

Stocks mixed and oil bid on mixed geopolitical reports

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up, Gold down
- **REAR VIEW:** Trump says can say this is a change in the Iranian regime, Iran gave the US significant gift related to the Strait of Hormuz; Gas facilities on Isfahan in Iran said to be hit in strikes; US and mediators are discussing the possibility of holding high-level peace talks with Iran as soon as Thursday, Iran response awaits; US to order 3,000 82nd airborne soldiers to the Middle East; Dismal US 2yr note auction; Mixed Flash S&P Global readings; Hot US Unit Labor Cost revisions; APO & ARES reportedly capped withdrawals from private credit funds.
- **COMING UP:** **Data:** Australian CPI (Feb), UK Inflation Report (Feb), German IFO (Mar), US Import/Export Prices (Feb). **Events:** SNB Quarterly Bulletin (Q1). **Speakers:** ECB's Lagarde, Lane; BoE's Greene; Fed's Miran. **Supply:** Italy, Germany, US.

MARKET WRAP

MWRAP: Stocks were ultimately mixed on Wednesday, with tech taking a hit while small caps outperformed. The day was filled with mixed messaging around geopolitics, but tech stocks were hit by software names on more private credit redemption caps from Apollo and Ares, while Claude also released a new tool, sparking renewed AI disruption concerns. Crude prices settled well in the green, paring some of the weakness on Monday, as attacks on or near Iranian nuclear sites and reports of Troop deployment added to the concerns, while there is still uncertainty about negotiations. Trump continued to sound optimistic, noting they are having tremendous success in Iran, and they are talking to the right people who want to make a deal. He suggested Iran is talking sense, and he went as far as to say he thinks they can call the new leaders a regime change, while also stating Iran sent the US a significant gift to do with the Strait of Hormuz, but without elaborating. Reports in Axios suggested that high-level US/Iran talks could take place on Thursday. Treasuries were lower across the curve, paring some of the gains on Monday, with higher oil prices weighing on the curve, while the 2-year auction was also woeful. In FX, it was a Dollar story which was largely supported by the rebound in UST yields and crude mixed geopolitical updates. Data saw a chunky revision higher to US Unit Labour Costs and mixed Flash S&P Global PMI readings, but the focus was largely on US/Iran. Gold and Silver finished little changed, while Bitcoin was hit.

US

UNIT LABOUR COSTS/PRODUCTIVITY: The Final Q4 Unit Labour costs rose 4.4%, well above the 2.8% forecast and vs the prior 1.8% decline. Nonfarm productivity, meanwhile, rose 1.8%, below the 2.8% forecast and down from the prior 5.2%. The rise in unit labour costs was led by a 6.3% increase in hourly compensation and a 1.8% increase in productivity. The increased productivity was due to a 1.5% increase in output while hours worked declined by 0.2%. The Final Q4 report may raise some fears about inflation through higher wages due to the 4.4% increase in unit labour costs, largely due to the 6.3% increase in hourly compensation. However, Fed officials continue to highlight how inflation is not being driven by employment. The main risk at the moment is a prolonged war and the impact of sustained, higher energy prices. OxEco summarised the data by saying "The upward revision to unit labor costs nudged the annual trend higher, but given the pace of productivity, they are unlikely to be a source of inflationary pressure. The depressed rate of hiring, particularly after accounting for the war in Iran, means this measure is unlikely to accelerate in the near-term."

FIXED INCOME

T-NOTE FUTURES (M6) SETTLED 16 TICKS LOWER AT 110-13+

T-notes lower as oil prices gain amid mixed geopolitical reporting. At settlement, 2-year +7.5bps at 3.931%, 3-year +7.1bps at 3.940%, 5-year +6.1bps at 4.032%, 7-year +5.9bps at 4.217%, 10-year +4.2bps at 4.392%, 20-year +2.6bps at 4.973%, 30-year +2.2bps at 4.943%.

THE DAY: T-notes were lower across the curve, paring some of the upside seen Monday as oil prices rose on uncertainty about US/Iran talks. T-notes trended lower throughout the session, driven by rising oil prices amid mixed reporting, but the sense of optimism was not as strong as on Monday. T-notes hit lows as oil hit highs after reports suggested that the US is to order 3,000 82nd airborne soldiers to the Middle East and plans to deploy the Brigade Combat Team to support Iran operations. However, a decision to put boots on the ground in Iran has not yet been made, but raises fears of a possible ground invasion. Meanwhile, on a more positive footing, reports suggested high-level US/Iran peace talks could take place on Thursday. Elsewhere, US data saw Labour Costs rise more than expected while ADP employment was little changed W/W. S&P Global Manufacturing PMI rose while Services PMI eased, seeing the composite fall slightly, but data took a back foot today with focus on geopolitics. T-notes did come under pressure in the wake of the 2-year note auction (more below), but a lot of the downside was due to the reports about soldiers in the Middle East, which hit at the same time.

SUPPLY

Notes

- US to sell USD 70bln of 5-year notes on Wednesday, March 25th and USD 44bln of 7-year notes on Thursday, March 26th; all

to settle March 31st; US to sell USD 28bln reopened 2-year FRN on March 25th; to settle March 27th.

- **Overall, a very weak 2-year auction.** The US Treasury sold USD 69bln of 2-year notes at a high yield of 3.936%, tailing the When Issued by 1.8bps — the largest tail in three years and significantly weaker than the February tail of 0.1bps and the six-auction average 0.2bps stop-through. The bid-to-cover fell to 2.44x from 2.63x, well below the six-auction average of 2.62x. The weakness was driven by a sharp drop in direct demand, which fell to just 16.5% from 34.3%, significantly below the 32.1% average. Indirect demand was relatively solid, rising to 59.38% from 55.9% and above the 57.2% average, suggesting foreign participation remained stable. However, this was not enough to offset the lack of real money (direct) demand, with dealers left holding a large 24.12% of the auction, well above the prior 9.8% and the 10.7% average. The soft result likely reflects elevated front-end volatility and uncertainty surrounding the US/Iran conflict, with the short end particularly sensitive to energy-driven inflation dynamics. The outcome echoes the weak 3-year auction earlier this month, highlighting continued hesitancy among domestic investors at the front end of the curve. The 3-year break down was similar to the 2-year: Dealers 19.5% (prev. 10.9%), Direct 20.7% (prev. 31.9%), Indirect 59.8% (prev. 57.1%).

Bills

- US sold 6-week bills at high rate 3.635%, B/C 2.98x
- US to sell USD 69bln 17-week bills on March 25th; to sell USD 80bln 8-week bills and USD 85bln 4-week bills on March 26th; to settle March 31st

STIRS/OPERATIONS

- **Fed Money Market Pricing (implied bps): April +4.3bps (prev. +3.8bps), June +6.6bps (prev. +4.9bps), July +8.3bps (prev. +2.8bps), December 11.8bps (prev. -0.5bps)**
- NY Fed RRP op demand at 1.12bln (prev. 0.86bln) across 6 counterparties (prev. 5) on March 24th
- SOFR at 3.62% (prev. 3.62%), volumes at USD 3.013tln (prev. USD 3.102tln) on March 23rd
- EFFR at 3.64% (prev. 3.64%), volumes at USD 97bln (prev. USD 103bln) on March 23rd

CRUDE

WTI (K6) SETTLED USD 4.22 HIGHER AT USD 92.35/BBL ; BRENT (K6) SETTLED USD 4.55 HIGHER AT USD 104.49/BBL

- **Crude prices moved higher on Tuesday as new updates failed to suggest meaningful improvement between US and Iran relations amid mixed reporting.** Trade was very choppy throughout the day as multiple reports and remarks sparked volatility in the space. Overnight, gains followed reports that gas-related facilities were said to be hit in strikes on Isfahan in central Iran, in which offices belonging to a gas company and a gas pressure reduction station were damaged in a US-Israeli attack. Additionally, upside was supported by WSJ reports that Saudi Arabia agreed to let American forces use its King Fahd Air Base and is nearing a decision to join attacks.
- Later, a gradual downside was seen in response to Israeli sources, who said that the Iranian Foreign Minister had secretly informed US envoy Wiktoff of the Supreme Leader Khamenei's agreement to negotiate. In the US afternoon, Axios reported that, citing sources, resulted in downside, "The US and a group of regional mediators are discussing the possibility of holding high-level peace talks with Iran as soon as Thursday, but are still waiting for a response from Tehran". The report contained a lot of moving parts, with uncertainty about Tehran accepting US demands still at large.
- Remarks from Trump around the settlement sparked downside that held, offering some fresh commentary. "We can say this is a change in the Iranian regime", suggests Trump may be signalling goals are nearly reached, and said Iran gave the US a significant prize/present worth a tremendous amount of money; no further details were provided.
- Meanwhile, uncertainty remains on potential ground invasion of Iran with more reports stating that the US is to order 3,000 82nd airborne soldiers to the Middle East and that it plans to deploy the Brigade combat team to support Iran operations. The report via WSJ said no decision has been made about boots being on the ground, however.

Commentary

- Macquarie forecasts Brent hitting a floor of USD 85-90/bbl if the Iranian tensions decrease; says USD 150/bbl is still an option if the Strait of Hormuz remains shut until April

EQUITIES

CLOSES: SPX -0.37% at 6,556, NDX -0.77% at 24,002, DJI -0.18% at 46,124, RUT +0.45% at 2,505

SECTORS: Communication Services -2.50%, Real Estate -0.76%, Technology -0.71%, Consumer Discretionary -0.54%, Health +0.04%, Financials +0.05%, Consumer Staples +0.08%, Industrials +0.57%, Utilities +0.74%, Materials +1.67%, Energy +2.05%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.08% at 5,570, Dax 40 -0.06% at 22,640, FTSE 100 +0.72% at 9,965, CAC 40 +0.23% at 7,744, FTSE MIB +0.42% at 43,370, IBEX 35 +0.13% at 16,910, PSI +1.18% at 8,882, SMI +1.04% at 12,519, AEX +0.78% at 974

STOCK SPECIFICS

- **Apollo Global Management (APO):** Reportedly capped withdrawals from its Debt Solutions fund at 5% of outstanding shares after redemption requests reached 11.2%.
- **Ares (ARES)** limited withdrawals from USD 10.7bln private credit fund, FT reports; it had capped redemptions from the Ares strategic Income fund at 5%

- **Jefferies Financial Group (JEF):** SMFG is reportedly working on plans for a possible takeover of Jefferies. However, Jefferies said it is not for sale.
- **Janus Henderson Group (JHG):** Trian and General Catalyst agree to increase merger consideration to 52.00/shr in cash for JHG.
- **Smithfield Foods (SFD):** Earnings beat.
- **Core & Main (CNM):** Revenue outlook fell short.
- **Concentrix (CNXC):** Profit metrics and guidance missed.
- **Ralph Lauren (RL):** Upgraded at Citi to 'Buy' from 'Neutral'.
- **CoreWeave (CRWV):** Reinstated coverage at BofA with a 'Buy' rating.
- **Microsoft (MSFT)** announcing an AI for nuclear collaboration with Nvidia (NVDA); Microsoft to rent Texas data centre dropped by Oracle (ORCL) and OpenAI.
- **United Airlines (UAL)** warns of 20% fare hike to cope with oil surge, Bloomberg reports.
- Omnicom has commissioned a third-party audit of fees charged by **The Trade Desk (TTD)**, Ad Age reports.
- Nasa to spend USD 20bln on moon base, cancelling orbiting lunar station; Intuitive Machines (LUNR) was weighed by the news.
- **Crypto stocks** - According to an internal stakeholder email shared with journalist and host of Crypto in America Eleanor Terrett, the latest legislative proposal would prohibit platforms from offering yield "directly or indirectly" for holding a stablecoin or in a manner that resembles a bank deposit. Meanwhile, Tether hired a Big Four accounting firm for its first full USDT stablecoin audit after years of scrutiny over its reserves.

FX

The Dollar was firmer against all G10 peers as the developments on the US-Iran "talks" showed little progress from Trump's announcement on Monday. CNN suggest Iran has received a US "outreach" and is willing to listen. Despite further reporting of talks potentially occurring between this week via mediators, the WSJ notes that the US has ordered 3k 82nd airborne soldiers to the Middle East to deploy Brigade combat team to support Iran operations. Moreover, overnight reports that US-Iran attacks on Gas-related facilities were hit in strikes on Isfahan put a dent in Trump's supposed five-day grace period of attacks on energy facilities. USD continued to show a positive correlation with oil amid the rise in treasury yields in the background. Adding to inflation concerns on the upside was the chunky revision to Unit Labor Cost Q/Q (Q4) to 4.4% (exp. 2.8%, prev. -1.8%). Further, commentary from the mixed S&P Global Flash March report (Mfg beat, svs missed), said gauges point to consumer price inflation accelerating back to around 4%, hinting at a growing risk of the US moving into an environment of stagflation." DXY rose to ~99.39, short of the 99.68 seen at the start of the week.

G10 FX was entirely in the red, with weakness most significant in the NZD, CHF, and AUD, while the EUR relatively outperformed. EUR/USD was subdued within a 1.1557–1.1618 range, after finding resistance around its 21 DMA (1.1617). Eurozone PMIs offered little in terms of a reaction, but the commentary was similar to that of the US PMI report, pointing to a stagflationary economy.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com