money Supply M3 (I:EAMSM3)	17.34T
● Japan Consumer Confidence Index (I:JPCCI)	37.90

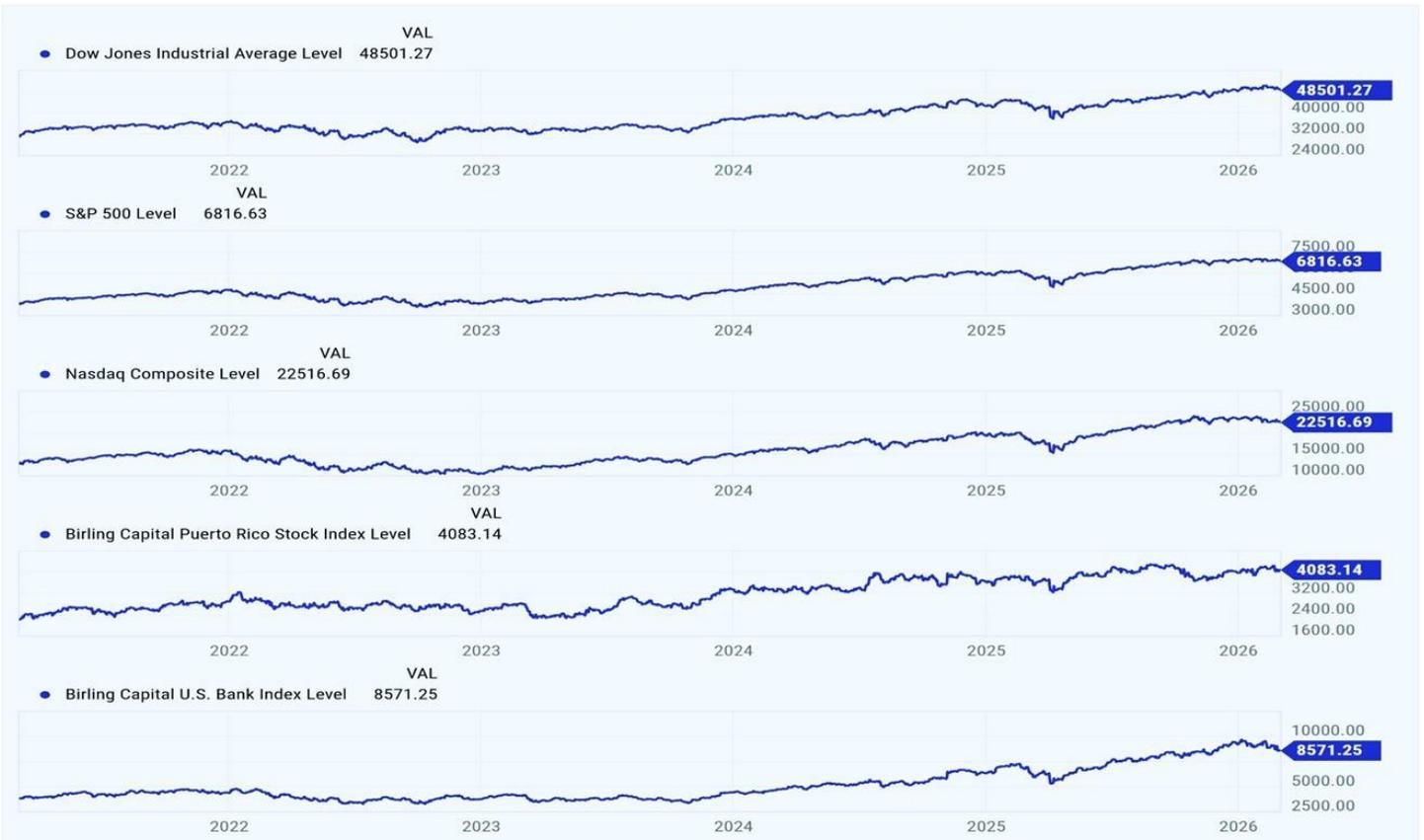




Wall Street Recap

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