

Oil Shock and Iran Conflict Rattle Markets as Volatility Surges

Stocks endured a difficult week as a sharp surge in oil prices and escalating tensions between the U.S. and Iran weighed heavily on investor sentiment.



The S&P 500 declined 2.0% for the week, while the Nasdaq Composite fell 1.2% and the DJIA dropped 3.0%. Losses were even steeper across smaller companies, with the Russell 2000 falling 4.1% and the S&P Mid Cap 400 losing 4.6%, underscoring a clear risk-off tone across the market.

Geopolitical developments were the dominant driver of market action throughout the week. Conflict between the U.S., Israel, and Iran intensified following weekend strikes targeting senior Iranian leadership, triggering retaliatory attacks across the region and raising concerns about the security of global oil supply routes. Tanker traffic through the Strait of Hormuz slowed dramatically, and headlines throughout the week repeatedly moved markets as investors attempted to gauge the potential economic consequences. Crude oil prices ultimately surged \$23.80 per barrel, or 35.5%, to \$90.86, fueling fears that higher

energy costs could ripple through transportation, input prices, and ultimately inflation.

The spike in oil prices created a difficult backdrop for equities. While the energy sector managed to finish the week higher (+1.0%), most other sectors struggled as investors assessed the implications for corporate margins and monetary policy. Materials (-7.2%), health care (-4.6%), industrials (-4.1%), and consumer staples (-4.9%) were among the hardest hit groups, while utilities (-2.1%) and real estate (-2.3%) also retreated. Financials (-1.8%) and consumer discretionary (-1.4%) posted more moderate declines but still faced pressure amid the broader risk-off environment.

Technology-related areas held up comparatively well, helping to limit losses in the major indices. The information technology sector slipped just 0.4% for the week. Strength across software names was a notable theme, amid continued buying interest in select enterprise software companies. Semiconductor stocks, however, faced significant pressure, as investors reduced exposure to cyclical growth areas during the week's volatility.

Economic data releases added another layer of complexity to the market narrative.

Survey-based indicators early in the week showed continued expansion in both manufacturing and services activity, while the Federal Reserve's Beige Book pointed to expectations for slight to moderate economic growth across most districts. However, Friday's February employment report painted a more complicated picture. Nonfarm payrolls declined by 92,000 (Briefing.com consensus 60,000), while the unemployment rate ticked up to 4.4% from 4.3%. At the same time, average hourly earnings rose 0.4% (Briefing.com consensus 0.3%), highlighting persistent wage pressures. The combination of weakening job growth and firm wage inflation created a murky outlook for monetary policy, particularly against the backdrop of sharply rising energy prices.

Market volatility surged as the week progressed, reflecting the heightened uncertainty surrounding geopolitical developments and their potential economic fallout. The CBOE Volatility Index climbed 48.5% to 29.49, signaling a rapid increase in demand for downside protection. Meanwhile, sectors sensitive to higher fuel costs, including airlines, trucking, and cruise operators, experienced notable weakness as investors priced in the potential impact of sustained energy inflation.

Ultimately, the week illustrated how quickly geopolitical shocks can ripple through financial markets. The surge in oil prices and uncertainty surrounding the Iran conflict overshadowed otherwise solid economic readings earlier in the week, prompting broad selling pressure and a decisive shift toward defensive positioning. With inflation data due in the coming week and the energy shock unlikely to be reflected in those figures yet, investors will remain focused on geopolitical developments and oil prices as key drivers of market sentiment in the near term.

- Nasdaq Composite: -1.2% week-to-date
- S&P 500: -2.0% week-to-date
- DJIA: -3.0% week-to-date
- Russell 2000: -4.1% week-to-date
- S&P Mid Cap 400: -4.6% week-to-date

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