

The Weekly Alpha: Navigating the Oil Slick

Date: March 13, 2026 **Subject:** US Macro Outlook, Energy Volatility, and the Software Silver Lining

Executive Summary: Resilience Amidst the Noise

While the "stagflation" drumbeat has grown louder this week following the spike in energy prices and a messy jobs report, a cooler analysis suggests the US economic engine remains fundamentally sound. We view the recent labor market softening as a transitory "statistical hiccup" rather than a structural decay. Despite the Fed holding steady—a move that aligns perfectly with our start-of-year conviction—the focus shifts from *if* they will cut to *how* private markets and specific equity sectors will weather this temporary energy-driven turbulence.

Macro Breakdown: Signal vs. Noise

1. Labor Market: The Case for a Short-Term Blip

The February non-farm payroll contraction of **92,000** and the uptick in unemployment to **4.4%** have rattled some cages. However, we view this as noise. When you strip away the temporary impact of the Kaiser strikes and the Bureau of Labor Statistics (BLS) model recalibrations, the underlying foundation is firm.

- **The Reality Check:** Initial jobless claims remain historically low at **213,000**.
- **The AI Pillar:** AI-related investment contributed over **1 percentage point** to GDP growth in Q4 2025. This isn't just hype; it's a structural productivity floor that supports a "soft landing" narrative.

2. Inflation & The Oil Variable

February CPI came in at **2.4%**, matching expectations, but Brent's recent surge to **\$92.69/bbl** has become the primary inflation driver.

- **Our View:** We expect oil prices to stabilize and find a new equilibrium within this month as geopolitical premiums peak.
 - **The Ripple Effect:** While a **10%** rise in oil typically adds **0.14 percentage points** to headline CPI, the second-order effects on core inflation usually lag by a year. We aren't seeing a 1970s-style spiral yet.
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Monetary Policy: Vindicated Neutrality

The market is finally catching up to our January thesis: **the Fed is in no rush**. Current futures pricing has pushed the first potential cut to December 2026, with the total expected cuts for the year dropping to roughly **1.19**.

Note: The Fed is currently "locked" between sticky service inflation and cooling growth. Expect the status quo until the leadership transition in May. Our call for "higher for longer" remains the most accurate compass for this cycle.

Investment Strategy: Where to Hunt for Alpha

High Conviction: B2C Software

While high-growth tech is feeling the burn of the **4.14%** 10-year Treasury yield, we see a massive disconnect in **B2C Software**.

- **The Thesis:** Unlike B2B sectors that may face budget tightening, To-C software companies with established moats are seeing resilient user engagement and are less sensitive to the immediate "supply chain" disruptions facing hardware.
- **Opportunity:** Look for "oversold" names where the fundamental AI integration is already driving revenue, not just speculation.

The Warning Track: Private Credit Risks

We are closely monitoring the **Private Credit** market. The combination of sustained high rates and the current energy-driven inflation spike is acting as a stress test for mid-sized, high-leverage firms.

- **Watch the PIK:** Many borrowers are using **Payment-in-Kind (PIK)** mechanisms to defer interest payments. This masks the true default risk.
 - **The Trigger:** If oil remains elevated, the resulting "stagflation trade" could force an early clearing of these assets. It's not a systemic crisis yet, but it's a "canary in the coal mine" for the broader credit environment.
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Final Word

The market is currently obsessing over the "Davis Double Kill" (falling earnings + falling valuations). We disagree. The US consumer is still spending, and the AI investment cycle is providing a buffer that didn't exist in previous downturns. Stay long on quality software and keep a watchful eye on the credit spreads in the private space.