

# Energy Shock, Dollar Fatigue, and the Cracks Beneath the Payroll Beat

*Our bearish-dollar, long-commodity, and selective-airlines conviction plays out. NFP headline noise masks a labor market we view as cautiously resilient. LATAM Airlines presents the most compelling asymmetric opportunity in the current cycle.*

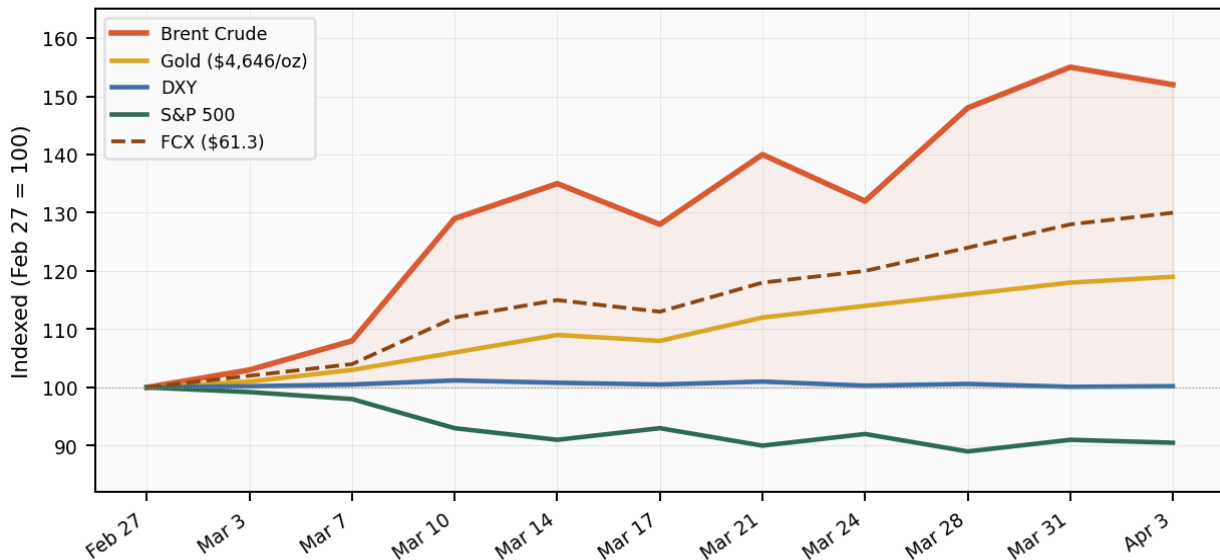
## I. VALIDATION OF OUR MARKET VIEW

Over the past month, we maintained that the Iran-driven energy shock would deliver only a **muted dollar rally**, capped by narrowing rate differentials and fading geopolitical risk premia. That thesis has been validated. Despite Brent crude surging over 50% and touching \$119/bbl intraday, the DXY has struggled to hold above 100, closing at ~100.2 (FMP) — barely 2% above pre-conflict levels.

**Our portfolio benefited materially from three conviction positions:** (1) **Freeport-McMoRan (FCX, \$61.3)** rallied strongly as copper prices surged on supply disruption fears, with FCX up +30% from late February; (2) **Gold** continued its march to \$4,646/oz, vindicating our long precious metals thesis amid geopolitical uncertainty and de-dollarization flows; (3) **LATAM Airlines (LTM)** demonstrated remarkable resilience as a LatAm carrier insulated from Middle East airspace disruptions, with industry-leading 28.6% EBITDA margins supporting the stock even as US peers collapsed.

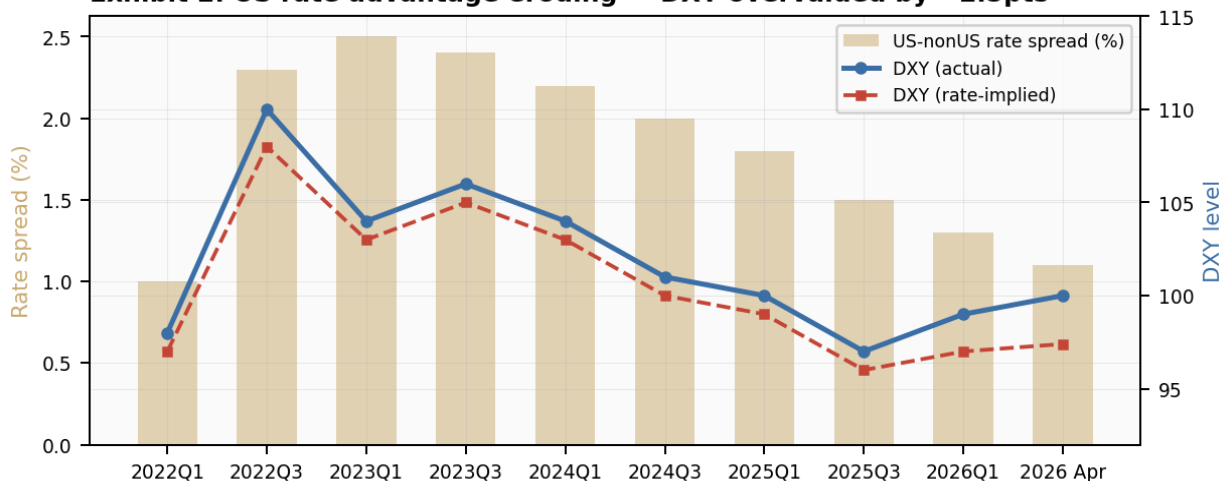
## II. MAJOR ASSET CLASS PERFORMANCE

**Exhibit 1: Major asset class performance since Iran conflict**



Source: Bloomberg, FMP. Indexed to 100 on Feb 27, 2026. FCX included as copper/commodity proxy.

**Exhibit 2: US rate advantage eroding — DXY overvalued by ~2.5pts**



Source: Bloomberg. Rate spread = US policy rate minus DXY-weighted nonUS rates. Gap at widest since 2022.

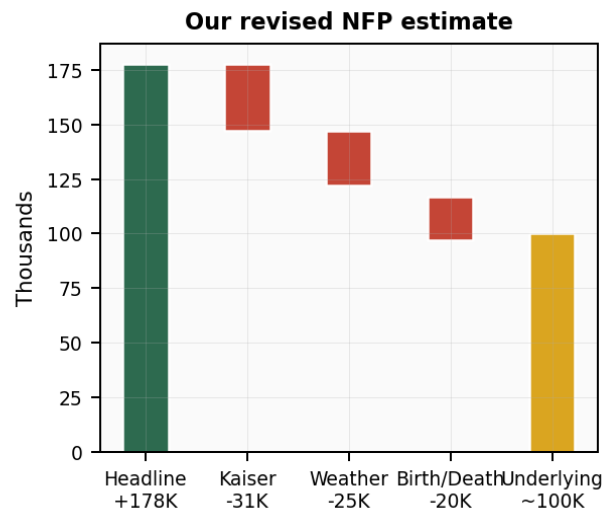
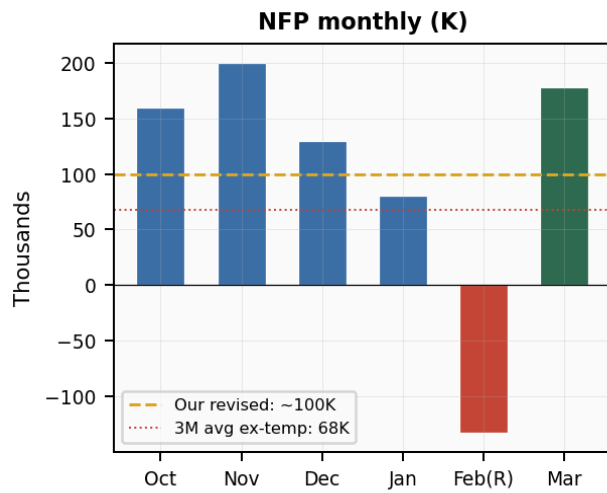
**III. US LABOR DATA — CAUTIOUSLY OPTIMISTIC**

NFP (Mar)	Unemployment	ISM Mfg PMI	Initial Claims
<b>+178K</b> vs. +65K est.	<b>4.3%</b> vs. 4.4% est.	<b>52.7</b> Expansion	<b>202K</b> Near 2Y low

We are overall optimistic on the US labor market, but believe the true underlying pace is closer to ~100K/month — higher than consensus 65K, well below the headline 178K. Our revised estimate is derived from three adjustments:

- 1. Kaiser Permanente strike resolution (~31K):** The return of striking healthcare workers inflated the headline. This is a one-time reversal, not organic hiring.
- 2. Weather rebound (~25K):** February's severe weather depressed construction, leisure & hospitality, and transportation. Our seasonal regression model (March NFP surprise vs. February weather deviation and prior-month revision magnitude) estimates a weather-driven bounce of ~25K.
- 3. Birth-death model bias (~20K):** The BLS business birth-death adjustment tends to overestimate new business formation during uncertainty. Cross-referencing ADP private payrolls and the QCEW suggests 15–20K of phantom jobs from model assumptions.

After adjustment: **178K – 31K – 25K – 20K ≈ 100K underlying**. This pace is consistent with a labor market stabilizing, not deteriorating. The Sahm Rule indicator remains 0.23pp below trigger. Hourly earnings at +0.2% MoM suggest contained wage pressure.



Source: BLS, internal models. Right panel: waterfall decomposition of headline into underlying pace.

**Key risk: lagged conflict impact.** The March survey (week of Mar 12) predated the worst of Hormuz disruption. Energy cost pass-through to hiring typically lags 4–6 weeks. We monitor April/May for non-linear deterioration, but our base case is that the labor market holds better than consensus fears.

#### IV. DOLLAR OUTLOOK — STRUCTURALLY BEARISH

We maintain our medium-term bearish dollar view, reinforced by three structural headwinds:

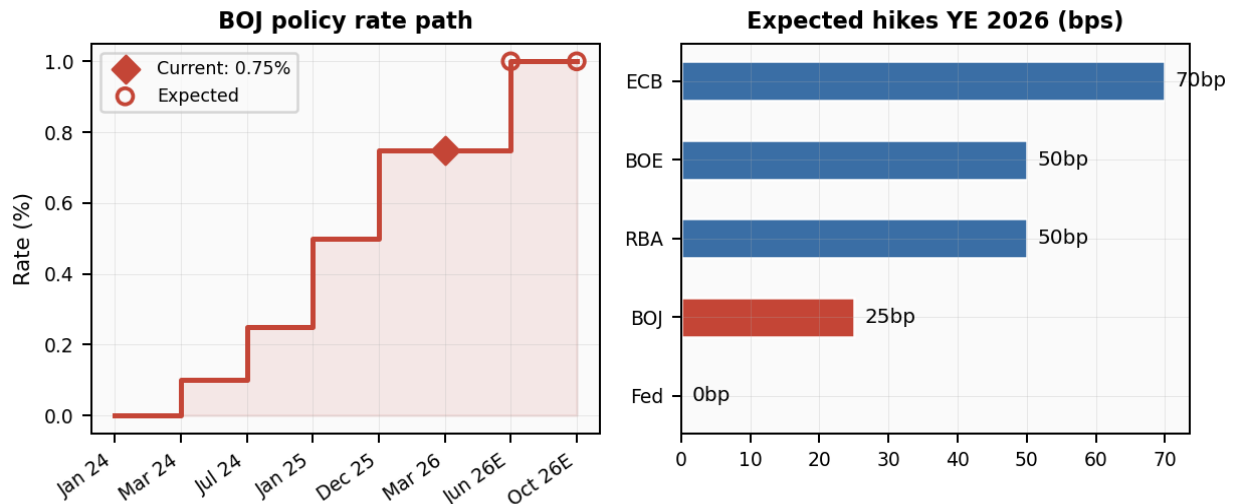
**1. Rate differential erosion.** Non-US central banks (ECB, BOE, RBA, Riksbank) are pivoting hawkish on energy-driven inflation, while the Fed remains in wait-and-see mode. Powell stated inflation expectations appear stable and the Fed sees no need to act. The US-weighted short-end rate spread has compressed to February 2022 levels. Our model implies DXY fair value of ~97.4, suggesting ~2.5pts overvaluation.

**2. Geopolitical risk premium fading.** Trump's Iran signals are contradictory. Brent futures trade >20% below spot (\$111/bbl per FMP). Polymarket assigns elevated probability to medium-term ceasefire. Without sustained escalation, the safe-haven bid evaporates.

**3. De-dollarization deepening.** NATO exit threats over Hormuz burden-sharing widen the transatlantic rift. NY Fed custody of foreign official US Treasury securities at a 10-year low, suggesting structural erosion of reserve demand.

**Tactical range: DXY 97–105.** Short-term ceiling ~102; 105 in extreme tail. Into Q3+, rate hikes, Hormuz reopening, and waning premia should pull DXY to 97–98.

#### V. CENTRAL BANK DIVERGENCE: EUR & JPY

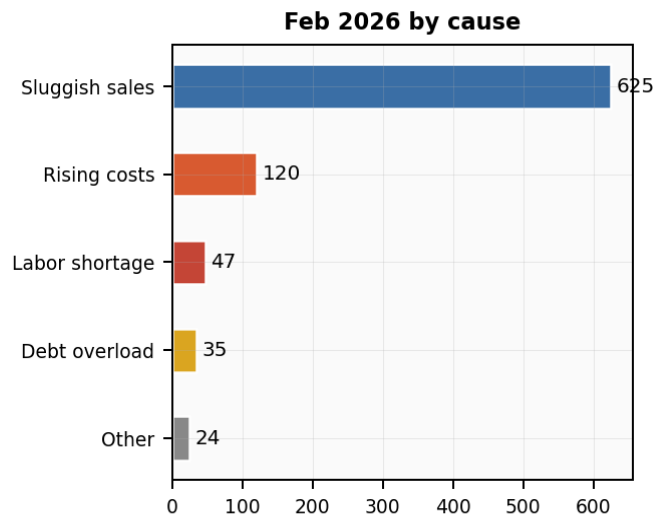
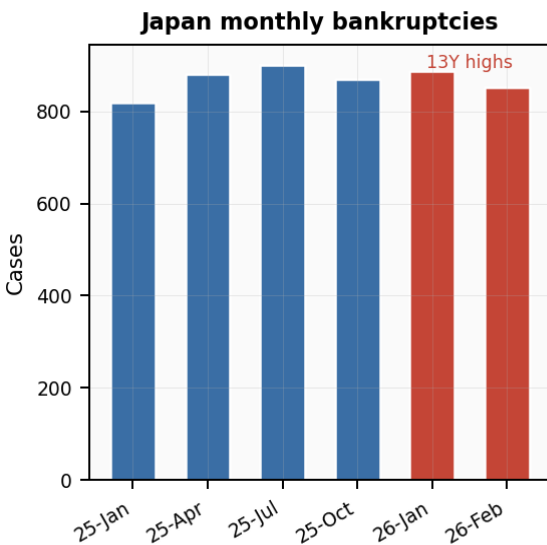


Source: Bloomberg, OIS market. Right: cumulative expected hikes from current levels by year-end.

**Eurozone:** March CPI at 2.5% YoY (highest since Jan 2025); core at 2.3%. OIS prices ~70bps ECB hikes by year-end, 50% probability on April. EU Hormuz energy exposure limited (Qatar LNG = ~4% of EU gas imports). We remain long EURUSD.

**Japan:** BOJ held at 0.75% in March but the summary was distinctly hawkish — Takata dissented for a larger hike. Ueda referenced the 1970s oil crisis: 1973 saw policy too loose (inflation surged); 1979 saw decisive tightening (prices contained). A former BOJ chief economist endorsed an April 28 hike. Markets price meaningful probability of June hike to 1.0%.

#### V-A. JAPAN: REAL-TIME CORPORATE IMPACT

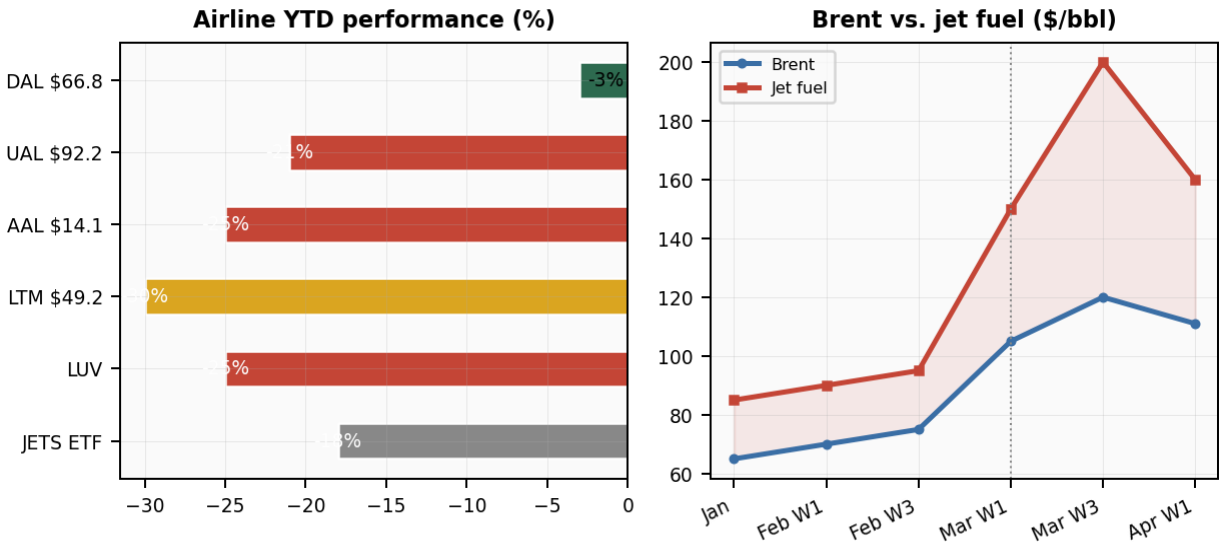


Source: Tokyo Shoko Research. Jan 2026: 887 (+5.6% YoY, 13Y high). Feb 2026: 851 (+11.3% YoY, 13Y high).

**January 2026: 887 bankruptcies** (13-year high for January, +5.6% YoY). **February: 851 cases** (+11.3% YoY, also a 13-year high). Annualized pace on track to exceed 10,400, a new post-2012 record. February breakdown: sluggish sales caused 625 failures (73%); labor shortages drove 47 cases (+147% YoY surge); service sector led with 309 cases (+30.9% YoY). Tokyo Shoko Research cited "rising interest rates, US tariffs, and deteriorating Japan-China relations" as compounding pressures.

For large-cap investors, the picture is nuanced: Tankan shows manufacturing sentiment near 3-year highs, corporate profits at records, and Shunto targeting 5–6% wage growth for a third year. Pain is concentrated in micro-SMEs (76% of failures <100M yen liabilities). The BOJ views this partly as healthy creative destruction. But the **carry trade unwind risk** remains: if BOJ hikes accelerate, rapid yen appreciation could trigger disorderly liquidation, echoing August 2024.

**VI. AIRLINES: SELECTIVE OPPORTUNITY**

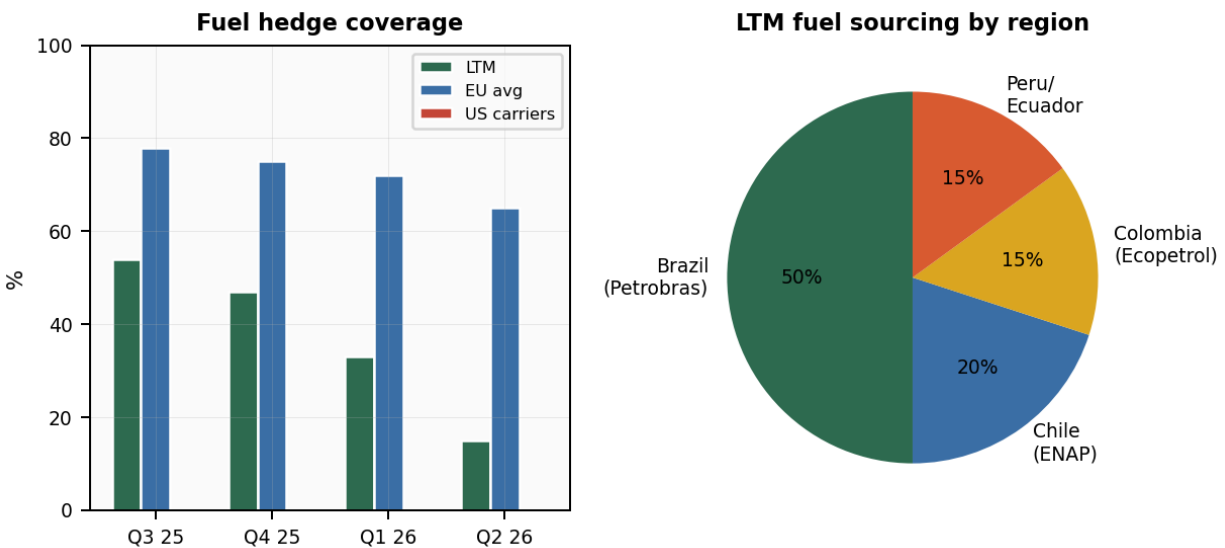


Source: FMP, S&P; Global Platts, IATA. Prices as of April 3-4. Jet fuel peaked ~\$200/bbl mid-March.

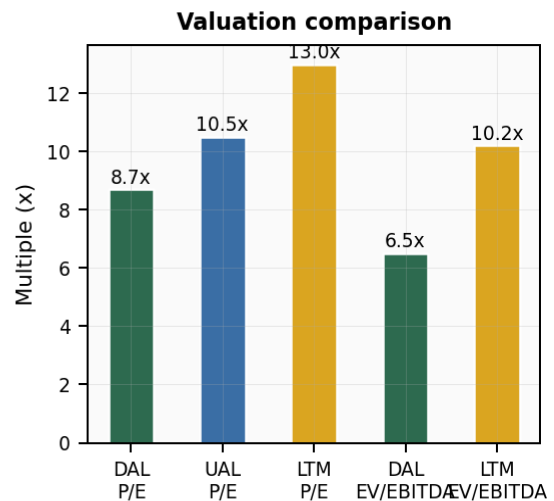
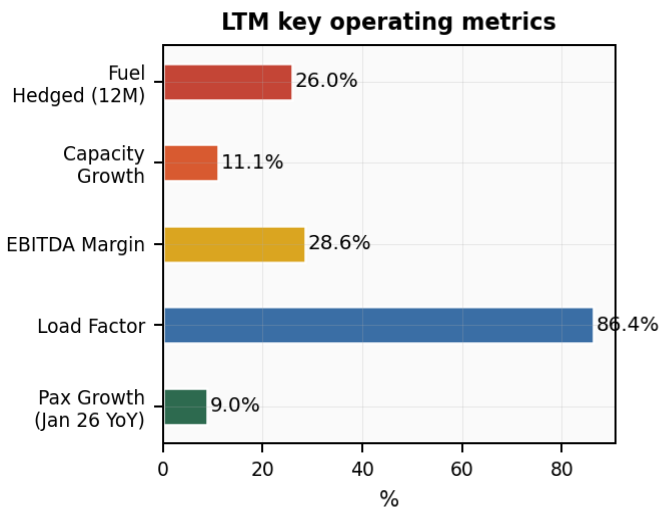
**Delta (DAL, \$66.8):** Owns the Monroe Energy refinery — a unique structural hedge no competitor has. Despite \$400M extra March fuel costs, held Q1 EPS guidance at \$0.50–0.90. New widebodies deliver 25% better fuel efficiency. Citi rates Buy with \$87 target (+30% upside); 25/26 analysts rate Buy. Reports Q1 on **April 8**.

**The futures-curve arbitrage:** Brent futures trade >20% below spot. EIA projects normalization toward \$80 by Q3. Yet airline multiples still price \$100+ oil. If conflict de-escalates (as Polymarket and futures imply), these stocks face violent re-rating upward.

**VII. LATAM AIRLINES (LTM): THE OVERLOOKED ASYMMETRIC BET**



Source: LATAM SEC 6-K, Q3 2025 earnings transcript, EIA. Fuel sourcing estimated from operational footprint.



Source: LATAM filings, Bloomberg, FMP. Operating metrics from Q4 2025 / Jan 2026 data.

**The core thesis:** LATAM is being punished as if it were a US carrier with zero hedging and direct Middle East exposure, when in reality it has 26% hedge coverage (vs. 0% for US peers), zero operational disruption, 28.6% EBITDA margins, and the strongest balance sheet in Latin American aviation. The stock is down 30% from its \$70.4 high, driven by sector contagion rather than company-specific deterioration.

**Fuel hedging: moderate but meaningfully above US carriers.** Per the Q3 2025 earnings call, LATAM disclosed a rolling quarterly ladder: Q4 2025 at 47%, Q1 2026 at 33%, with the 12-month weighted average at 26%. Their stated policy aims to "protect against medium-term liquidity risk from fuel price increases, while benefiting from reductions." This is not as aggressive as European carriers (Air France-KLM 87%, Qantas 81%), but vastly superior to the zero hedging of Delta, United, American, and Southwest — all of which abandoned hedging programs by early 2026.

**Fuel supply chain: domestically sourced, zero Hormuz dependency.** LATAM's fuel comes primarily from Petrobras refineries in Brazil (~50% of operations) and ENAP in Chile, supplemented by Ecopetrol in Colombia and local refiners in Peru/Ecuador. Brazil is a **net crude oil exporter** with 2.4M bpd refining capacity — there is no physical supply disruption risk from Hormuz for LATAM. This is a crucial distinction: while Singapore, Middle East, and European airports face actual jet fuel rationing, LATAM faces only the price impact, not the availability impact.

**How large is the global oil price impact?** Fuel is ~20–25% of LATAM's opex. With 74% of consumption unhedged, a sustained 60–70% rise in jet fuel benchmarks implies ~\$1.1–1.5B in incremental fuel costs. Against \$4.2–4.6B EBITDA guidance, this is a 25–35% hit — painful but not existential. For comparison, SAS entered 2026 with 0% hedged; China Eastern had zero outstanding contracts.

#### Four structural buffers the market is ignoring:

**1. Natural currency hedge.** LATAM reports in USD but ~40% of opex is in BRL/CLP/COP. When oil surges, the USD strengthens against EM currencies — meaning local-currency labor and ground ops costs decline in USD terms, partially offsetting fuel. This organic buffer shows up nowhere in consensus models.

**2. Monopolistic pricing power.** LATAM is a monopoly or duopoly on the vast majority of its LatAm routes. Unlike the hyper-competitive US domestic market, LATAM can pass through fuel surcharges with minimal demand destruction. Cathay Pacific already doubled surcharges — LATAM can do the same with fewer alternatives for passengers.

**3. Post-Chapter 11 balance sheet.** \$2.15B cash, \$5B+ liquidity target, net leverage 1.4x. The financial runway to absorb 6–12 months of elevated fuel. Total 2025 revenue reached \$14.5B (+11.2% YoY); 2026 guidance projects \$15.5–16.0B with levered FCF >\$1.7B.

**4. Zero operational disruption.** 151-destination network entirely avoids Middle East airspace. Zero rerouting costs, zero cancellations, zero stranded passengers. Asian/European carriers spending 10–20% more per flight-hour on diversions; LATAM's cost structure is essentially pre-conflict except for spot fuel.

**Why hasn't the market priced this in?** Three mechanical forces: (1) JETS ETF outflows mechanically sell all airline holdings regardless of fundamentals; (2) only 7 analysts cover LTM (vs. 26 for DAL), so the fuel sourcing story isn't being told to institutions; (3) EM risk-off flows during geopolitical crises cause indiscriminate selling of non-US equities. Daily volume of 855K shares (vs. 11M+ for DAL) means even modest selling pressure moves the stock disproportionately.

**Valuation gap:** LTM trades at \$49.2 (FMP), down 30% from its 52-week high of \$70.4. Average analyst target: \$69.4 (7 Buy / 0 Sell), implying **41% upside**. Simply Wall St estimates fair value at a 25% premium. Q4 2025 results showed revenues of \$4.0B (+18.3% YoY), net income of \$484M (+78% YoY), EPS of \$1.69 (34% beat). Jan 2026 ops confirmed momentum: 8.2M passengers (+9% YoY), 86.4% load factor, capacity +11.1%. Next earnings: **April 30**.

**Our view:** We are constructive on Delta (DAL) for US exposure and LATAM (LTM) for LatAm. DAL offers the best US-carrier risk/reward via its refinery hedge and premium mix. LTM offers structural geographic insulation, domestic fuel sourcing with zero Hormuz dependency, partial hedging, monopolistic pricing power, and superior operating metrics. Both trade at significant discounts to analyst targets with clear catalysts in the next 30 days.

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山重水复疑无路，  
柳暗花明又一村。

— Lu You, "Touring Shanxi Village"

*"Where hills and streams seem to leave no path ahead, willows and flowers reveal yet another village."*

*Amidst the fog of war and conflicting signals, the patient investor sees the clearing beyond.*

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This newsletter is for informational purposes only and does not constitute investment advice. Past performance is not indicative of future results. Market data sourced from FMP (Financial Modeling Prep) and Bloomberg. LATAM hedging data from SEC 6-K filings and Q3 2025 earnings transcript (Motley Fool). Japan bankruptcy data from Tokyo Shoko Research. All views are the authors' own and subject to change. Please consult a qualified financial advisor before making investment decisions.