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# Economic Update

MARCH 2026

## Commentary

The war with Iran was largely an unexpected event that has caused significant volatility throughout the financial markets. As we are about to enter the fifth week of the conflict, there have been substantial price moves in several sectors. The stock market (as measured by the S&P 500) is down 7%, Treasury yields are 50 basis points higher, and gas prices at the pump are 33% higher. The ultimate economic impact will be determined by how long the conflict persists.

Currently, there seems to be no easy off-ramp to end the conflict. Iran has effectively shut down passage through the Strait of Hormuz. The passageway controls approximately 20% of the global oil supply and also has a significant impact on liquefied natural gas (LNG), fertilizer and other fossil fuel related products. This gives Iran a significant amount of bargaining power despite being largely neutralized militarily. The Trump Administration will want to declare a victory to justify the attack, but at this point it seems unlikely that regime change or a better nuclear deal can be reached without further escalation from the U.S. (troop deployment, bombing Iran's energy sites, etc.).

The immediate economic impact of the war is an energy price shock. Inflation was already stubbornly high before the attack, and this will only extend the timeframe where inflation remains above the Fed's 2% target. Consumer spending will be impacted as more resources will be directed towards energy consumption and away from discretionary items. If these events are short-term, we expect the Fed to remain on the sidelines for the next several months. If the war is prolonged, it will be hard for the Fed to ignore higher inflation prints. Inflation has been above the Fed's target for five consecutive years now. Given that long timeframe, the rationale that it's been elevated only due to temporary factors is harder to justify.

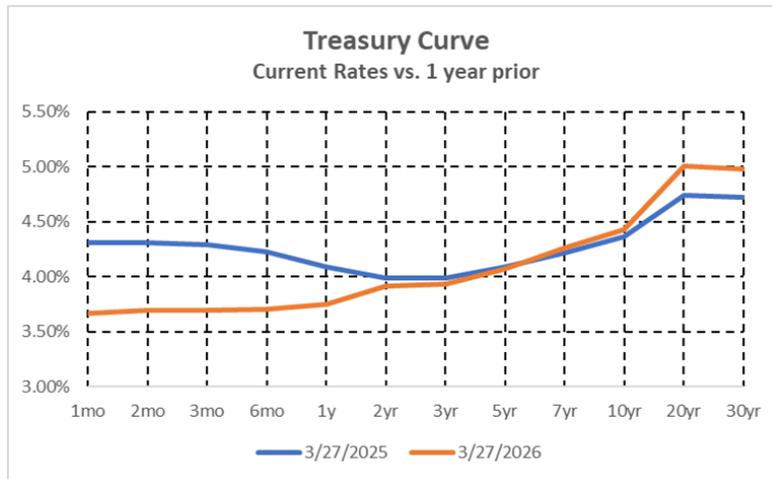
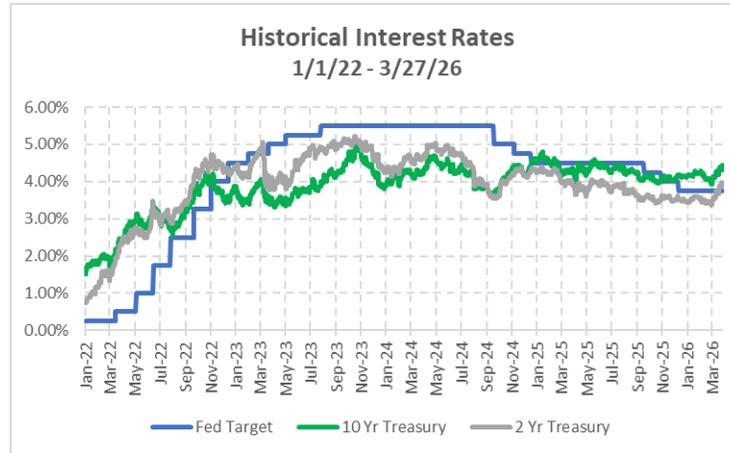
Potential Fed action is even more complicated by the impending change of the chairmanship. Kevin Warsh has been nominated, but his confirmation process will not proceed until the Justice Department's investigation into Jerome Powell is resolved (per Senator Tillis). At the Federal Open Market Committee (FOMC) meeting this month, Powell stated that he is going to stay on at the Fed until his case is resolved "with transparency and finality." There is an increasing chance that a new chair will not be in place when Powell's term expires in May. If that's the case, Powell believes that he would remain as temporary board chair. That would likely be challenged by the Trump Administration as there has been precedent where an interim board chair was appointed by the president.

## THIS MONTH

- COMMENTARY
- FIXED INCOME OUTLOOK
- LABOR READINGS
- INFLATION READINGS
- CONSUMER READINGS

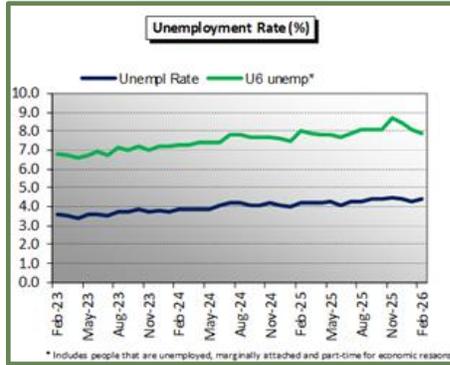
### Fixed Income Outlook

Treasury rates moved significantly higher during March due to the Iran conflict. The market has shifted from expecting two rate cuts in 2026 to now pricing in one Fed hike by the end of the year. The March FOMC meeting was largely uneventful. Their economic projections were updated, and they showed an increase in growth and inflation from December’s projections. They still project one Fed cut this year. We think that the bar is high to move in either direction, but a quick resolution in Iran would turn the focus back to the labor market, which remains relatively weak. We still believe that the next Fed move is a rate cut.



**Labor Readings**

(Data source: Bloomberg)



**Unemployment Rate Ticks Higher**

The unemployment rate in February increased to 4.4% from 4.3% the prior month. The market was expecting the rate to remain unchanged. The unemployment rate has largely moved sideways since September due to an uneasy balance of low labor supply and demand.

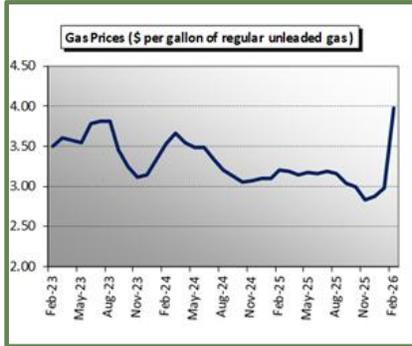


**Weak Payroll Report**

Payrolls fell by 92,000 jobs in February versus an expected gain of 55,000 jobs. In addition, the previous two months were revised downwards by 69,000 jobs. Some of the downside was due to temporary factors (striking healthcare workers and bad weather), but there was a wide array of industries that cut jobs during the month.

## Inflation Readings

(Data source: Bloomberg)



### Gasoline Prices Soar Higher

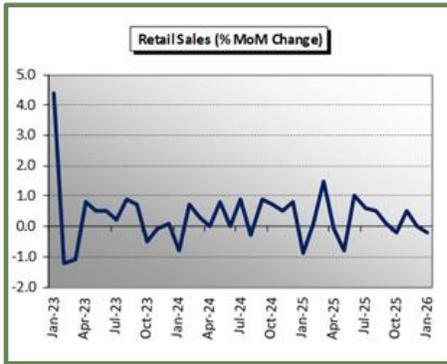
The Middle East conflict and the resulting closure of the Strait of Hormuz have caused a spike in oil prices. Gasoline prices in the U.S. are up 33% since the end of February and at their highest level since August 2022.



### Consumer Inflation Remains Unchanged

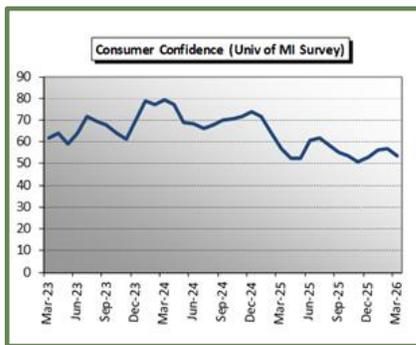
Consumer inflation in February was unchanged from the prior month and in line with expectations. Lower prices for used cars and car insurance helped keep overall price changes relatively tame. Core inflation is running at the lowest pace in almost five years. February's data does not include the impacts of the war with Iran, which has boosted oil, gas and fertilizer prices.

**Consumer Readings**  
 (Data source: Bloomberg)



**Consumer Spending Weak Again**

Consumer spending in January decreased from the prior month. Spending declined .2% versus an unchanged expectation. At least part of the weakness was due to weather disruptions as there was significant snowfall in the central and eastern regions during the month. Most economists expect a bounceback next month on higher auto sales and increased spending due to tax refunds.



**Consumer Confidence Declines**

Consumer confidence fell to a three-month low in March as near-term inflation expectations rose to 3.8% from 3.4% the prior month. Year-ahead gas price expectations increased to the highest level in almost four years.