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CAPITAL ADVISORS, LLC

# Think Strategically

## *The Price of Fire: What the Iran Conflict Means for Investors*

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**Straits close. Markets convulse. Central banks hedge their language. But beneath the noise, the fundamentals of a resilient economy endure — if you know where to look.**

### **This Is Not 1973 — And the Difference Is Everything**

The Iran conflict has sent oil markets into their largest disruption on record — and for the fourth consecutive week, it is rewriting the investment calculus for every serious participant in global markets. The understandable but misguided instinct is to reach for the nearest historical analogy. This is not 1973. The structural architecture of the American economy has been rebuilt since the Arab embargo: the United States is today a net exporter of oil, energy consumes barely a third of the household budget share it once did, and the productivity of every dollar of GDP has improved by roughly 70% since the original energy crisis. These are not minor distinctions. They are the difference between a shock that reshapes a generation and one that registers as a serious but manageable disruption — painful in the near term, consequential for positioning, but not the kind that breaks the economic cycle.

Our base case, assigned a 60% probability, envisions exactly that: a sharp, contained spike that moderates by year-end, one Federal Reserve rate cut delivered late in 2026, and an equity market that weathers the turbulence without surrendering its fundamental footing. The Federal Reserve, for its part, will hold — and hold it must, given five years of above-target inflation that have consumed much of its credibility latitude. The pressure valve is not oil prices themselves but inflation expectations: so long as long-term anchoring holds, the central bank retains its room to maneuver. The moment that changes, so does everything else. For investors, the fog of the current moment does not excuse inaction. It demands clarity of framework: energy and U.S. large-cap technology defend in a prolonged shock; small caps and international equities lead sharply when resolution comes. Duration is, in every sense, the variable that matters most — and it is the one no one can predict with confidence. We are watching it week by week.

### **Wall Street Losses Expand**

Weekly losses far outpaced headline averages: the Dow dropped 981 points, the S&P 500 fell 127.71 points, the Nasdaq lost 357.75 points, the Birling Puerto Rico Stock Index lost 56.06 points, and the Birling U.S. Bank Index gained 246.43 points. This broad-based sell-off of the key indices marked a decisive shift toward risk aversion as markets recalibrated to inflation, monetary policy, and geopolitical developments, a process in which abrupt moves rarely unfold in an orderly fashion.

Energy markets remained the epicenter of the volatility. West Texas Intermediate crude traded near \$100 per barrel while Brent moved above \$110 — levels not seen since 2022, and a return that reinforces every concern about a renewed energy-driven inflation cycle. The surge is directly tied to escalating tensions in

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the Middle East: the intensifying conflict between and Israel, reported strikes on critical energy infrastructure across the Persian Gulf, and the specter of sustained disruption at the Strait of Hormuz, the narrow passage through which roughly a fifth of the world's daily oil supply must travel. A chokepoint of that strategic consequence does not need to close entirely to move markets. The credible threat is sufficient.

Financial conditions tightened materially in parallel.

The U.S. 10-year Treasury yield climbed to 4.39% while the 2-year rose to 3.88%, a configuration that tells a clear story: bond markets are pricing in persistent inflation and a Federal Reserve that will not relent as quickly as equities once assumed. The rise in yields intensified pressure on equity valuations, particularly in growth-oriented sectors, where the duration of future cash flows makes them acutely sensitive to the discount rate. The result was an acceleration of the rotation already underway — away from growth, toward defense — that will likely continue so long as energy prices and yields remain at current levels.

## Fire in the Strait

History does not announce itself. It arrives through a narrow chokepoint — twenty-one miles at its tightest — where roughly a fifth of the world's daily oil supply transits in tankers that cannot afford to be wrong. The Strait of Hormuz has always been more than a shipping lane. It is a lever. And when someone grasps it, the entire global economy feels the pull.

Four weeks into the Iran conflict, markets are doing precisely what they are designed to do: price uncertainty. Brent crude has retested \$120 per barrel. WTI has pressed toward \$100. The S&P 500 recorded its first 5% pullback of the year. These are not irrational reactions. They are the arithmetic of scarcity meeting the psychology of fear — and the two have a long history of overshooting together.

The question that serious investors must answer is not *whether* this is disruptive. It plainly is — the largest interruption to global oil markets on record. The question is whether it is **transformative**. Whether it reshapes the trajectory of growth, inflation, and monetary policy in ways that persist beyond the headlines. On that question, the evidence is more reassuring than the news feed suggests.

## Crude Oil Snapshot

- **Brent Crude:** \$120 (near-term high)
- **West Texas Intermediate:** \$100 The U.S. benchmark
- **Energy / PCE Share:** ~2% (vs. ~6% in the 1970s)

## Why the 1970s Analogy Breaks Down

Every energy shock recalls 1973: gas lines, high inflation, and delayed Fed action. But while those inputs—oil disruption, inflation, instability—seem similar, the structures are now fundamentally different.

**Today's consumer feels less impact than in the early 1970s, when energy accounted for about 6% of personal spending.** Efficiency gains and a shift to services have lowered this to about 2%, making oil shocks less severe for household budgets.

**Since 2019, the U.S. has been a net oil exporter, reversing decades of dependence. American gas prices are shielded** from global turmoil, and domestic producers benefit from current events.

**The energy required per dollar of real GDP has fallen by nearly 70% since 1950, thanks to an information-based, efficient economy. This transformation makes oil shocks less damaging than in the past.**



## Weekly Market Close Comparison

Iran

Weekly Market Close Comparison	3/20/26	3/13/26	Return	YTD Return
Dow Jones Industrial Average	45,577.47	46,558.47	-2.11%	-5.17%
Standard & Poor's 500	6,506.48	6,632.19	-1.90%	-4.95%
Nasdaq Composite	21,747.61	22,105.36	-1.62%	-6.86%
Birling Puerto Rico Stock Index	3,925.46	3,981.52	-1.41%	-1.00%
Birling US Bank Index	8,212.04	7,965.61	3.09%	-10.28%
U.S. Treasury 10-Year Note	4.39%	4.28%	2.57%	4.77%
U.S. Treasury 2-Year Note	3.88%	3.73%	4.02%	11.81%

## Three Paths Forward

Intellectual honesty requires acknowledging what we do not know: the political trajectory of the conflict, the resilience of energy infrastructure, and the speed with which alternative supply can be mobilized. Rather than false precision, we offer three scenarios calibrated to the disruption's level and duration.

### Base Case: A 60% probability — Sharp but Contained

In our base case (60% probability), we expect WTI to trade in the \$90–\$100 range before likely moderating to \$70–\$80 by year-end. Headline inflation is projected to rise above 3% before easing in late 2026. U.S. economic growth should slow modestly but remain slightly below trend. We anticipate the Federal Reserve will deliver one rate cut late in the year. Large-cap U.S. equities are expected to outperform in the near term, while other segments may lag until volatility subsides.

### Downside: a 30% probability — Prolonged Oil Shock

Oil spikes above \$120 and remains elevated for several months. Inflation accelerates toward 4% through 2026. Growth decelerates materially; unemployment rises, but recession is avoided. The Fed holds in 2026, delivers multiple cuts in 2027. S&P 500 corrects 10–15%.

### Upside: a 10% probability— Rapid De-escalation

Oil has fallen toward \$70 over the past week as the conflict de-escalates. Brief inflation bump in March–April data; then a quick return to disinflation. The Fed cuts twice in H2 2026. Bond yields decline. Equities rally, with small caps and international stocks leading the way. The asymmetry is deliberate: the downside scenario carries three times the weight of the upside. Geopolitical conflicts do not resolve on optimistic timelines. History teaches that energy disruptions persist longer than markets initially price, and that the costs of underestimating duration are systematically higher than the costs of underestimating resolution speed.

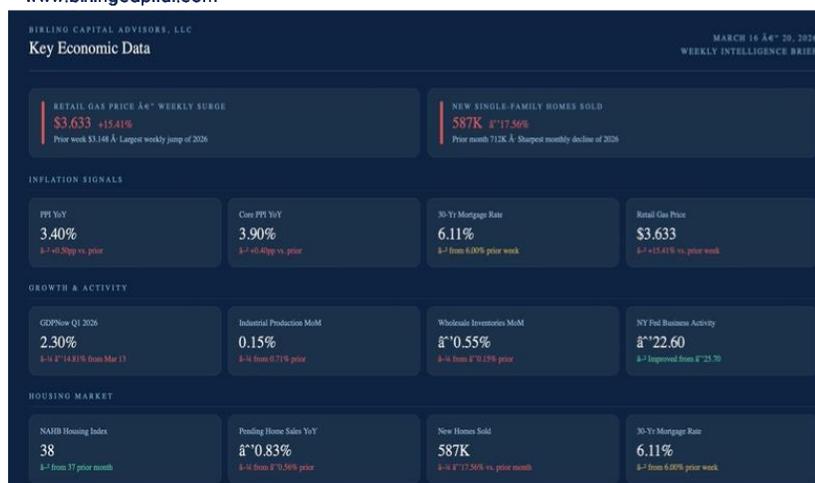
## The Fed's Uncomfortable Arithmetic

Central banking is rarely comfortable, but the current moment presents a particularly vexing dilemma. The Federal Reserve must weigh the upside inflation risk from an external energy shock against the downside labor-market risk driven by the economic drag that same shock produces. These forces pull in opposite directions, and the policy tool — the federal funds rate — cannot simultaneously address both. The historical playbook is to look through temporary energy-driven inflation and focus on underlying demand conditions. But having spent five consecutive years above target, the institution cannot afford to be perceived as dismissing an inflation signal, even one generated externally. The credibility earned in 2022–2024 is not infinite.



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## Key Economic Data March 16-20



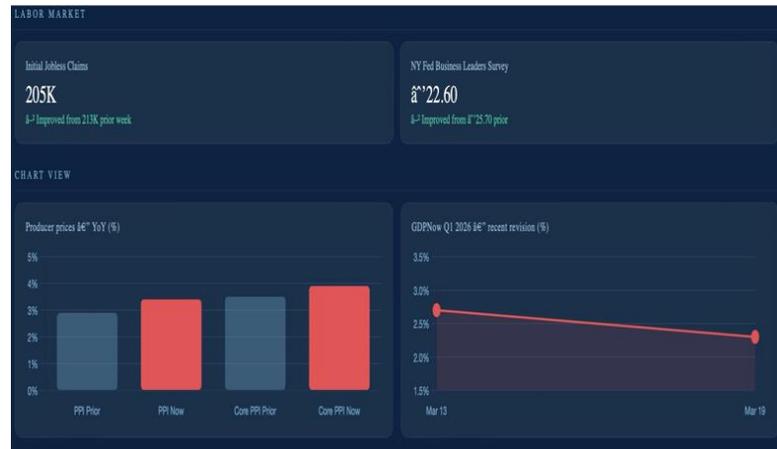
## What the March 2026 FOMC Meeting Revealed

- Rates held at 3.50–3.75%, as expected. Chair Powell cited uncertainty in the Middle East as the primary justification for a wait-and-see posture.
- The Dot plot still implies one cut in 2026 and one in 2027 — but with fewer participants in the two-or-more camp. The bond market has priced out cuts entirely for this year.
- Inflation forecast revised up to 2.7% for 2026; outer years unchanged, signaling policymakers expect the energy-driven boost to prove transient.
- Long-run GDP estimates revised higher — the AI productivity thesis is gaining traction inside the building, not just on Wall Street.
- Powell confirmed he will continue serving beyond his scheduled term if Kevin Warsh — Trump's designate — has not yet been confirmed by the Senate. Institutional continuity preserved, for now.



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The critical variable to track is not oil prices per se — it is **inflation expectations**. As of writing, the rise is concentrated in near-term measures while long-term expectations remain anchored. That distinction is everything. A central bank can ignore a short-term energy spike. It cannot ignore a de-anchoring of five-year inflation expectations without a severe loss of credibility.

## Where Capital Should Position Itself

The macro fog does not excuse inaction. Uncertainty is the permanent condition of investing; the question is always how to position for a range of outcomes rather than how to predict the one outcome that will materialize.

### If Oil Stays Elevated, Favor Defense Over Growth

Energy sector, U.S. large-cap equities, and technology — particularly AI infrastructure spending, which operates on its own demand logic independent of oil prices — offer relative defensiveness. Domestic orientation matters. Companies with pricing power and low exposure to energy costs outperform those without.

### If Tensions Ease, the Cyclicity Returns

Small caps, value, and international equities are the first movers in a de-escalation rally. These segments have absorbed disproportionate discounts during the shock. When the geopolitical premium compresses, the repricing is swift. Speed of positioning matters more than precision of timing.

On fixed income, we watch the 10-year Treasury yield. A move toward 4.5% would represent an attractive entry point for extending duration — not because we expect yields to fall immediately, but because that level compensates investors adequately for the remaining uncertainty.

A note on the fundamental cushion: this shock is arriving in an economy that entered 2026 in genuinely solid condition. Consumer disposable income has nearly doubled since the last period of comparable oil price stress. Household debt service ratios remain manageable. Unemployment, while softening at the margin, is still at historically low levels. The AI investment cycle provides a structural source of business

capital expenditure that is not oil-dependent. None of this is armor against a prolonged shock — but it is meaningful shock absorption.

***The Strait of Hormuz has always been a chokepoint of consequence. But chokepoints, by definition, can be navigated — with patience, with preparation, and with the discipline to distinguish between the fire of the moment and the structural condition that precedes and follows it. The investors who will look back on this period as an opportunity are the ones doing exactly that analysis right now.***

### The Final Word: The Fire and the Foundation

Fire is disorienting by design. It commands attention, narrows the field of vision, and compresses the time horizon of everyone standing near it. That is precisely what the Iran conflict is doing to global markets — and precisely why the investor who steps back, widens the frame, and asks the harder structural question will emerge from this period better positioned than the one who simply reacts to the temperature of the moment.

The Strait of Hormuz has closed before — in the mind of every trader, every risk manager, every central banker who has modeled the scenario. It has never closed, in fact. Not during the Arab embargo. Not during the Iran-Iraq War, when tankers ran the gauntlet for eight years, and the oil still moved. Not during the Gulf War, when the most concentrated military force in modern history assembled on its shores. Not during the post-2019 tanker incidents that briefly sent Brent above \$70, only to fade from memory within a quarter. The passage remains open because the economic logic of keeping it open is more powerful than any single political actor's incentive to shut it. That logic has not changed.

What has changed is the price the world is paying to be reminded of it.

Markets are not wrong to be afraid. They are wrong to confuse a recalibration with a rupture. The selloff is real. The yields are real. The \$120 Brent print is real. But the structural architecture beneath them — an America that exports oil rather than begs for it, a consumer whose energy burden has fallen by two-thirds since the last genuine crisis, a productivity base that has severed the old link between oil prices and economic paralysis — that architecture is also real, and it is not visible in the daily price tape.

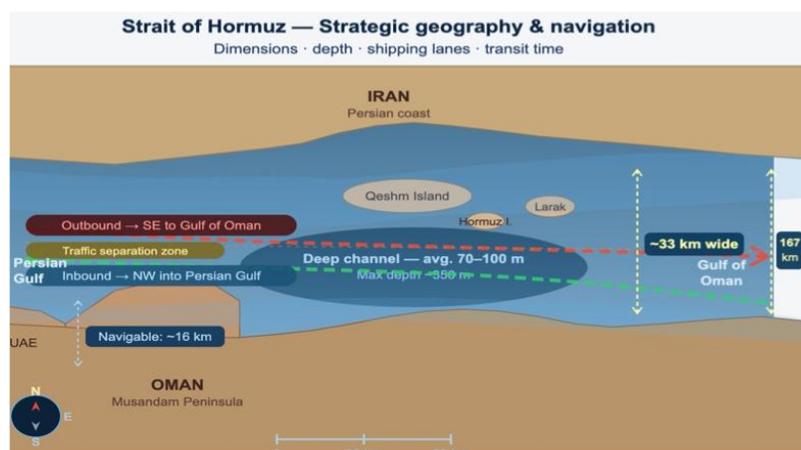
The 1970s produced stagflation because every structural condition of that era conspired to make stagflation inevitable: an oil-dependent economy with no domestic buffer, a Federal Reserve that had surrendered its credibility before the crisis began, and a geopolitical configuration in which the United States held no leverage over the producers who controlled its economic fate. Examine each of those conditions today. Not one of them holds in the same form. The ghost of 1973 is being invoked by people who look at oil prices rather than the economy behind them.

None of this is short-term comfort. The rotation toward defense is correct. The caution on duration is warranted. The attention to inflation expectations — the one variable that could genuinely change the calculus — is non-negotiable. But discipline in a fog is not paralysis. It is the refusal to mistake noise for signal, the commitment to act on a framework rather than fear, and the recognition that the investors who capture the recovery are rarely the ones who waited for certainty before moving.

The fire is real. The foundation is stronger than the fire suggests. And in every period of genuine geopolitical stress the past century has offered as evidence, the market has ultimately priced in resolution



## The Strait of Hormuz- Strategic Geography and Navigation



before it arrived. It will do so again. The only question worth answering now is whether your portfolio is built to be there when it does.

***“The global economy is simply less oil-intensive than it was during the original energy crises — and that difference is not marginal. It is the difference between a stress test and a structural collapse”.***  
— Francisco Rodríguez-Castro · Birling Capital Advisors



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