

Macro Pulse for March 22

- Last week’s FOMC meeting revealed a Fed explicitly focused on downside risk to the labor market. Even considering the ongoing oil shock, we believe there remains a high bar for the Fed’s easing bias to be disrupted. More likely, in our view, is a delay of the 1-2 Fed cuts we expect for 2026.
- Chair Powell confirmed that he will not leave the Fed Board of Governors until the Justice Department investigation has ended. Though his term as Chair ends in May, Powell remains Chair *pro tem* until a new Chair is confirmed, and is also entitled to his non-Chair Board seat until January 2028. We believe it is likely the investigation will be resolved to allow for a timely transition to confirmation hearings for Kevin Warsh.
- Amid a quiet global data week ahead, the G7 foreign ministers will convene to focus on Iran. In today’s note we discuss the many global implications of an extended oil shock scenario.

Conflict in Iran: the Strait of Hormuz closure and wider economic shock

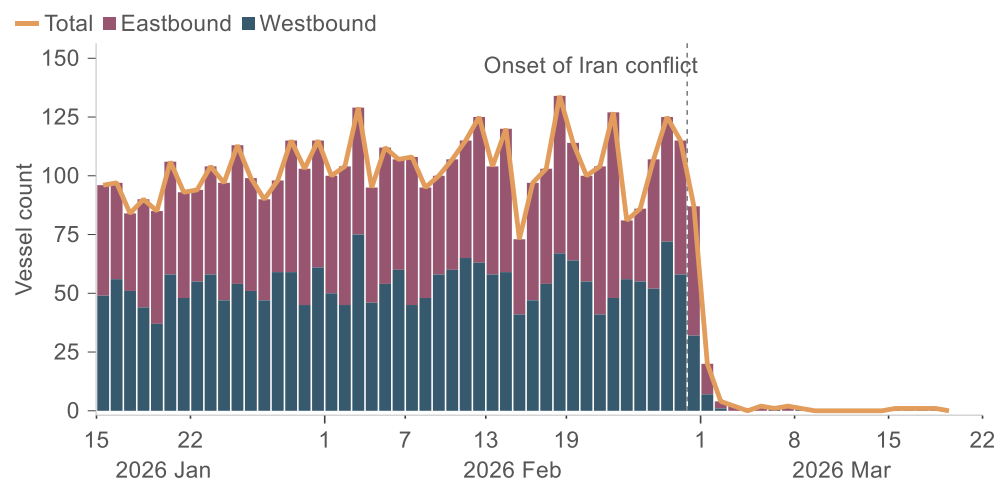
The U.S. conflict with Iran has become a wildcard for the global economy. Markets have remained relatively calm so far, but that calm will be tested by the duration of the conflict and the persistence of the energy shock. Crude oil has pulled back from an intraday peak near \$120, but prices above \$90/barrel are still high enough to pressure inflation expectations and market sentiment. The market is now focused on the Strait of Hormuz, a key global chokepoint, and the implications its closure could have on the U.S. economy and beyond.

The Strait of Hormuz: 24 miles with global reach

The conflict has effectively shut the Strait of Hormuz, the 24-mile passage between Iran and Oman that connects the Persian Gulf to the open ocean. Even without a formal blockade, the risk of a ship being struck, intentionally or unintentionally, is high enough to keep most commercial traffic out. Official data shows no tanker volume, even as some reports suggest a limited number of ships may still be getting through. Either way, flows are running far below normal for one of the world’s most important economic chokepoints, which normally accounts for roughly 20% of global oil and liquid natural gas (LNG) flows.

Strait of Hormuz traffic has ground to a halt

Total commercial vessel crossings through the Strait of Hormuz



Sources: New York Life Investment Management, Global Market Strategy, International Monetary Fund (IMF), Bloomberg, Macrobond, March 2026.

And this is not just an energy story. The Strait also sits in front of a meaningful share of global fertilizer exports. Countries exposed to disruption in and around the Gulf account for nearly half of global urea (fertilizer) exports, with Qatar and Saudi Arabia among the key suppliers to global agriculture markets. A prolonged disruption risks pushing fertilizer costs higher, with knock-on implications for food and broader agricultural goods. Aluminum and helium markets, both influential on industrial production costs, have also repriced due to the Strait's closure.

What the Strait closure could mean...

The closure of the Strait of Hormuz has implications well beyond oil. Below, we break out what it could mean for...

- ...the U.S. economy
- ...U.S. monetary policy
- ...U.S. policy levers
- ...global markets
- ...Iran
- ...China and great power politics
- ...portfolio strategy

...the U.S. economy

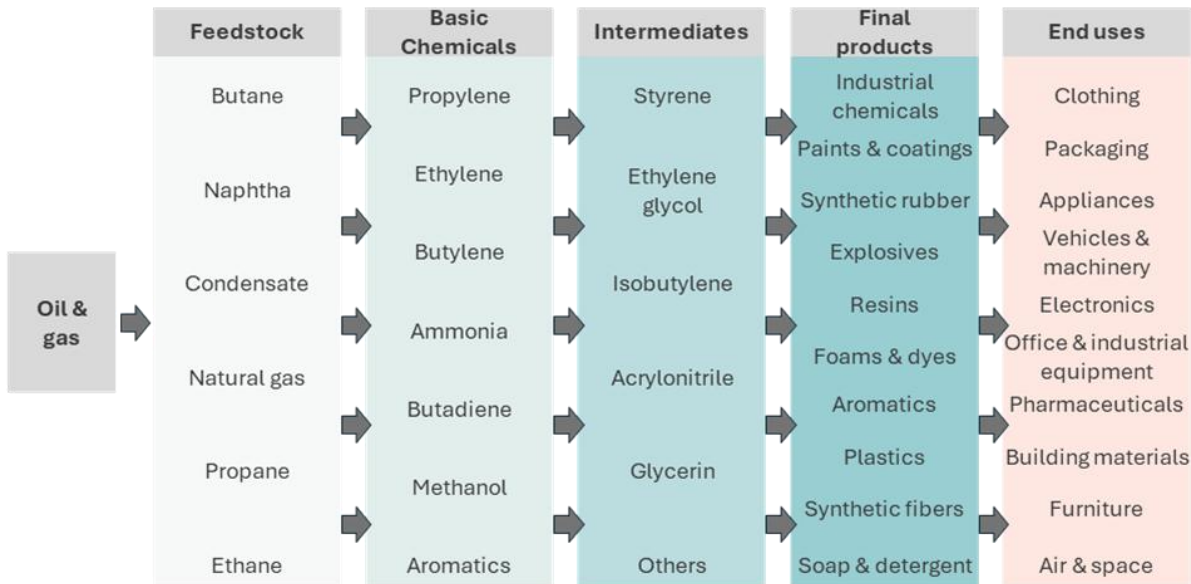
The U.S. economy is better positioned to withstand energy-related disruption today than it has been in past oil shocks. Two decades of shale oil growth have turned the country from a net energy importer into the world's largest energy producer and a slight exporter, which should help cushion the hit to GDP. The oil intensity of the U.S. economy has fallen over decades, meaning that each dollar of GDP requires less energy input than in previous energy price shocks.

But cushion is not the same as immunity. The 10-year Treasury yield has risen roughly 30 basis points since the onset of the conflict, driven by investors' expectations that higher energy costs could keep inflation elevated for a time.

It is also important to remember that oil shocks tend to be demand-negative, not just inflationary. Higher gasoline and energy prices act like a tax on consumers, reducing real purchasing power and crowding out spending elsewhere. A quick end to the war would help, but the longer the disruption lasts, the greater the risk that higher energy costs feed through more broadly. And the spillover does not stop at the pump. As the chart below shows, energy is a key input into a wide range of goods, from chemicals and synthetics to furniture and building materials. So, while the first-order shock is higher prices at the pump, the broader effect is likely slower real consumption and weaker growth.

The impact of oil and gas runs well beyond the pump

Petro chemical product flow chart



Sources: New York Life Investment Management, Global Market Strategy, U.S. Department of Energy, Oil and Gas Info, IHS, ICIS, NEB, March 2026.

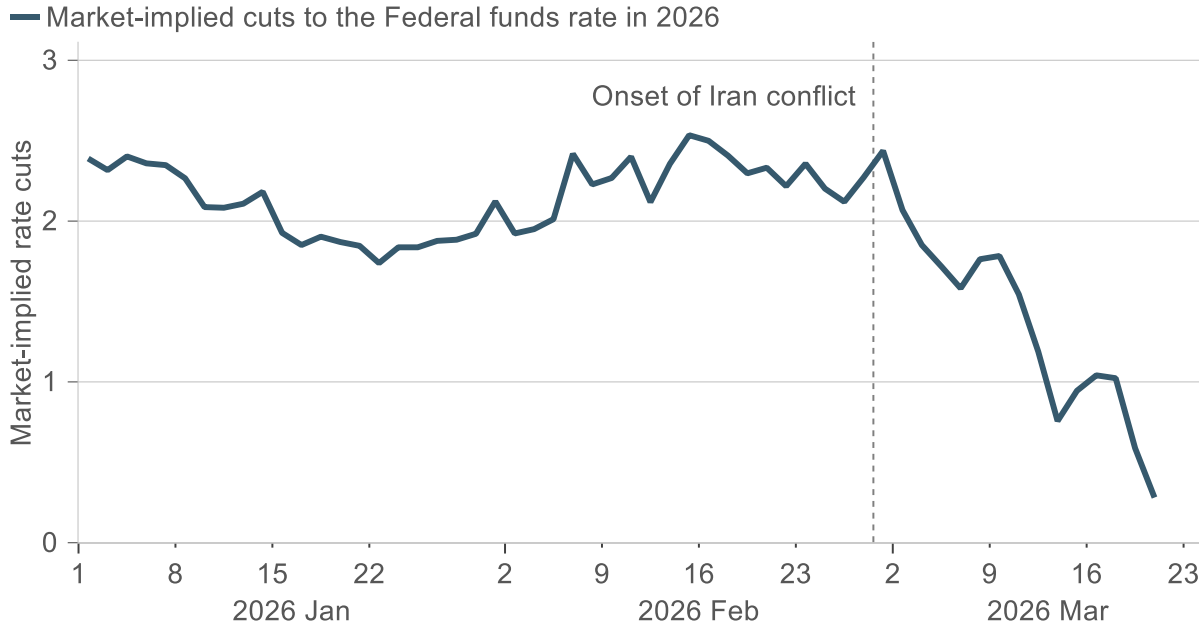
...U.S. monetary policy

The Fed is in a tough spot. In theory, central banks should look through supply shocks, as monetary policy can only impact the *demand* side of the economy. In practice, this is easier said than done. Cutting rates into an energy-driven rise in inflation would be uncomfortable for any inflation-targeting central bank, but so would hiking rates into slower growth.

This tension is already showing up in markets. Since the conflict began, the extent and timing of rate cut expectations has repriced materially, with markets moving from expecting roughly two cuts this year to no cuts at all.

Part of the hawkish adjustment may already be happening without the Fed needing to do much. Higher oil prices, tighter financial conditions, and a delay in market pricing are all doing some of the work for them. Our view is that the recent oil shock may delay cuts, not necessarily eliminate them. If the inflation hit proves temporary while growth risks build, the Fed could still ease later this year. For now, we continue to expect one to two cuts, but likely later than markets were expecting before the conflict.

Iran conflict is repricing the Fed outlook



...U.S. policy levers

Affordability is now a political issue as much as an energy issue. With gasoline prices rising and the midterms approaching, the administration has an incentive to use whatever levers it can to limit the pass-through to households. The near-term options are mostly about buying time: release more oil from the Strategic Petroleum Reserve as part of the coordinated IEA response, use temporary waivers to keep fuel and agricultural shipments moving, and selectively loosen sanctions where it would bring marginal oil or fertilizer supply to market, including from Venezuela.

Other strategies could help, but mostly at the margin. The administration has already announced a maritime reinsurance plan designed to keep war-risk insurance available, with coverage of up to roughly \$20 billion on a rolling basis. That is less about lowering prices directly than about keeping shipping and trade finance functioning. Another possibility is a temporary suspension of the federal gasoline tax, though that would require congressional approval and would only partly offset a much larger move in the price of oil.

More aggressive options include direct price controls or restrictions on U.S. oil exports. Nixon tried price controls in the 1970s, but their removal led to a massive inflation surge. Export restrictions, as well, would likely be viewed as a red line. Research from the EIA suggests export restrictions would do little to lower U.S. gasoline prices, and a move in that direction would risk encouraging resource nationalism elsewhere.

...global markets

Outside the U.S., the impact of higher energy prices is unlikely to be uniform. Higher energy prices are reviving inflation concerns across developed markets and, at the margin, making policy paths look more hawkish. But the bigger issue is exposure. The economic impact of the Iran conflict and any prolonged disruption in the Strait is

likely to vary meaningfully by country, depending on how reliant each economy is on imported energy in general, and Gulf energy and trade flows in particular.

Countries such as Japan, India, South Korea, and Taiwan face more acute pressure. Japan stands out: it is the world's most Gulf-dependent major oil importer, one of the largest LNG importers without a pipeline alternative, and a meaningful importer of Gulf fertilizer for its agricultural sector. A full shutdown of Persian Gulf flows would leave Japan especially exposed.

By contrast, several countries are better positioned to absorb a Gulf disruption, either because they produce more of their own energy, have more diversified supply, or hold larger strategic reserves. Those include the U.S., Canada, Russia, Norway, and Brazil.

Managing geopolitical exposures is a key focus of our geopolitical risk coverage. In a more contested global economy, diversification across regions is key to balancing global risks. Read more about our [geopolitics coverage here](#).

...Iran

We are not military strategists, but from our analysis of the conflict dynamics, Iran does not appear to be seeking a quick victory. Its strategy looks more like one of endurance: creating the potential for a long, costly, and regionally disruptive war. Iran has likely drawn lessons from Ukraine where a weaker state has survived against a stronger one by relying on asymmetric warfare, drones, missiles, and patience rather than battlefield dominance.

But Iran faces its own set of unique constraints. The risk for Iran is that a prolonged disruption to global shipping and energy flows raises the odds of an international response. That is what happened in the late 1980s, when attacks on Gulf shipping led the U.S. to escort Kuwaiti tankers through the Strait of Hormuz under Operation Earnest Will, with Britain and France also escorting their own flagged vessels. A similar response now would matter not just militarily, but strategically. If outside powers reopen the Strait, Iran loses one of the few tools it has to raise the cost of the war, i.e. turn energy disruption into political and economic pressure on its adversaries. Iran will likely seek to impose as much energy market pressure it can before it loses too much leverage.

...China and great power politics

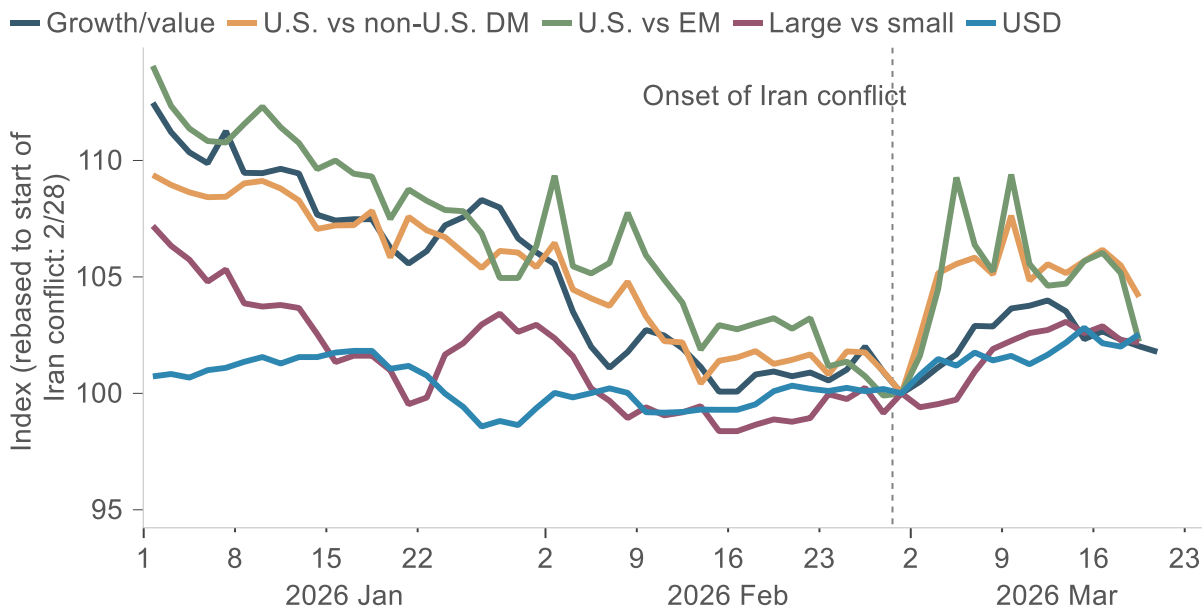
At the outset, we [published a separate note](#) laying out how we were interpreting the conflict. While much of the media focus was on the operational results of the U.S. intervention, our emphasis was on the rationale through the lens of the new U.S. security strategy and great power politics, a [backdrop we've been highlighting in our geopolitical coverage](#).

The postponement of the Trump-Xi meeting may make this framework more relevant. No new date has been set, but the conflict has already moved the Gulf, energy security, and critical minerals closer to the center of the relationship. That matters because it fits the great power politics backdrop we have been highlighting. We do not think Washington is openly trying to trade oil for rare earths (of which China is a major supplier) in a simple one-for-one sense as some commentators have speculated. But the conflict may still strengthen the U.S. position by raising China's exposure to Gulf energy at the same time Washington is pressing for better access to critical minerals and other strategic goods.

...portfolio strategy

At the beginning of this year, some new market trends were taking root: ex-U.S. equity, small caps, and value were outperforming, and the U.S. dollar was depreciating relatively. The Iran conflict has triggered a sharp reversal in these trends, while also lifting volatility across equities, rates, and energy. The chart below captures some of the clearest moves: U.S. equities outperforming non-U.S. equities, large caps outperforming small caps, growth outperforming value, and the U.S. dollar strengthening. These moves show that the traditional flight to safety mechanism – one that has been in doubt for well over a year, benefitting asset classes such as gold – is intact. Investors should be careful about assuming a full return to the pre-conflict regime.

The Iran conflict shifted market trends



Sources: New York Life Investment Management, Global Market Strategy, S&P Global, Intercontinental Exchange (ICE), U.S. Department of Treasury, Bloomberg, Macrobond, March 2026. Past performance is not a guarantee of future results. It is not possible to invest in an index.

As with the reset in global yields after the pandemic and Russia’s invasion of Ukraine, markets may begin to price a world where shipping, trade, and energy security carry a higher structural cost. The path and timing of any resolution remain highly uncertain, which means investors should be prepared for continued volatility and changing leadership. In our view, the right response is diversification: not making one big bet on how the conflict ends, but building portfolios that can absorb a wider range of outcomes.

In practice, that means balancing exposure across regions and avoiding overconcentration in any single macro regime. It may also mean leaning more deliberately into real assets, commodities, and the materials increasingly needed in a more contested world.



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