
Weekly Market Flash

The Menace of Stagflation

March 6, 2026

Exactly one week ago, the Bureau of Labor Statistics published its January report for wholesale prices, showing a 3.6 percent year-on-year rise in the Producer Price Index, much larger than economists had expected. Today, the same Bureau of Labor Statistics issued its monthly jobs report noting, rather coyly, that nonfarm payrolls had “edged down” by 92,000 in February. Now, perhaps whoever edits the BLS report wanted to soften the delivery of bad news for whatever delicate sensibilities might be perusing the jobs numbers, but a decline of 92,000, when economists had been expecting a gain of 60,000, is not “edging down” as much as it is a whopping clunker of a payroll figure.

Shutdown in the Strait

These two BLS reports bookended the other major news of the week, the attack on Iran by the US and Israel that has led to widespread disruption throughout the Middle East, including a near-total shutdown of shipping through the Strait of Hormuz, the narrow body of water between the Persian Gulf and the Gulf of Oman through which one-fifth of the world’s oil exports pass through. Much of that oil is bound for nations in the Asia Pacific Region. Local stock indexes in that region were quick to reflect the potential shock to the system. The Kospi index in South Korea, which had set a year-to-date high just last week, plunged by around 20 percent over the first three days of this week before stabilizing a bit by week’s end.

The immediate reaction of most world markets was somewhat less dramatic than the Kospi crash. Even oil prices rose more modestly on Monday and Tuesday than many observers had been predicting after the first US and Israeli air strikes on Saturday. But as questions grew in number over the week, without much in the way of coherent answers from those directing the operations, the “resilience” theme pronounced by many financial media sources gave way to mounting concerns that the disruptions could persist for some time to come. Stock markets are down. Brent crude oil, a benchmark standard, is currently around 30 percent higher than where it was before the war.

Shades of 1979?

Nominal bond yields are also higher, reflecting the inflationary concerns attending the rise in oil prices. As we noted above, inflation was already pointing higher before the air strikes began. And with today’s jobs report adding another data point to the case for a slowing economy, the specter of stagflation – slow or negative growth and high inflation – is making itself felt. Stagflation, rising bond yields, turmoil in Iran...this sounds an awful lot like 1979. That period of disruption led to a draconian monetary tightening program by the Fed and the then-deepest economic decline since the Great Depression. It would take three years before the economy returned to sustainable growth in the early 1980s.

It was in that year as well, 1979, that the troubles in Iran led to the establishment of a brutal theocratic regime that has terrorized its own people and the world at large ever since. Now there is at least a chance, a best-case scenario, that the Middle East war that started last Saturday will lead to a definitive end to this regime and its nefarious influence on proxies throughout the region. Much will have to go right for this to happen, a combination of smart planning and luck. We are not overly optimistic, but we will remain ever hopeful. A strong and democratic Iran would be a genuine asset – for Middle East stability, for the

interests of the international community, and most of all for the Iranian people, who deserve the chance for a brighter future.

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