



A Market in Crisis Mode

Three forces every investor needs to understand right now.

If you have checked your portfolio lately and felt uneasy, you are not imagining things. Markets have been rattled by a convergence of events that would unsettle even the most seasoned investor. An active military conflict in the Middle East, stubbornly persistent inflation, and a once-in-a-generation shift in technology are all playing out simultaneously — and each one is affecting your investments. Here is what is happening and why it matters.

1. The Middle East Conflict & Your Energy Bills

On February 28, 2026, the United States and Israel launched coordinated military strikes against Iran. The retaliation that followed has partially shut down the Strait of Hormuz — the narrow waterway through which roughly 20% of the world's oil normally flows. The result has been one of the sharpest energy price spikes in modern history.

Brent crude oil, the global benchmark, surged from around \$70 per barrel before the conflict to peak above \$100. Gasoline prices at the pump in the U.S. climbed by more than \$0.40 per gallon within a single week. Natural gas prices in Europe, where storage was already historically low coming out of a harsh winter, nearly doubled. Fertilizer prices — largely tied to natural gas and Gulf shipping routes — jumped 35–40%, which will eventually show up in your grocery bills.

For everyday investors, the impact is direct. Energy stocks and defense-related equities have climbed while transportation, manufacturing, and consumer discretionary sectors have come under pressure. Broader stock markets sold off sharply in early March, with volatility measures hitting their highest levels over a year.

Key figure: A sustained \$30/barrel oil increase translates to roughly \$90 billion in lost annual consumer purchasing power in the U.S. alone (Moody's Analytics).

Watch for: Any developments at the Strait of Hormuz — even a partial reopening could quickly ease prices.

2. The Federal Reserve & Inflation — Back in the Hot Seat

Just when central bankers were beginning to claim victory over inflation, this energy shock has reset the clock. Before the conflict erupted, the Federal Reserve had been widely expected to cut interest rates at least twice in 2026. That expectation has largely evaporated.

U.S. inflation has been above the Fed's 2% target since 2021, and with oil prices surging, several major banks now forecast inflation running closer to 3% for 2026 — or higher. Goldman Sachs has raised its 12-month recession probability to 30% and expects the unemployment rate to edge up to 4.6% by year-end as higher costs slow hiring and consumer spending.

The Fed faces a difficult dilemma: raise rates to fight inflation, or hold steady to protect a labor market that is already softening? For now, it has chosen to hold. But if energy prices remain elevated through summer, the central bank may be forced to choose between two bad options. The European Central Bank faces an even sharper version of this problem, with Germany and Italy at risk of slipping into technical recession by the end of the year.

What this means practically: mortgage rates are likely to stay elevated longer than expected. Bond investors should brace for more volatility. And savers holding cash in high-yield accounts may benefit from rates staying higher for longer — one of the few silver linings in this environment.

Key figure: Inflation now expected at 3–3.5% in the U.S. through mid-2026, versus a pre-conflict forecast of ~2%.

Watch for: The Fed's next meeting and any revision to its rate-cut dot-plot projections.

3. Artificial Intelligence — The Economy's Wild Card

Amid the turbulence, one force continues to reshape the investment landscape in a more structural way: artificial intelligence. The AI buildout is no longer speculative — it is now driving record levels of corporate capital spending and producing measurable earnings growth, extending well beyond technology into banking, healthcare, logistics, and utilities.

However, the AI story is also creating a polarized market. There is a growing divide between companies that are successfully integrating AI to cut costs and boost productivity, and those that are falling further behind. This same dynamic is playing out at the household level, with higher-income, tech-adjacent workers benefiting most from AI-driven productivity gains while lower-wage workers face greater job displacement risk.

For investors, the challenge is avoiding overconcentration. The top AI-related names now account for a disproportionate share of major index returns. A broad market index fund gives you exposure to AI winners — but also to the companies most disrupted by it.

Key figure: AI-linked capex is tracking at record levels in 2026, with meaningful earnings contribution now visible across multiple sectors.

Watch for: Any signs of AI capex slowdown, regulatory headwinds, or a broadening of gains beyond the top-tier names.

The Bottom Line

These three forces — geopolitical energy shock, stubborn inflation, and the AI transformation — are not independent. Higher oil prices feed inflation; inflation

keeps interest rates up; higher rates slow the economy and compress valuations. Meanwhile, AI creates winners and losers within every sector. In this environment, diversification, patience, and a clear-eyed view of your risk tolerance matter more than ever. Knee-jerk reactions to daily headlines rarely serve long-term investors well. If you have questions about how your specific portfolio is positioned, now is an excellent time to revisit your financial plan.

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KARPUS
INVESTMENT
MANAGEMENT

Contacts

Information/Queries

183 Sully's Trail
Pittsford, New York 14534
Phone: 585 586 4680
Fax: 585 586 4315

Website

www.karpus.com

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