



MACROMATRIX



Geopolitical Shock

Global Shockwaves: Energy Disruption, Cooling Labor, and Fragile U.S. Growth



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Executive Overview

Manufacturing expands amid record price pressure; labor market gains visible in a small section/defensive industries of the economy; consumer confidence stagnates but the Strait of Hormuz crisis is the single dominant macro risk of Q1 2026, threatening a \$100/bbl oil shock with no adequate supply offset available.

Recent macro data presents a nuanced picture of resilience underpinned by escalating risk. The ISM Manufacturing PMI held at 52.4% for a second consecutive month of expansion, but the Prices Index's 11.5-point surge to 70.5% its highest since June 2022 signals acute cost-push pressure across 14 industries, driven by persistent shortages in electronic components and electrical components.

ADP's February employment report showed 63,000 private-sector jobs added the most since July 2025, but the gain was almost entirely concentrated in Education/Health (+58,000) and Construction (+19,000), while Professional/Business Services shed 30,000. The record-low job-changer pay premium of 6.3% signals meaningful labor market cooling.

Consumer confidence edged up 2.2 points to 91.2 in February but remains 21.6 points below November 2024's four-year peak of 112.8, with inflation, trade policy, and political uncertainty dominating consumer write-in responses.

The dominant macro risk is the Strait of Hormuz crisis: Brent spiked from ~\$73/bbl to an intraday high above \$78 on March 2. Risking approximately 20 million barrels per day of crude and 20% of global LNG supply face direct supply chain disruption, with India (85% LPG exposure), China, and European aviation most acutely exposed. OPEC+'s April quota increase of 206,000 b/d is insufficient to offset Strait-level volumes, and Russia stands to benefit materially from an accelerated demand pivot by Asian buyers.

Manufacturing PMI Momentum

PMI holds expansion but price index spike flags mounting cost-push pressure that could erode margin and complicate the Fed's rate path.

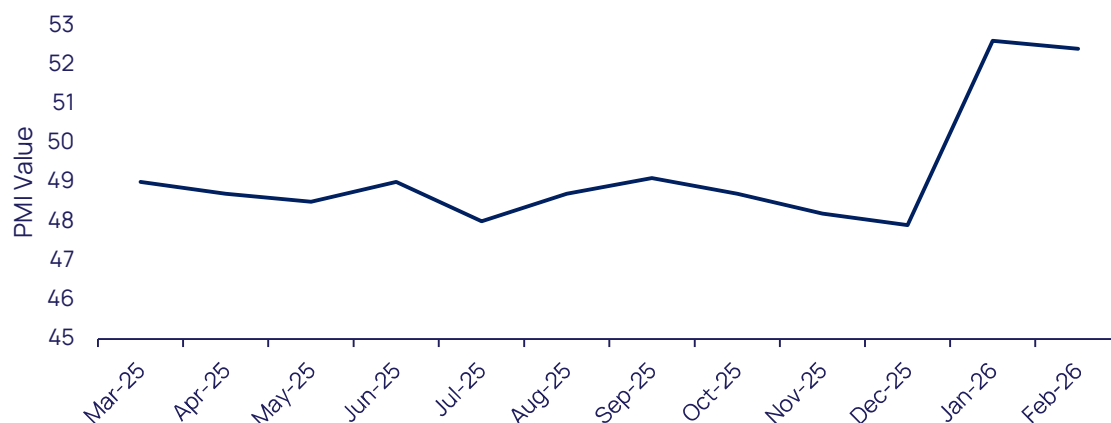
The ISM Manufacturing PMI registered 52.4% in February 2026, easing marginally by 0.2 percentage points from January's 52.6%, yet marking the second straight month of manufacturing expansion and the 16th consecutive month of overall economic expansion under ISM benchmarks.

Three of five key sub-indexes remained in growth: New Orders (55.8%), Production (53.5%), and Supplier Deliveries (55.1%). Meanwhile, Employment (48.8%) and Inventories (48.8%) stayed in contraction, though both improved sequentially. The dominant signal was inflationary pressure: the Prices Index surged to 70.5%, up 11.5 points from 59.0% in January its highest since June 2022 (78.5%). Electrical Equipment.

Fourteen industries reported higher input costs, led by Primary Metals, Petroleum & Coal Products, and Aluminum and copper have faced price pressure for eight consecutive months, steel for four, alongside critical minerals and rare earths. Electrical Components and Electronic Components remain in short supply.

The Backlog of Orders Index climbed to 56.6%, it's highest since May 2022, while New Export Orders (50.3%) and Imports (54.9%) suggest steady demand and possible tariff front-running. Twelve of 18 industries expanded, notably Computer & Electronic Products and Transportation Equipment. Overall, expansion persists, but rising costs, labor softness, and supply constraints remain critical risks.

Figure 1: ISM Manufacturing PMI



Source: Institute for Supply Management

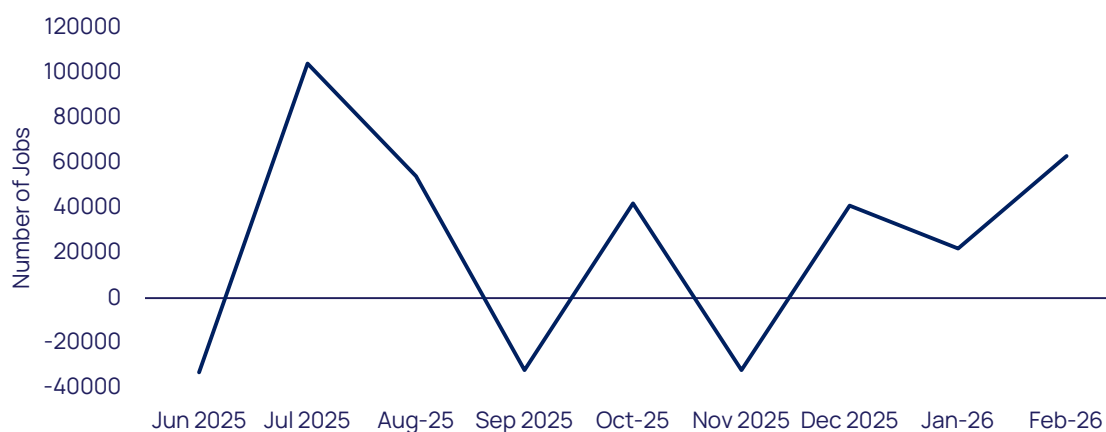
Hiring Rebounds, Pay premium Narrows

Headline payroll growth rebounded, but hiring was narrowly concentrated and wage-switching incentives hit a record low.

According to the ADP National Employment Report, private payrolls increased by 63,000 in February, the strongest gain since July 2025 and a sharp rebound from a downwardly revised 11,000 in January. However, the figure fell well below consensus expectations and reflects narrowly concentrated hiring.

Sector data show pronounced imbalance. Education and Health Services added 58,000 jobs, while Construction gained 19,000, together accounting for nearly the entire net increase. In contrast, Professional and Business Services lost 30,000 positions, Manufacturing declined by 5,000 aligning with the ISM Employment index at 48.8% and Trade, Transportation, and Utilities shed 1,000 jobs. Regionally, the South added 37,000 jobs, led by West South Central (+26,000), while the Midwest contracted by 4,000.

Figure 2: U.S. ADP Nonfarm Employment



Source: ADP Research

By firm size, small businesses (1-19 employees) added 58,000 jobs, offsetting losses of 7,000 among mid-sized firms. Wage growth for job-stayers held at 4.5% YoY, led by Financial Activities (5.2%) and Manufacturing (4.9%). Notably, the job-changer wage premium fell to a record-low 6.3%, signaling cooling wage competition and diminishing inflationary pressure from the labor market.

Fragile Confidence, Selective Spending

CCI recovery to 91.2 is statistically marginal, consumers are not yet confident, they are merely less pessimistic.

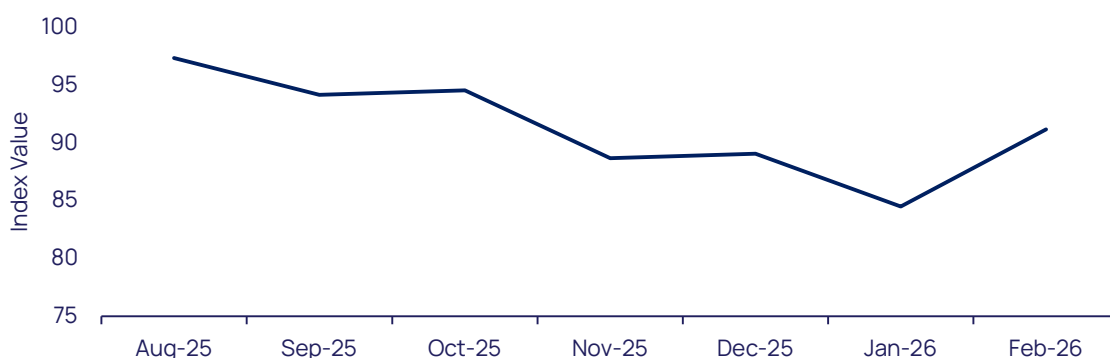
The Conference Board Consumer Confidence Index (CCI) rose to 91.2 in February 2026, up 2.2 points from an upwardly revised 89.0 in January (survey cutoff: February 17). Despite the monthly improvement across four of five components, confidence remains well below the November 2024 peak of 112.8, signaling stabilization rather than a sustained rebound.

The Present Situation Index fell 1.8 points to 120.0, while the forward-looking Expectations Index climbed 4.8 points to 72.0. The labor market differential improved modestly by 0.6 percentage points to +7.4%, with 28.0% of respondents viewing jobs as plentiful (up from 25.8%).

However, those describing business conditions as “bad” increased to 19.0%, versus 17.3%, while “good” held at 19.7%. Expectations for business improvement rose to 17.6%, and pessimism declined to 21.0%. Inflation, prices, trade policy, and political uncertainty remained dominant concerns, with 12-month inflation expectations elevated and unchanged.

Confidence improved only among those under 35, while most income groups weakened. Rising Middle East tensions and higher energy prices threaten disposable incomes, potentially curbing discretionary demand. Despite stronger big-ticket intent, cautious sentiment and elevated inflation expectations reinforce a selective, slower consumption outlook through H1 2026.

Figure 3: U.S. Consumer Confidence Index



Source: CEIC

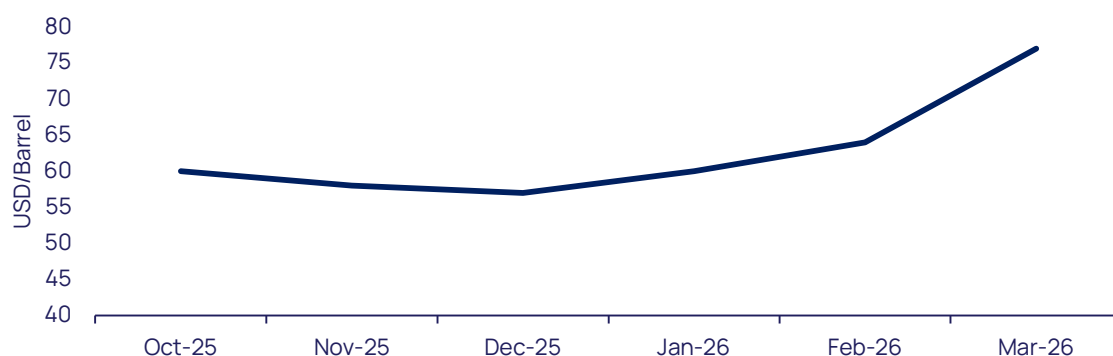
Hormuz Crisis Reshapes Oil Markets

US-Iran tensions have effectively choked the Strait of Hormuz, putting ~20mb/d at risk and pushing Brent from ~\$73, a major energy shock.

The Strait of Hormuz, a 50-km chokepoint between Iran and Oman, has become the focal point of 2026's most consequential energy crisis. After U.S. strikes killed Iran's Supreme Leader, Tehran retaliated with missile and drone attacks on UAE (Abu Dhabi port, Jebel Ali), Saudi, and Bahraini infrastructure and declared the Strait closed. In 2025, roughly 20 million barrels per day (mb/d) of crude and 10 bcm/d of LNG transited the corridor.

Qatar, which accounts for approximately 20% of global LNG supply, has no alternative export route outside the Strait, making any disruption structurally critical for Europe and Asia's gas security. While technically navigable, vessel tracking shows commercial shippers, oil majors, and insurers have withdrawn, pushing war-risk premiums to six-year highs and creating a de facto supply blockade. Brent surged from ~\$61 at the start of 2026 and ~\$72 on February 27 to above \$78 intraday, with market expectations for \$85–90/bbl and upside risk toward \$100+ if disruption persists.

Figure 4: Crude Oil Price



Source: Trading Economics

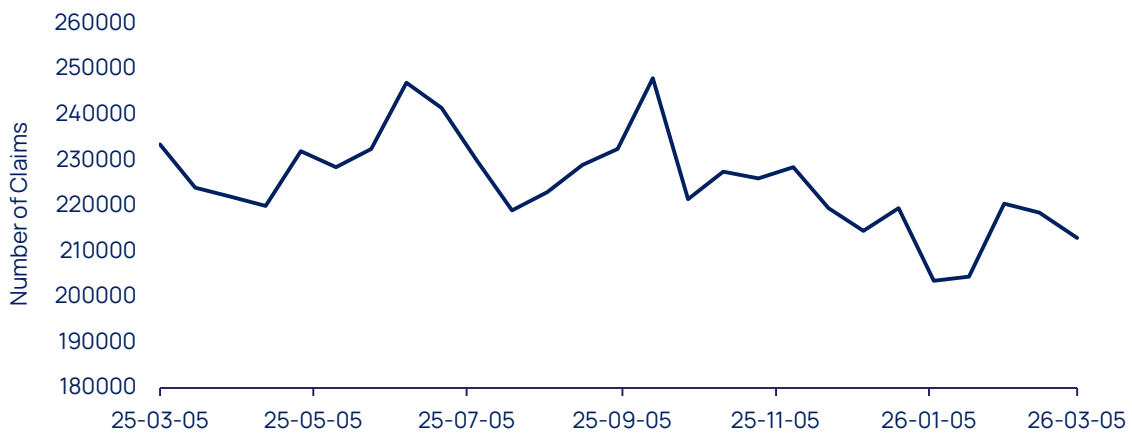
Product exposure is acute: diesel (gasoil) faces immediate tightness; jet fuel is vulnerable given Gulf export dependence; India sources ~85% of LPG via the Strait; and Qatar's ~20% share of global LNG has no alternative export route. OPEC+ raised April quotas by 206,000 b/d, but spare capacity (~3.5 mb/d) is regionally concentrated and logistically constrained. Partial bypass pipelines in Saudi Arabia and the UAE are insufficient to offset a full closure, structurally elevating energy risk premiums and reshaping trade flows with Russia positioned as a relative beneficiary.

Labor Market Stable, Inflation Rise

Layoffs remain contained, Input inflation pressures rising again.

Initial jobless claims fluctuated between ~205K–250K over the past year but trend modestly lower recently, indicating a resilient yet gradually cooling U.S. labor market.

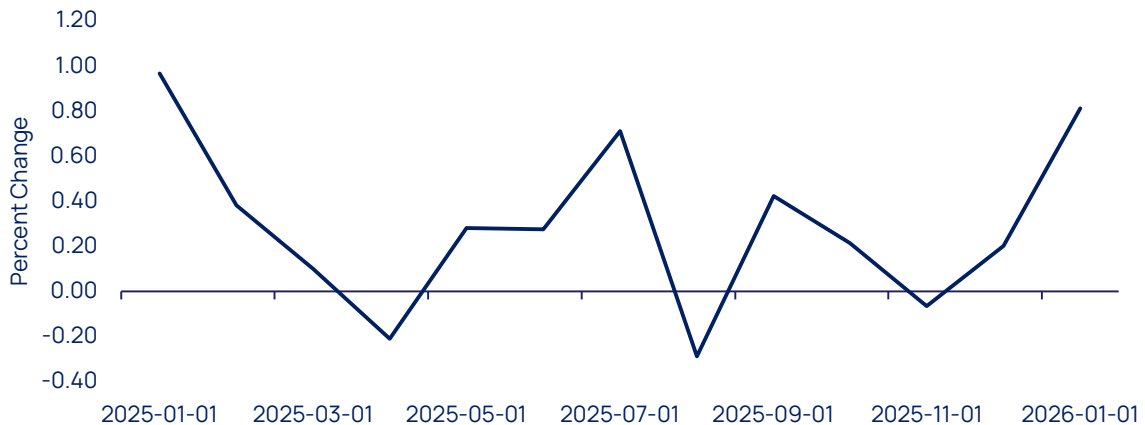
Figure 5: Initial Claims



Source: U.S. Employment and Training Administration

Commodity PPI swung between contraction and expansion through 2025 but rebounded sharply to ~0.8% by early 2026, signaling renewed upstream price pressures.

Figure 6: U.S. Producer price Index by Commodity



Source: U.S. Bureau of Labor Statistics

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