

March 23, 2026

Investors Huddle in Energy and Commodities Amid Uncertainty

The U.S. is now three weeks into the war with Iran, and the stock market remains unsettled. The usual centerpieces of war — the massing of troops on both sides and conflicts between armies — are almost completely absent in this war. Massed troops would be at risk from unmanned aerial vehicles (UAVs), which are the primary combatants in this war. Most though not all UAVs have been stopped by air defenses, and most successful strikes have damaged buildings rather than people. If nothing else, the Iran conflict may be a precursor of future wars in which troops are largely absent, and the war is mainly fought between armed drones.

The main event in the Iran conflict has been the near closure of the Strait of Hormuz. About 20% of the world's oil traverses the horseshoe-shaped strait, which is bordered on the north by Iran. Normally, 80 to 100 vessels pass through the strait every day. Recently, traffic has slowed to fewer than 10 ships per day, many of them Chinese flagged. The U.S. has acknowledged it is not yet ready to militarily safeguard shipping through the strait and is asking for multiple allied nations to send warships to the region.

In the latest news as of March 16, 2026, U.S. Treasury Secretary Scott Bessent stated that the U.S. was allowing Iranian tankers to pass through the strait in order to maintain global supply. We expect the news flow from Iran to remain fast and furious, potentially unsettling and reordering market sentiment multiple times a day.

Sector Concentration

With the Iranian conflict showing no signs of approaching resolution, U.S. stock investors are concentrating in just a handful of sectors perceived as well positioned amid uncertainty. Based on closing prices as of March 13, 2026, the Energy sector (XLE) is leading the market, with a 28.2% gain for the year to date. Every part of the Energy sector is up

in double digits, ranging from 18% for exploration & production companies to 38% for oil and gas refining & marketing.

Energy is sensitive to price trends: oil prices are up, so Energy stocks are up. But Energy was leading the market through the end of February, before the first shots were fired. Both Energy and Materials are seen as “wealth in the ground” hedges against inflationary pressures. The inflation news, both before and since the start of the Iran war, has been worrisome. That includes a 3.4% annual increase in the January 2026 Core Producer Price Index, issued late in February, and a 3.1% increase in the Core Personal Consumption Expenditures Price Index within January Personal Income and Outlays, released in mid-March.

The energy price shock has not been built into any inflation reports released to date. West Texas Intermediate and Brent Crude oil prices have risen more than 50% in the month between mid-February and mid-March. As of March 16, 2026, WTI was trading in the mid- to upper-\$90s per barrel, down about 2% from peaks exceeding \$100. The national average price for a gallon of gasoline in mid-March had risen about 24% since the start of the Iran war, according to AAA. Normally, gasoline prices reflect the level of crude prices with a four- to six-week lag. The jump in gasoline prices is not reflective of actual input costs but rather in anticipation of higher input costs.

Energy prices could still come down from current highs, as they did once investors determined that the Russian-Ukrainian conflict had not caused extensive damage to oil infrastructure in either country. If significant Saudi and Iranian oil infrastructure were to be damaged or destroyed, the trend in prices would be unlikely to reverse in the intermediate term.

(continued on next page)

ECONOMIC & MARKET COMMENTARY (CONT.)

The second-best sector year to date is Materials (XLB), which was up 12.6% as of mid-March. Materials is a diverse sector, and returns across the sector are highly dispersed. Commodity chemicals are up over 60%, whereas construction materials are down 14%. Fertilizers & agricultural chemicals, up about 30%, are soaring due to sensitivity to oil prices. Materials, which benefits from a weak U.S. dollar given that most commodities are priced in the U.S. currency, has even withstood the recent modest rebound in the dollar.

Although bonds would normally be a safe-haven trade in the early stages of global disruption, U.S. Treasury yields have risen in anticipation of worsening inflation related to energy price shocks. Utilities (XLU) usually strengthen on falling yields and weaken on rising yields. Although yields are clearly up, Utilities are up 10% year to date. Utilities are serving as a defensive investment, given their steady-state business in uncertain times and predictable income. Another defensive area, Consumer Staples (XLP), has given back some of its gain since the end of February but remains up 9% year to date. Agricultural products and food retail are leading Consumer Staples.

The rest of the U.S. stock market is struggling, including some sectors that were leading at the two-month mark. Industrial (XLI), up in high-single-digit percentages at the end of February, has retraced nearly all of its earlier gain. While aerospace & defense remains solidly positive year to date, Airlines are negative, as are multiple service-related niches.

One of the top three sectors in 2025, Financial (XLF) is now down in low-double digits. Every subcategory in the Financial sector is negative for 2026 to date. Consumer Discretionary (XLY), which did not have a great 2025, is down 7% in 2026. As the affordability crisis strains more budgets, the Consumer Discretionary sector is seeing double-digit declines in automobile manufacturers, casinos & gaming, footwear, and hotels, resorts, & cruise lines. Healthcare (XLV), positive as of the end of February after several challenging years, is now down 4% year to date, pulled lower by medical equipment and healthcare supplies.

The two best sectors in 2025 were Information Technology and Communication Services. In 2026 to date, Information Technology (XLK) is down 6%. Unlike in 2025, IT in 2026 is a feast-or-famine sector. Application software is down 23% year to date amid the “SaaSocalypse” caused by fear of AI displacement. Semiconductor capital equipment is up 24%. Semiconductors, which were up in double digits in mid-February, are now close to breakeven for the year. IT consulting, a persistent area of weakness in recent years as pandemic-era spending rolled off, is weak again in 2026 on fears of AI displacement.

Communication Services (XLC) is down about 3% year to date in 2026. Amid pressure on the AI giants such as Meta Platforms Inc. and Alphabet Inc. and in broadcasting and advertising, the old core of this sector -- telecom

services, wireless telecom, and even cable television -- are positive for the year to date.

The rotation away from growth leadership and toward defensive, cyclical, and inflation hedges began at mid-year 2025 and has strengthened across the subsequent nine months. While cyclical sectors such as Industrial have lost some of their luster, the sheltering in inflation hedges (Energy, Materials) and in defensive sectors (Utilities, Consumer Staples) has only intensified since the war began.

Conclusion

The conflict between Israel and the U.S. on one side and Iran on the other is far from total war. So far, Iran has directed its missiles and its drones at mainly military and commercial facilities in neighboring states that are friendly to the U.S. Iran has twice sent drones to attack the United Arab Emirates (UAE) oil shipment port of Fujairah but has held off on full-scale attacks. The Trump administration said it had “obliterated” Kharg Island, the loading point for Iran’s oil exports. After another spike in oil prices, the U.S. government clarified that it had attacked military assets but not energy infrastructure on the island.

Both sides are conducting the war surgically because the global and even domestic implications of destroying the region’s oil infrastructure would be more impactful than achieving victory for either side. Iran has lost control of the skies above its nation. The country’s new leadership knows that extensive drone and missile attacks on oil infrastructure in Saudi Arabia, the UAE, Kuwait, and Qatar would be met with the annihilation of Iran’s entire energy production, storage, and shipment infrastructure.

Immediately prior to the U.S. attacks, Iran was seeing the most extensive civil disruption in the history of the regime. If Iran were to lose its number one source of overseas and domestic revenue (half its production is consumed internally), the chances for regime change — currently minuscule — could increase significantly.

If the U.S. were to destroy Iran’s energy infrastructure, the victory would be Pyrrhic, meaning the cost of success would be far out of proportion to any benefits gained. The U.S. economy was already showing signs of weakness and resurgent inflation before the attack on Iran. If gasoline rises above \$4 per gallon and stays there, and if high oil feedstock costs drive up costs for areas such as automotive, airlines, agriculture, housing, and more, inflation could rise above 4% annually and gross domestic product could slip into negative territory. Those negatives would be hitting consumers and businesses in time for the U.S. midterm elections early in November.

We cautiously expect cooler heads to prevail in this conflict. At the same time, it is difficult to envision oil prices returning to prewar levels until the two sides agree to begin negotiations to end the conflict.

Jim Kelleher, CFA,
Director of Research

KEY ECONOMIC FORECASTS

- The \$31 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in AI and outsized spending by wealthy households. Nvidia CEO Jensen Huang estimated, in November, that \$3 - \$4 trillion will be spent on AI infrastructure in the next 5 years.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1% through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the potential labor force from an aging population and reduced immigration.
- The war in Iran is affecting millions of lives. Oil supply disruptions are an economic risk to affordability that companies and consumers have faced before.
- The U.S. economy is more resilient, more diversified and less oil dependent, but it is managing additional supply headwinds from tariffs and reduced immigration. This triumvirate could raise inflation, slow growth, and complicate Fed policy. Tax benefits and AI should help the economy.
- A simple rule of thumb: National gasoline prices above \$4.00 begin to hurt consumer spending.
- We are monitoring financial conditions and high-frequency indicators including Nowcasts and weekly job-less claims. We will adjust our 2026 forecast for 2.5% GDP growth if necessary.
- Argus expects S&P 500 EPS to rise almost 16% to \$315 in 2026 and increase about 15% to \$363 in 2027. EPS is helped by an increase in operating margins to about 18.0% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 60% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%, respectively.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to reduce the funds rate by 25 basis points in 2026 and by another 25 basis points in 2027 taking the target range to 3%-3.25%. We expect the dollar to be slightly stronger in 2026 as foreign demand for shares of innovative U.S. companies and economic resilience offset monetary easing.
- Gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached an all-time record above \$5,000 an ounce. We expect gold to trade in a range of \$4,000 - \$6,000 in 2026.
- Despite last year's economic-and-policy "uncertainty," the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is approximately 6.8%, well below the average of 9.2% since 1949.
- What could go right? Big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, inflation expectations remaining anchored, and ongoing innovation.
- Risks: Elevated Inflation, high fuel prices, weak housing market, low income consumers are struggling, spending by affluent may depend on stock market gains, AI may reduce entry-level hiring.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
12-Mar	Trade Balance	January	-\$72.9 Bln.	-\$55.0 Bln.	-\$65.9 Bln.	-\$54.5 Bln.
	Housing Starts	January	1,387K	1,300K	1,340K	1,487K
13-Mar	GDP Annualized QoQ	4Q "Second"	1.4%	1.4%	1.4%	0.7%
	GDP Price Index	4Q "Second"	3.6%	3.6%	3.6%	3.8%
	PCE Deflator	January	2.9%	2.8%	2.9%	2.8%
	PCE Core Deflator	January	3.0%	3.0%	3.0%	3.1%
	Personal Income	January	4.6%	4.5%	NA	4.4%
	Personal Spending	January	4.6%	4.9%	NA	5.3%
	Durable Goods Orders	January	12.8%	10.0%	NA	9.1%
	U. Michigan Sentiment	March	56.6	54.0	55.3	55.5
16-Mar	Industrial Production	February	2.3%	1.6%	NA	1.4%
	Capacity Utilization	February	76.3%	76.3%	76.5%	76.3%
18-Mar	PPI Final Demand	February	2.9%	2.8%	3.0%	3.4%
	PPI ex-Food & Energy	February	3.5%	3.5%	3.7%	3.9%
	Factory Orders	January	4.5%	5.5%	NA	4.4%
19-Mar	New Home Sales	January	745K	725K	725K	NA
	Leading Index	January	-0.2%	0.1%	-0.1%	NA
23-Mar	Construction Spending	January	-0.4%	0.2%	NA	NA
25-Mar	Import Price Index	February	-0.1	-0.1	NA	NA

Disclaimer

Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. In addition, this content is not prepared subject to Canadian disclosure requirements. This report is not an offer to sell or a solicitation of an offer to buy any security. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this report constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock. Argus Investors' Counsel (AIC), a portfolio management business based in New York, NY, is a customer of Argus Research Co. (ARC), also based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products. Recipients of the Research reports in Singapore should contact the Intermediary of the Research Reports in respect to any matters arising from, or in connection with, the analysis of the report. Where the recipient is not an accredited, expert or institutional investor as defined by the Securities and Futures Act, the Intermediary accepts legal responsibility for the contents of Research Reports in respect of such recipient in accordance with applicable law. When reports are distributed by Intermediaries in Singapore, the Intermediary, and not Argus Research, is solely responsible for ensuring that the recipients of the Research Reports understand the information contained in the Research Reports and that such information is suitable based on the customer's profile and investment objectives.

