

Volatility, Oil, and the Fed: What Matters Now

by John E. Chapman

Markets have entered a more challenging phase following one of the longest uninterrupted runs above key technical support levels in recent memory. After 214 sessions trading above its 200-day moving average, the S&P 500 broke below this critical level on March 19th, closing the week at 6,506 before bouncing above 6,550 this week. While modest gains offered some relief, the index remains precariously positioned below its 200-day moving average of approximately 6,625, marking the fourth consecutive weekly decline and signaling a potential shift in market psychology from offense to defense.

This technical breakdown doesn't occur in a vacuum. The catalyst has been the escalating conflict with Iran, now in its fourth week, with no clear resolution. Iran's closure of the Strait of Hormuz has disrupted roughly 20% of global oil supplies in what the International Energy Agency calls "the greatest global energy security challenge in history." Oil prices spiked above \$110 per barrel before retreating to about \$100 for Brent crude. The VIX volatility index remains elevated at 26.10, well above the sub-20 readings typical of calm markets, reflecting heightened uncertainty about both geopolitical developments and their economic consequences.

The Fed's Dilemma

The Federal Reserve finds itself navigating an increasingly complex environment. At its March meeting, the FOMC held rates steady at 3.50%-3.75% and signaled just one rate cut for 2026, far fewer than originally expected. Chair Powell raised the Fed's inflation forecast to 2.7% for 2026 from 2.4% in December, acknowledging that the path back to the 2% target has become more difficult. Interestingly, the Fed also raised its economic growth projections, citing confidence in productivity gains from AI investment and in improved longer-run potential growth, raising it from 1.8% to 2.0%.

Yet markets sold off following the meeting. Why? Because oil, not the dot plot, has become the dominant variable. The risk of sustained elevated energy prices is forcing the Fed to hold rates higher for longer and has overshadowed the committee's improved growth outlook. Market-implied probabilities of a Fed rate hike later this year jumped to 30% from just 6% before the Iran conflict escalated, a remarkable shift that underscores how quickly the narrative can change.

What Happens Next?

Breaking below the 200-day moving average historically signals a shift in market psychology, though it doesn't automatically predict a bear market. Historically, many technical breakdowns have been followed by periods of consolidation and eventual new highs. The key differentiator is whether fundamental conditions support recovery or confirm the breakdown. Current conditions present a mixed picture.

On the positive side, underlying economic fundamentals remain reasonably solid. First quarter earnings growth is tracking toward 11.6% year-over-year for the S&P 500, with full-year projections still in the 14-15% range. The economy appears to be headed for 2.4% real GDP growth, employment remains resilient, and corporate America continues demonstrating pricing power and margin expansion. These are not the conditions of a looming recession.

For the stock market, the challenges are clear. If the S&P 500 remains below its 200-day average through month-end, we would expect increased defensive positioning as technical traders shift to a “sell the rip” mentality, in which rallies become opportunities to reduce exposure rather than add risk. Market breadth has deteriorated significantly, with only 39% of S&P 500 stocks currently trading above their 50-day moving averages, indicating concentration in a narrow group of leaders and thinning participation in the rally.

The strategists we follow closely (including Ed Yardeni, Tom Lee, Jeremy Siegel, and BlackRock’s Rick Rieder) maintain constructive year-end targets in the 7,300 to 7,700 range despite expecting continued near-term volatility. However, several warn of potential 15-20% corrections before any sustained move higher. This suggests the current weakness may have further to run before finding a durable bottom.

Portfolio Positioning for Uncertainty

Our approach in this environment emphasizes quality, diversification, and patient discipline. We’re maintaining diversified exposure while exercising heightened attention to risk management and position sizing. Companies with strong balance sheets, reliable cash flows, and pricing power are likely to be better positioned to weather continued volatility than highly levered or speculative names.

Quality fixed income at current yields presents attractive income opportunities before anticipated Fed rate cuts later this year drive yields lower.

Perhaps most importantly, this environment rewards patience and the discipline to use weakness as an opportunity rather than react with panic. Markets that break technical support often overshoot to the downside before stabilizing, creating entry points for patient capital. Volatility is the price we pay for equity returns, and periods like this make clear the distinction between long-term wealth accumulation and short-term speculation.

The Path Forward

The duration of the Iran conflict remains the critical unknown. A resolution in the coming weeks would likely see oil prices retreat toward \$70-80 per barrel, providing significant relief to inflation pressures and market sentiment. An extended closure measured in months would have far more serious implications for global growth. We’re monitoring developments closely and will make tactical adjustments as conditions evolve; however, we urge investors to resist panic reactions to short-term headline volatility.

The technical damage has been done, and we should expect elevated volatility to persist in the near term. This said, the secular bull market’s foundation of solid earnings growth, improving productivity, eventual Fed easing, and reasonable valuations outside the mega-cap technology concentration remains intact. Our focus remains on positioning portfolios for the next leg of long-term wealth creation while appropriately managing downside risk.

As always, please reach out with any questions or concerns. Market volatility can test an investor’s resolve; however, it’s precisely during these periods that a disciplined strategy matters most.

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