

Week in review and ahead (vol.10-26)



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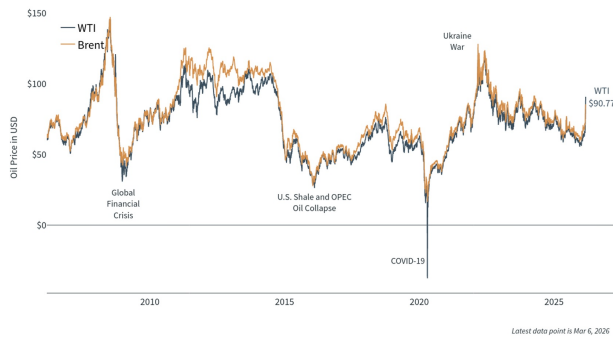
Week in review

Markets for risk assets globally declined significantly as the war with Iran entered its 2nd week with much of the region's nations now embroiled in the conflict, severely impacting and threatening critical energy resources, infrastructure, and supply for the global economy. While the loss of US servicemen and innocent human life in the war is the most profound consequence of the conflict, oil price developments reflect the economic risks for the global economy. For the week, since the war began, price for Brent crude increased nearly 18%, closing above \$92 for the first time since November'22. Considering the week leading up to the conflict, prices have now increased in excess of 40%.

Domestically, non-farm payrolls ("NFP") for February stunned markets with job losses for the month, challenging the notion that the labor market in the US had stabilized. In a week where US macroeconomic data was otherwise strong, the disappointing NFP report may certainly influence the Fed's actions on monetary policy, as focus was increasingly shifting towards its inflation mandate. While the job losses represent only a single data point, and the unemployment rate rising just marginally to 4.4% from 4.3%, the possible emergence of additional downside risks to the Fed's full-employment mandate comes at a particularly delicate moment, with higher oil prices simultaneously reinforcing upside risks on inflation. As such, volatility as measured with Cboe's VIX rose to 29.5, a level last reached in Apr'25.

Global Oil Prices

WTI and Brent Crude



Latest data point is Mar 6, 2026

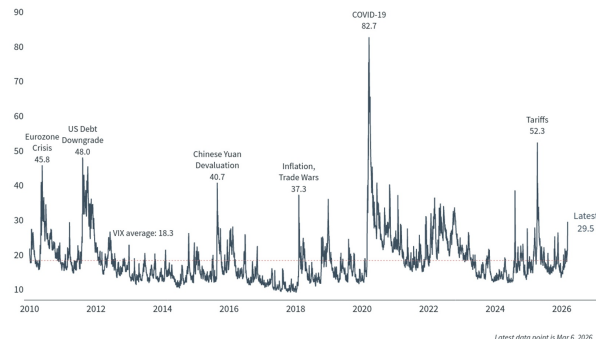
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week alone, however, it is still down more than 14% for the year. This continues a trend of significant sectorial price movements that have played out particularly in February that saw declines in certain sectorial segments of 20% or more on AI displacement fears. For the moment, it seems that these fears are being shrugged off, likely on the notion that the selloff may have gone too far and that displacement risks may vary among Companies in the (software) sectors, impacting by those selloffs.

Internationally, all major markets posted losses on the week on geopolitical risks with China’s losses being somewhat moderated, declining by -0.9% for the week. In Asia, markets in South Korea and Japan recorded an incredible volatile week after rallying to new all-time highs just the week prior. South Korea’s Kospi declined nearly 10% for the week, while Japan’s Nikkei saw losses of -5.5%. Volatility in South Korea was notable, with the index loosing more than 11% on Wednesday before rebounding the day later, however, dropping into technical correction territory in a matter of days. In Europe, France’s Cac-40 was the loss leader declining -6.8%, followed by Germany’s DAX loss of -6.7%. The UK’s FTSE declined by 5.7%% for the week.

Stock Market Volatility

CBOE VIX Index



Latest data point is Mar 6, 2026

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For the week, all major indices in the US declined with the Russell-2000 declining - 4.1%, followed by the Dow Jones and S&P500, declining -3.0% and -2.0%, respectively. The decline in the S&P500 was driven by losses in all sectors but for energy, gaining +1% on the week, and the tech sector overall declining (somewhat moderately) by -0.4%. The Nasdaq Composite saw less of a decline than other indices of -1.2% for the week, driven by rotation into software and cybersecurity stocks that saw steep selloffs in prior weeks on AI displacement fears. The iShares expanded tech-software sector ETF, IGV, rose more than 9% this past

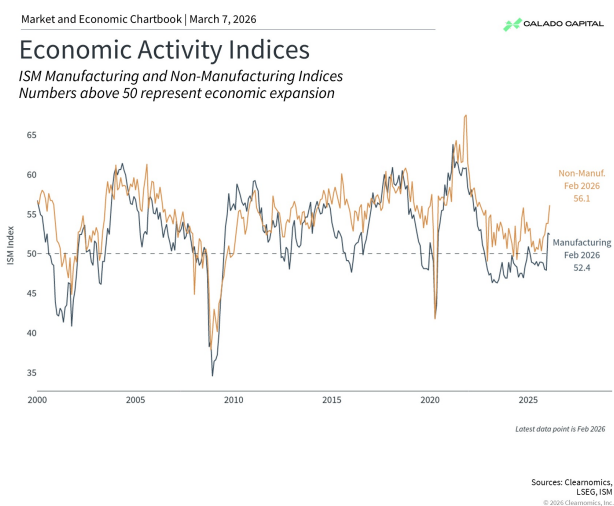
Week in review - US macroeconomics

Aside from the disappointing NFP report, broader macroeconomic data continued to signal a resilient economy. Readings on the state of the overall economy continued to signal strong growth as reported by ISM. Productivity gains also remained above historical averages for a second consecutive quarter. These trends may reflect the early impact of AI adoption, which could pose short- to mid-term challenges for the labor market. With respect to the state of the consumer, the (continuing) delayed retail sales report for January saw a modest decline in headline of -0.2% on a month-over-month basis compared to estimates of -0.4% and

unchanged previously. For core retail sales, change was flat as expected and mirrored December.

According to ISM, the manufacturing sector expanded for the second consecutive month with a 52.4% reading compared to estimates of 51.6%, and 52.6% previously. Expansion continues to be driven by new orders, production, and supplier deliveries, or three of the five subindexes while readings for all were sequentially lower, or a slower rate of change. Employment and inventories remained in contraction albeit the pace (of contraction) continued to slow somewhat for both with the former seeing a reading of 48.8% compared to 48.1% previously. Prices paid in the manufacturing sector appear to be re-accelerating faster with readings of 70.5% for February compared to 59% previously.

The services sector continued its expansion in February at a 56.1% reading, per ISM, accelerating when compared to sequentially (of 53.8) and well ahead of the estimated 53.6%. The expansion was mainly driven by business activity (+2.5%) and new orders (+5.5%), or two of the five subindexes. While supplier deliveries grew at slower pace than previously (-0.3%), inventories rebounded strongly from dropping into contraction just last month (+11.3%, to 56.4%) and employment continued to show expansionary trends for the third consecutive month (+1.5% to 51.8%). Prices paid for services, similar to the manufacturing sector in January, remained elevated but slowed somewhat (-3.6% to 63%). Service inflation has been the main reason that overall inflation in the US has not converged towards the Fed's target and remains somewhat elevated.

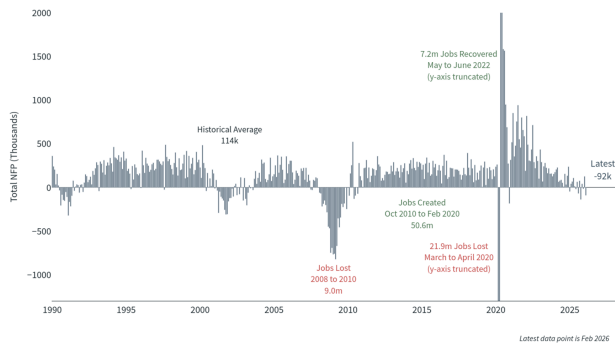


The NFP payroll report of -92K job losses, compared to an estimated gain of 55K for February, stunned markets as labor related market data points recently and leading up to the report had pointed to some stability. Prior to its release, initial jobless claims continued steady, reporting 213K claims (for the week ended 2/28) compared to an estimated 215K and sequentially unchanged, while continuing claims (through the week 2/21) continued below 1.9M. Furthermore, ADP private payrolls reported stronger job growth in the private sector for February with 63K overtaking estimates of 48K, albeit noting that growth took place in lower wage categories. Accordingly, some pointed to weather

related and other non-recurring circumstances that may have impacted NFP, like specialty contracting for example that registered significant losses. That said, labor force participation fell to 62.0 from 62.5, the lowest since November'21, likely impacted by continued structural shifts in the labor force, including immigration. For reference, the last time labor force participation was this low, excluding the recent pandemic years, was May of 1977. Generally, a higher rate indicates strong economy with confident labor, while lower rates may suggest discouraged labor, aging population, or structural economic shifts. Considering the drop in labor force participation, and despite the job losses, the unemployment rate rose modestly to 4.4% from 4.3%, as did the broader measure of labor underutilization, the U6 unemployment, to 8% from 7.9%, previously.

Payroll Gains

Monthly change in non-farm payrolls, seasonally adjusted



Latest data point is Feb 2026

Sources: Clearnomics,
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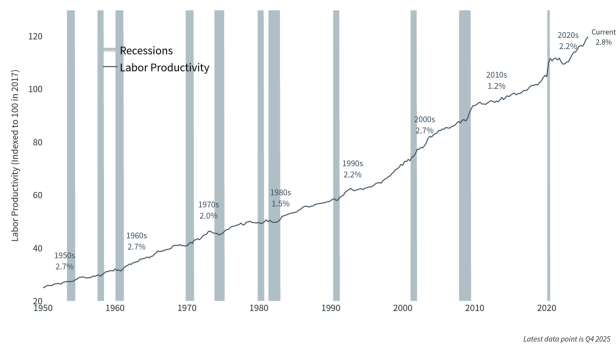
Productivity in the US continues its resurgence, reporting growth of 2.8% for Q4'25, well above the historical average of 2.2% and estimates of 1.9% for the quarter. These productivity gains follow surges in productivity reported previously of 4.5% in Q2'25 and a revised 5.2% for Q3'25. It is likely that AI adoption is contributing to productivity growth at the same time as employers are likely reversing their stance to hold on to labor, a stance that manifested itself during the pandemic and the post-pandemic years. While productivity gains are disinflationary, the recent surges may, however, contribute to further structural shifts in the

labor market, rather complicating the Fed's approach to monetary policy. The Fed's beige book, released last week, publishes eight (8) times a year to provide a summary of the commentary on current economic conditions. In it, it is asserted that economic growth is moderate, labor is stable, prices and wages are moderately higher. It should be noted that the beige book was written ahead of the outbreak of the war in the Middle East and the release of the February NFP report. Accordingly, it is expected that both will influence the Fed's monetary policy greatly as risks to both its mandates are greater than assumed at the writing of the beige book.

Finally, noteworthy with the onset of the war in Iran, expectations were for investors to seek safety which surprisingly did not quite materialize. Specifically, with treasury yields across the maturity curve lower the week prior (to last) that saw the 10-year treasury yield close below 4%, a so-called flight to safety would have lowered yields further. However, yields rose indicating that investors were selling, not buying US treasuries. In fact, yields kept surging particularly for longer maturities throughout the week despite geopolitical risks, surprising to many market participants, only to decline after the disappointing NFP report, likely on expectations on further Fed rate cuts pushing short-term yields lower and thereby steeping the yield curve that had been flattening as of recently. The US dollar did appreciate, which was expected given the need for more "Petrodollars" as oil prices surged.

U.S. Productivity Growth

Labor productivity index and average annual growth by decade, since 1950



Sources: Clearnomics,
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Week ahead

The geopolitical conflict in the middle east will continue to take center stage next week with markets focusing in on the length of the conflict and consequently risks to the regional and global economy. From a macroeconomic perspective, key inflation data is scheduled with CPI report for February on Wednesday and the delayed PCE report for Friday. Besides inflation, the delayed report on job openings is scheduled for Friday as well, providing additional insights into the state of the labor market following the disappointing NFP report this past week. Previously, job openings for December

were 6.5 million, the lowest level since September'20 continuing a longer downtrend with expectations for January for the trend to pause at 6.8 million.

Number of the week: 80-90 million barrels

The estimated amount of oil impacted by the closure of the Strait of Hormuz. The route accounts for about 20% of global oil and has come to a near-total halt amidst the conflict. The blockade, if it stays in place, will impact operations upstream as storage capabilities are reportedly exhausted. Iraq's Kirkuk crude production was the first to be suspended and may extend to Qatar, Kuwait, and Saudi Arabia.

If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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