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# Markets After the Bombing Stops...

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By:

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## Markets After the Bombing Stops...

*By Steven Wieting and David Bailin*

### **Uncertainty Drives Volatility. There are Reasons to See Through It**

On Monday, March 9, the global crude oil price vacillated by an astonishing 43% with futures contracts ranging from as high as \$119.50 per barrel to as low as \$83.66. This incredibly wide range for oil is a reflection of the unknown security status of the 35-mile-wide seaway between Iran and Oman through which 20% of world crude oil exports pass (The Straits of Hormuz). It is also a reflection of the nature of fast-consumed commodities.

If oil prices remained at either recent highs or lows, the discrepancy in value could make a difference in the pace of global growth. It would certainly drive a different set of economic winners and losers across the world.

Oil is at the very heart of the global economy. If all crude oil production and trade in the US were to cease, crude oil inventories would supply just 20 days of US consumption at the present pace. The US economy alone consumes 7.5 billion barrels of crude oil each year. “Just in time” commercial inventories are about 440 million barrels. The US Strategic Petroleum Reserve is 415 million barrels.

But US and other major producers are not about to reduce production. Gulf countries and others are incentivized to produce more and find alternative shipping options, such as Saudi Arabia’s Petrolina, a pipeline that crosses the country west to the Red Sea and allows another route of passage for Saudi crude.

In a highly controversial move, the US temporarily greenlighted the purchase of Russian oil that’s already at sea. The one-month authorization allowing importers to buy Russian oil applies to 124 million barrels that were loaded onto ships on or before March 12. This drew swift and broad criticism from NATO members and both sides of the aisle in the US.

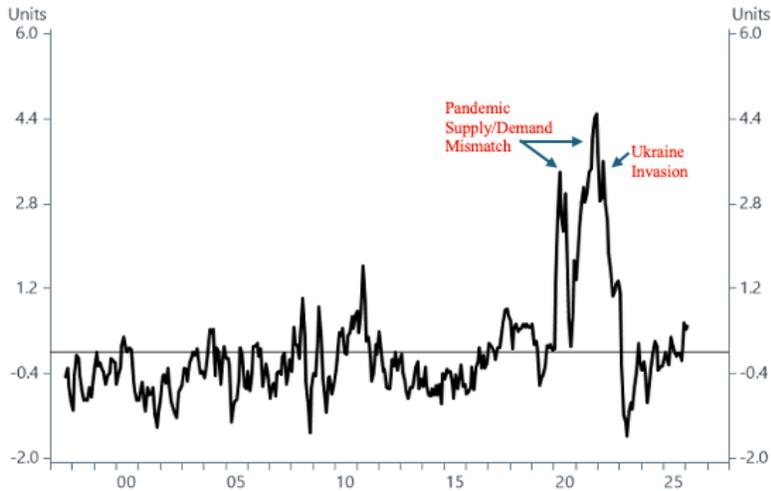
### **This is Not a Shortage of Oil, It is a Logistics Issue With Deep Consequences**

Investors need to understand that the reason oil prices are spiking is not about a shortage of the commodity, but a shortage of storage and safe passage. Producers in the Middle East that can’t move oil through the Straits of Hormuz have run out of storage close to their oil fields. They “shut in” rather than “shutdown” their production. As with the pandemic, a backup in shipping for all types of goods trade is underway. This time, however, it is not accompanied by massive demand swings driven by pandemic life-style adjustments and stimulus (Figure 1).

Despite seeing no present end point for the conflict, we remain of the opinion that the crude oil price will plunge once seaborne trade security is re-established. This also assumes that the major oil producers of the Middle East do not suffer lasting production declines from Iranian strikes (Figure 2).

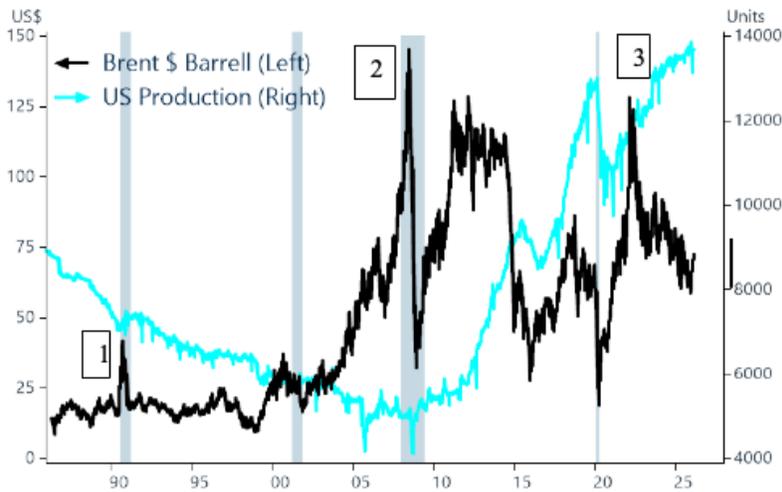


Figure 1 - New York Fed Global Supply Chain Pressure Index



Source: CIO Group, Haver Analytics

Figure 2 - History Shows Crude Oil Prices Overshoot Early in Crisis (or even before)



Source: CIO Group, Haver Analytics

Notes: 1) First Gulf War 1990-1991 2) US oil production bottom 3) Russia Invade Ukraine

Source: CIO Group, Haver Analytics



## Equity Market Tremors

As of March 13, the US equity market has lost just 5.0% from its record high. US equity implied volatility, measured by the VIX index, hasn't shown a closing level above 30. Options volatility – a measure of both fear and hedging costs - is about 20% below the highs reached during the Russian invasion of Ukraine and the first Gulf War in 1990/1991.

Losses have been widely dispersed across asset classes and industry sectors over the first two weeks of the war. Our measure of “breadth of losses” in industry sectors rose above 70% as of March 6 (see Figure 3). This has only occurred eight times over the past twenty years.

Following these rare, highly correlated declines, US equity returns were higher one year later in 7 of 8 cases, with the one exception that occurred early in the Global Financial Crisis. This is a somewhat higher ratio of positive returns than on average. (Note: the average one-year ahead S&P 500 return in the 8 cases was an “ordinary” 11.8%.)

## Longer Term: Market Fortitude and Someday Peace

The mild reaction to the Iran War in equity and credit markets – measured in depth, not breadth – suggests investors may have “gotten our message” from [last week's Point](#). Measuring 21 geopolitical shocks since World War II, fewer than 10% of conflicts have catalyzed a change in direction for the US or World economy. On average, global asset prices have shrugged off major shocks in just a month's time.

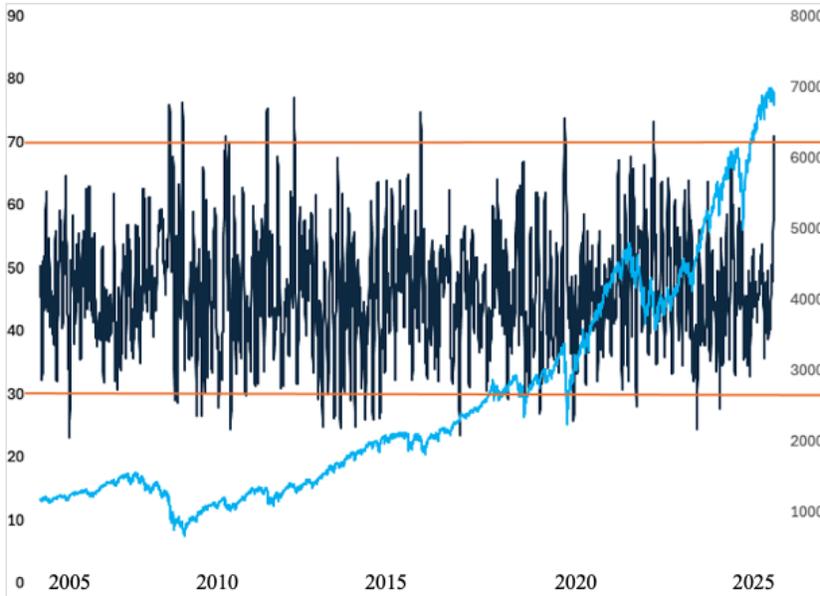
As we've discussed in our Outlook for 2026, we continue to expect a double-digit increase in US corporate profits in 2026. But it is also the case that markets have not seen a large dislocation from the Iran shock. Cyclical shares from industrial machinery to discretionary leisure and travel have not seen severe pullbacks (see Figure 4). All this is happening as the [US labor market is slowing](#). This suggests that the forward return opportunity remains ordinary, but positive.



## Two Sector Opportunities

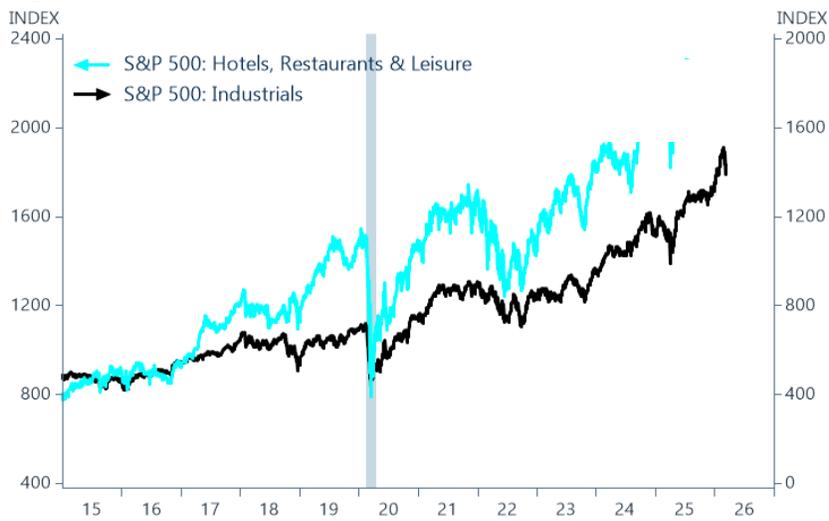
There are two dislocations in equity markets that look likely to provide greater opportunity for patient investors.

Figure 3 - Negative correlation Spikes to Rare 70% of S&P 500 Sectors



Source: CIO Group, Haver Analytics

Figure 4 - What Hasn't Corrected? Most Consumer and Industrial Cyclicals



Source: CIO Group, Haver Analytics



## Software

The War in Iran has only temporarily displaced headlines about the impact from AI on markets. In particular, software remains front and center in the minds of investors - [see recent memo](#).

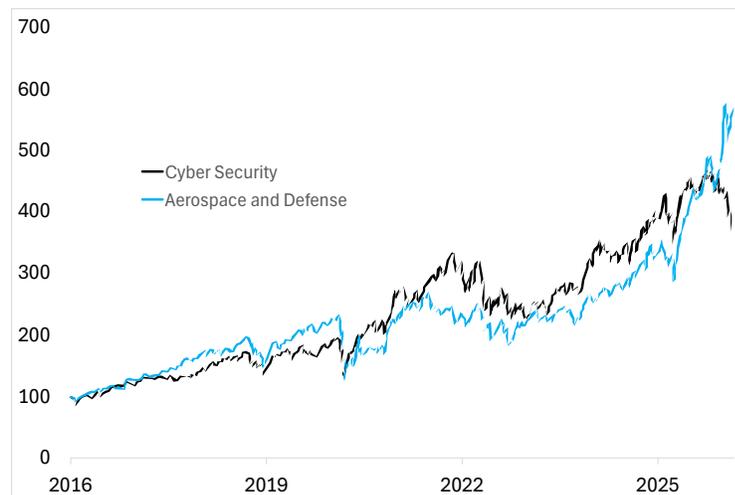
After the recent Anthropic-led shock of AI work tools and agents that could eliminate some software, labor, and the labor-linked software, the industry group has deeply underperformed. Its 12-month return lags the S&P 500 by 19 percentage points despite expected EPS gains equal to the S&P 500.

[As we noted two weeks ago](#), this is the deepest sector underperformance vs hardware since the tech bubble peak of 2000. At that time, the internet buildout fueled massive excesses in communications equipment spending. In 2026, the outlook for AI infrastructure spending is both rapid and well-funded.

While there are sure to be some major providers who will face huge challenges in the software sector, the idea that the whole of an industry is a loser seems overwrought. Our current portfolios hold positions in the leading semiconductor shares even as we focus attention on actively managing concentration risks in idiosyncratic positions, including the world's most valuable company, Nvidia (Market cap \$4.5 trillion). We also remain invested in software, with an emphasis on subsectors that may benefit from changes in market and demand dynamics.

As an example, we do not believe governments and enterprises will outsource their cyber-security defenses to their AI agents. Defense and cyber-security have moved in tandem for the past decade and remain highly integrated across many applications (Figure 5). Yet the leading cyber-security software providers have suffered year-to-date declines of 10% while aerospace and defense shares have surged 17%. We have overweighted both groups during most of the past year and their fundamentals remain attractive. We suspect the return outlook from today's value is stronger for cyber-security.

*Figure 5 - Cyber-Security vs Aerospace and Defense Share Price Indices*



Source: CIO Group, Bloomberg, Haver Analytics



## Private Equity's Equity Shares

The recent rush for the exits by retail investors in evergreen private credit funds has been headline business news, with some pundits implying that it signals the beginning of a wider financial crisis. Further, the root of private credit concerns are the exposure of lenders to the software industry.

The combined impact of AI and private credit fear has been a source of extraordinary weakness for the high-beta equities of private asset managers. Shares of Blue Owl, a diversified private-credit and GP stakes business, have fallen below their IPO price of 2021, down about 65% from their peak.

Financials are higher beta assets. Private asset managers are even more so. The broad private asset industry boomed in the easy credit years of 2020-2021 and again in the later years of the Biden administration. This was when it seemed as though US regulators would stay focused solely on insured banks, giving private asset managers a structural competitive advantage. Broader sentiment toward deregulation during the Trump administration reduced the advantages held by private equity companies causing their shares to underperform banks significantly in 2025.

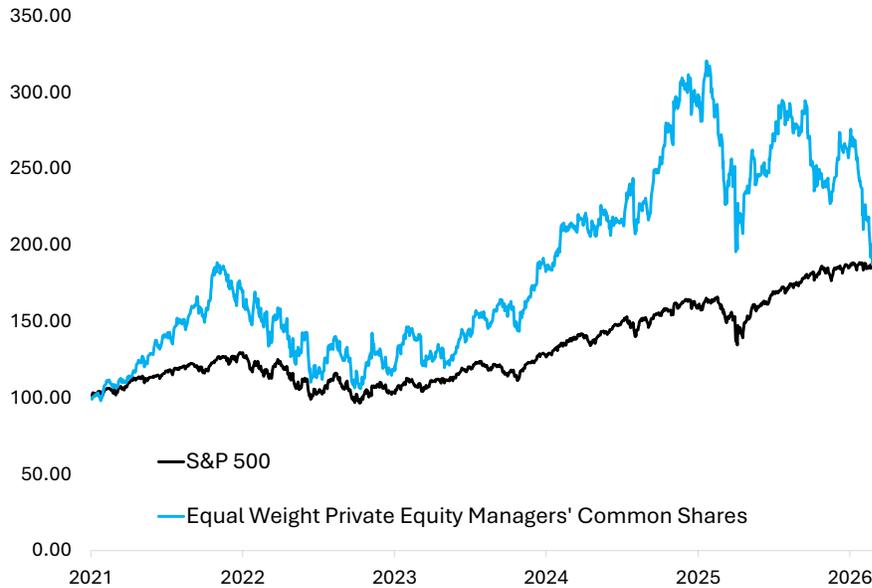
The recent performance of the largest private equity and credit managers ignore the long term advantages they maintain. They can benefit as lenders and as owners of equity when firms go public. And they earn high investment fees that are likely to be maintained even while the valuations of the holdings of their funds are under stress.

The largest, major PE shares have now fallen 44% from their early 2025 peak. At today's levels, we believe their return profile is positive and even brightening. Solid returns from today's levels seems likely if a global recession is avoided, even if regulated banks and other financials compete more effectively.

While we are not ready to advocate a position for all investor portfolios, for those who are tempted to scale into private market assets, we would point out that the public equities of the largest private asset managers have outperformed their own investment products over the past decade (see Figure 7). Investing as a general partner, rather than limited partner, maintains market liquidity. In fact, we believe the public shares of PE firms may become reasonable "alternative to alternative investments".



Figure 6 - Large Private Equity/Credit Managers vs S&P 500



Source: CIO Group, Bloomberg, Haver Analytics

Figure 7 - Large Private Equity/Credit Managers vs S&P 500

	5 Largest PE	PSP (All Public PE)	S&P 500	Preqin Private Equity Median
Annualized %				
Price	15.8%	1.7%	12.7%	
TR	20.8%	7.5%	14.7%	15.2% / 12.5% Incl. Cash Drag <sup>1</sup>

Source: CIO Group, Bloomberg, Preqin, Haver Analytics

<sup>1</sup> Net returns includes impact of cash drag on uninvested capital for set aside for capital calls. Assumes 5-year capital deployment period with 20% of total investment called per year during the deployment period



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