

Good morning,

What's in this week's Report:

- Three Market Problems, Three Indicators to Watch
- Weekly Market Preview: De-escalation or Not?
- Weekly Economic Cheat Sheet: FOMC Decision the Key Event
- Four Technical Similarities to March 2025

Futures are modestly higher after several tankers transited the Strait of Hormuz over the weekend, raising hopes the key oil route could reopen.

Rhetoric from both sides continues to downplay the chances of near-term negotiations, while reports say the U.S. may form a coalition to escort ships through the Strait.

There were no notable economic reports overnight.

Today's focus will be on Empire Manufacturing, Industrial Production (E: 0.1%), and the NAHB Housing Market Index (E: 37). Markets will want to see stable growth data as investors monitor oil prices.

Beyond the data, the Treasury will auction 3 & 6-Month Bills at 11:30 a.m. ET, while earnings today include DLTR (\$2.53) and BEKE (\$0.07).

Market	Level	Change	% Change
S&P 500 Futures	6,748.00	62.25	0.93%
U.S. Dollar (DXY)	99.68	-0.42	-0.42%
Gold	5,023.41	-38.29	-0.76%
WTI	95.66	-1.18	-1.22%
10 Year	4.237%	-0.048	-1.12%

Stocks

Last Week (Needed Context as We Start a New Week)

Stocks whipsawed last week as the U.S.-Iran war continued to roil global markets, sending oil prices to multi-year highs, rekindling inflation worries, and bolstering both the dollar and bond yields. The S&P 500 fell 1.56% last week.

The market gapped sharply lower last Monday with the S&P 500 quickly plunging to support at 6,650 as U.S.-Israel military strikes on Iran intensified over the weekend, with Tehran's main oil depot destroyed by U.S. strikes. President Trump's comment that the war was "pretty much complete" sparked a late-day squeeze, sending the S&P 500 higher by 0.83%.

Equities initially extended Monday's rally on Tuesday as oil retreated into the \$80s amid the IEA's call for an extraordinary meeting to discuss releasing G7 emergency oil reserves. News that a tanker had been successfully escorted through the Strait of Hormuz sent stocks to session highs before the headline was debunked, leaving the S&P 500 to close down 0.21%.

Volatility showed signs of subsiding on Wednesday as oil held below \$90/barrel, February CPI met expectations, and ORCL delivered impressive earnings and guidance. The S&P 500 traded near 6,800 into midmorning until reports of intensifying Iranian strikes on neighboring Gulf nations, paired with an FBI warning about Iranian drone threats against the U.S. West Coast, turned the market lower. The S&P 500 ended down a slight 0.08%.

Steady selling resumed Thursday amid deteriorating headlines as Energy Secretary Wright reiterated naval escorts through the Strait of Hormuz were not an option "for now." At the same time, Iran attacked two more ships near the chokepoint. Hawkish money flows that sent Treasury yields to multi-month highs, partially on strong labor market data, further weighed on stocks, with the S&P 500 ending on the lows, down a steep 1.52%.

Stocks initially jumped on Friday as the headline PCE came in on the cool side, JOLTS surprised to the upside, and sanctions relief for Russian oil exports alongside an SPR release helped ease inflation worries. However, Core PCE holding steady at 3.1% and a disappointing Consumer Sentiment print weighed heavily on the market, sparking a second straight day of methodical selling that saw the S&P 500 end on the lows, down 0.61%.

3 Market Headwinds, 3 Indicators to Watch

The S&P 500 dropped moderately last week, thanks mostly to the lack of de-escalation in the U.S./Iran war, which sent oil prices sharply higher. The ongoing conflict now adds a third headwind to this market, joining private credit concerns and AI anxiety. Importantly, while media coverage is rightly focused mostly on the war, all three pose risks to the rally, so we need to monitor them simultaneously.

To that point, I want to update the state of each and identify a singular indicator we can watch to "tell" us if the situation is getting better or worse.

Headwind 1: U.S./Iran War. Indicator: Oil prices. The market is trading inversely to oil prices, and the higher oil prices go above \$100/bbl, the lower the market will go in the short term. Importantly, oil above \$100/bbl isn't automatically a bearish game-changer, but it is a clear headwind in the near term, and the sooner oil can decline back towards \$80/bbl or lower, the better for this market.

Headwind 2: Private credit concerns. Indicator: Baa Credit Spreads. Private credit concerns continued to rise last week as more firms limited redemptions and large brokerages such as JPMorgan took action, writing down some software loans. At the same time, Morgan Stanley halted redemptions at a flagship private credit fund. Reflecting this increased stress, the Baa Credit spread has now risen to the highest level since May 2025. However, it remains below the 2.0% level that would imply escalating concerns (which remains an important level to watch).

Headwind 3: AI Anxiety. Indicator to Watch: IGV (iShares Expanded Tech-Software Sector ETF). AI anxiety has "paused" for the past few weeks as the other two headwinds have stolen the spotlight, while earnings from some important tech companies (ORCL, AVGO, and ADBE) were better than feared.

However, the two underlying concerns with AI, namely that 1) Hundreds of billions in capex won't have a strong ROI and 2) that AI may eliminate entire important sectors (e.g., software), haven't been reduced. Bottom line, this market is facing elevated risks, but none of these headwinds are bearish gamechangers. In fact, each of them (especially the war) could be removed any day and cause a sharp rebound.

Economic Data (What You Need to Know in Plain English)

Last Week

Data last week gave investors more insight into growth and inflation, and the numbers didn't provide any substantial surprises: they didn't materially calm bubbling stagflation worries, but they didn't validate them, either.

The main focus last week was on inflation, as we received the two largest inflation reports for the month: CPI and the Core PCE Price Index. February CPI met expectations, both on the headline and core readings, as low inflation in shelter and used cars helped to offset other elevated price pressures. February CPI, which does not reflect the jump in energy prices following the war, rose 0.3% m/m and 2.4% y/y, which are relatively benign readings. The Core PCE Price Index also met expectations, but it showed a 0.4% m/m increase and a 3.1% y/y increase. The Core PCE Price Index is the Fed's preferred measure of inflation, and the lower weight of housing and shelter is helping to keep this number elevated. Bottom line, inflation isn't a "problem" according to this latest data. Still, it's not trending in a way that would make the Fed inclined to cut rates anytime soon, especially with higher oil prices and geopolitical uncertainty.

The net impact of the inflation data was to slightly push out the date of the first Fed rate cut, which is now either September or December (later than June, which had been the market's expectation for much of 2026).

Looking at the labor market, weekly jobless claims remained low at 213k, and they importantly pushed back against the negative reading on the labor market from the February jobs report. Bottom line, if the labor market were suddenly deteriorating, we'd expect claims to be (much) higher than 213k.

Goldilocks economic data won't stop markets from reacting to higher oil prices, but it will limit the absolute declines, so investors should want solid data and tame inflation. Conversely, if economic data begins to roll over, that removes a valuation "floor" from this market and opens up more significant downside. Thankfully, that's not happening (the economic data is mostly fine), but it's a major risk to markets, and we're watching it closely and will continue to do so.

Important Economic Data This Week

This week will be busy with growth, inflation, and expected Fed rate cuts, and given geopolitical uncertainty and higher oil prices, this market needs some good news to continue "hold on."

The key event this week comes Wednesday via the FOMC decision. Now, there's no chance that the Fed cuts interest rates at Wednesday's meeting. What will make it hawkish (negative) or dovish (positive) for markets is how and when the Fed signals it will cut rates again. The spike in oil prices has led to a reduction in expected rates, as the date of the first cut is now September, while markets only think there will be one rate cut (instead of the prior two). However, those are longer-term projections, and they will change if oil drops.

Bottom line: via the dot projections (updated at this meeting), the FOMC statement, and the press conference, markets should have a good idea of how much the war is impacting the Fed. From a market standpoint, the sooner the Fed signals a rate cut is coming, the better it is for markets.

Looking at the growth data this week, the reports come today and Thursday via the first look at March economic activity. Empire Manufacturing (today) and Philly (Thursday) are volatile and only regional measures, but they have been strong lately. And given geopolitical and other headwinds, markets will want to see continued stability in the data (so, no major declines in the indices). Additionally, given inflation concerns, benign price indices in both will be welcomed by investors. Conversely, if we see a stagflation reading of 1) Suddenly weaker growth and 2) Rising price indices, that will add to stagflation worries.

The other two notable reports this week are Wednesday's PPI (out before the Fed decision) and Thursday's jobless claims. Inflation remains in focus, and we could see the impact of higher oil prices in the PPI report, so that a better-than-expected number will be a plus for markets.

Finally, turning to jobless claims, given the soft February jobs report, investors will be very sensitive to any increase that confirms that weak reading. Markets will not want to see claims rise sharply towards 250k or higher, as a move above that level would imply deterioration in the labor market and increase stagflation anxiety, which would weigh further on stocks.

Bottom line, this is an important week for Fed rate-cut expectations, growth, and inflation. To help support markets, investors will want to see 1) A Fed that confirms rate cuts are still coming, 2) solid Growth and not showing any signs of sudden deterioration, and 3) Stable inflation that pushes back on stagflation worries.

Special Reports and Editorial

Four Technical Similarities to March 2025

"Markets don't repeat themselves, but they often rhyme" is an old Wall Street adage that seems more than fitting for the current technical backdrop of the stock market. I say that because the S&P 500's price action is currently "rhyming" very closely with that of early 2025, with four specific and measurable technical dynamics in play that critically preceded last spring's heavy selloff.

- First, the S&P 500 is poised to notch a second consecutive close below its 13-week moving average, which has importantly just rolled over and begun trending lower for the first time since early last year.
- Second, the index has just traded into the current-situation target range for March, just as it did with the comparable range in early March 2025.
- Third, following a prolonged bearish divergence between the S&P 500's price and its weekly RSI, characterized by higher-highs in the outright index level but lower-highs in weekly RSI, the weekly RSI reading has now fallen below 50, highlighting that bearish momentum is building.
- Fourth, the S&P 500's level relative to the VIX has dropped to a multi-quarter low, underscoring an elevated volatility complex and risk-off money flows amid increasingly heavy price action in the broad stock market.

Whether these dynamics lead to another washout decline like 2025 remains to be seen, but one thing is clear right now: the technical setup is in place. As such, this headline-driven market warrants close attention as the threat of a 20-25% correction in the S&P 500 is as high as it has been in almost exactly a year.

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