ILLUMINATIONS

Economic Review

March 2026

Sunpointe Investments

The March 2026 edition of Illuminations finds the global economy on increasingly shaky ground — and in some corners of the world, the tremors are being caused by actual conflict. The Market 2026 Economic Outlook reflects a global economy navigating powerful crosscurrents—from slow U.S. growth to geopolitical tensions and rising energy prices. The U.S.-Israel air campaign against Iran has sent shockwaves well beyond the Middle East, with oil and gas prices surging nearly 30% and the closure of the Strait of Hormuz — a vital chokepoint carrying roughly 20% of the world's oil and gas — threatening to disrupt what had been a relatively favorable global growth narrative. The blast radius is wide. In the U.S., the ground was already shifting before the first strike, as a startling loss of 92,000 jobs in February (the third monthly job loss in the past five months), a disappointing Q4 GDP reading of just 1.4%, and weakening retail sales all rattled investor confidence. One of the bright spots in February was the U.S. men's hockey team, whose gold medal run at the Winter Olympics delivered a rare moment of unambiguous triumph in an otherwise unsettling month.

Abroad, Japan escaped a technical recession by the narrowest of margins, while China continues to sink under the weight of structural imbalances, deflationary pressures, and an escalating trade war with the U.S. The Chinese government lowered its official growth target to 4.5–5.0%. Closer to the financial markets, the once-towering U.S. software sector has seen the ground give way beneath it, as names that surged in 2025 have suffered sharp, sector-wide drawdowns with no regard for prior performance. Through February, certain corners of the market — value stocks, small caps, fixed income, and real assets — remained on firmer footing.

But the Iran war has since rattled even those steadier positions, sending energy prices and Treasury yields surging while risk assets sold off sharply in March — a stark reminder that in today's world, geopolitical explosions have a way of upending what seemed solid just days before.

Is the U.S. Economy Beginning to Lose Momentum?

The U.S. economy shed 92,000 jobs in February, well below the expectation for a 50,000 gain. This marked the third time in five months that the economy lost jobs. Health care, the primary driver of payroll growth, saw a loss of 28,000 due largely to a strike at Kaiser Permanente that sidelined more than 30,000 workers in Hawaii and California. Average hourly earnings increased 0.4% for the month and 3.8% from a year ago, both 0.1% above forecast. The broader U6 unemployment rate fell to 7.9%. One additional area of concern was the labor participation rate, which dropped to 62%, its lowest level since December 2021. Given the crackdown on immigration in the U.S., economists believe the breakeven level of job growth is in the 30,000-40,000 range. Although one month does not make a trend, this report was clearly disappointing, and continued weak jobs data could eventually lead to additional interest rate cuts if oil prices and inflation ease.

Fourth quarter 2025 GDP came in below expectations based on the advanced reading. GDP rose at an annualized rate of just 1.4%, well below the estimate for a 2.5% gain. Consumer spending increased at a slower pace in Q4, while government spending tumbled sharply in a quarter marked by the record-length shutdown. The government shutdown was estimated to cost growth about 1% in Q4, although the exact impacts cannot easily be quantified.

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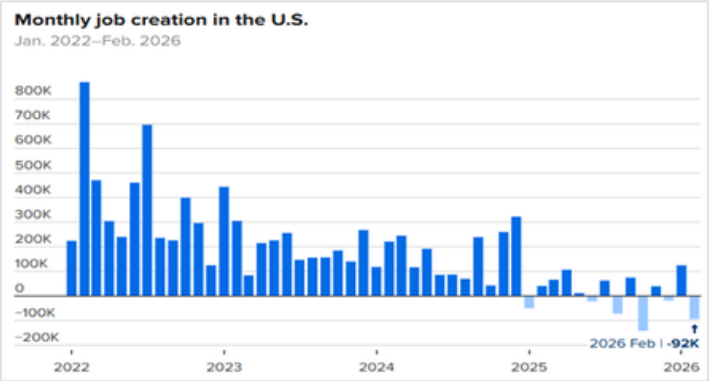
Consumer spending rose 2.4% in Q4, down from 3.5% in Q3. For the full year, the U.S. economy grew at a 2.2% pace, down from the 2.8% increase in 2024.

Consumers Pull Back as Inflation Data Sends Mixed Signals

U.S. retail sales fell 0.2% month-over-month (M/M) in January, the largest decline since May 2025. Retail sales declined across most categories during January, with the largest declines at department stores (-6.0%), personal care shops (-3.0%), and gasoline stations (-2.9%). The dip in retail sales partly reflected a decline in motor vehicle and parts' dealers' sales in January after edging down 0.2% in December. Core retail sales, which are a proxy for consumer spending trends in the GDP report, rose 0.3% M/M.



Source: U.S. Bureau of Labor Statistics

February's CPI report was in line with expectations and potentially one of the last reports to reflect cooling inflation. Headline prices rose 0.3% M/M or 2.4% year-over-year (Y/Y). Core CPI increased 0.2% M/M, or 2.5% Y/Y. Rent rose just 0.1%, the smallest monthly increase since January 2021. In contrast, the PCE Index rose 2.9% in December with core PCE increasing 3.0%.

In December, goods inflation rose 0.4% M/M, and services inflation increased 0.3%. Wholesale inflation also came in hotter than anticipated last month, perhaps a sign of tariffs working their way through the economy.

Manufacturing and Services Show Signs of Expansion

The ISM Manufacturing PMI edged lower in February, with the headline reading falling to 52.4 (from 52.6 in January); however, numbers above 50 indicate expansion. New orders and production weakened in February while prices and employment strengthened. Survey respondents cited improving business activity overall, though cost pressures continued t build. The U.S. service sector saw an acceleration in activity in February, with the headline reading rising to 56.1 from 53.8 in January. New orders, employment, and production all strengthened. The HCOB final manufacturing Purchasing Managers' Index rose to 50.8 in February from 49.5 in the previous month. Factory output increased in February, accompanied by a rise in new orders, but employment continued to weaken across the eurozone. Input costs also increased at the fastest rate in 38 months. Germany returned to growth for the first time in over three-and-a-half years. The broader composite PMI for the region increased from 51.3 in January to 51.9 in February.

Asia's Two Largest Economies Face Headwinds: Japan Stabilizes, China Slows

Japan's economy grew 0.1% in Q4 2025, narrowly missing a technical recession after GDP fell 0.7% in Q3.

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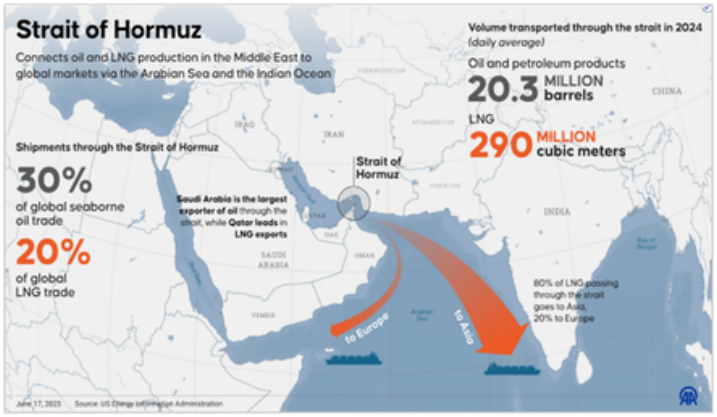
Private consumption drove this modest expansion, offsetting weakness in exports and public spending. The Bank of Japan in January raised its economic growth forecast for the fiscal year ending March 2026 to 0.9% from 0.7%. It also lifted its fiscal 2026 outlook to 1.0% from 0.7%. Japanese inflation slowed sharply to 2.1% in December, its lowest level since March 2022. Still, prices have remained above the Bank of Japan's 2.0% target for 45 consecutive months.

China's economy is struggling with internal structural adjustments, including ongoing economic downside risks, a sharp decline in foreign investment, high youth unemployment, insufficient consumption momentum, and a sluggish real estate market. Massive government subsidies in China have led to industrial overcapacity, involution-style competition, and stagnant prices or even deflation. China's economy is also facing increasingly high external risks, as its unfair competitive practices and overcapacity have triggered an ongoing tariff and technology war with the U.S. The Chinese economy continues to slow, and the government officially lowered its growth target to a range of 4.5-5.0%.

Emerging Markets Surge – But Energy Risks Rise

Emerging markets have surged nearly 15% through the first two months of 2026, driven by broad-based gains across Latin America, Eastern Europe and Asia ex-China. This is largely an extension of strong gains that started in early 2025. We believe the backdrop for emerging markets remains favorable with GDP growth that should far exceed most developed markets, cheap relative valuations, potential USD weakness, AI hardware (most notably chips from TSMC), and tailwinds from commodities.

Global markets are now closely watching oil and gas prices across the globe that have surged nearly 30% since the start of the U.S. and Israel air campaign against Iran. The Strait of Hormuz is one of the world's vital chokepoints, as roughly 20% of global oil and gas passes through this narrow shipping lane. Most of the oil and gas today is going to China and India which are reliant on energy imports. Iran has essentially closed the Strait of Hormuz to any shipping traffic as of this writing, and the U.S. is considering naval escorts to help solve the problem. This is a huge risk due to the potential for mines and missiles hitting either naval warships or tankers, and any negative developments could lead to further increases in energy prices.



A Sector-Wide Reset in the Software Sector

There is significant market focus on the software sector of the global economy and the potential disruption caused by AI. Many of the largest U.S. software companies were strong performers in 2025, but the entire sector has been sharply repriced thus far in 2026. Names like Palantir surged 135% in 2025 but have fallen ~20% YTD as of this writing. The YTD losses are worse in names like Applovin, Unity, Pega, and Oracle.

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There is virtually zero correlation between 2025 performance and YTD 2026 drawdown, reinforcing that this is largely a sector-wide repricing, not a stock-picking story. In addition, there were ten high-profile enterprise software IPOs in 2025, and while most had a solid first day of trading, all but one ended the year with significant losses. While we believe this is partially related to the general sector re-rating, we also think these companies chose to remain private longer, with most of the valuation gains occurring during that time. We fear this may be the case with many high-profile unicorns patiently awaiting their turn at an IPO.

Enterprise Software IPO Performance

US and European Listings, 2025

Company	IPO DATE	1st Day Return	Public Return
SailPoint	Feb 13, 2025	-4%	-27%
CoreWeave	Mar 28, 2025	0%	+122%
QUALCO	May 15, 2025	+11%	-4%
mntn	May 22, 2025	+65%	-62%
innoscripta	May 23, 2025	-7%	-37%
Figma	Jul 31, 2025	+250%	-77%
netskope	Sep 18, 2025	+18%	-48%
navan	Oct 30, 2025	-20%	-49%
EXZEO	Nov 5, 2025	0%	-23%
gloo	Nov 19, 2025	+1%	-31%

Sources: Bloomberg, iii Capital Management

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