

On My Mind

Not partying like it's 1979



CIO VIEWS

Sonal Desai, Ph.D.

Chief Investment Officer
Franklin Templeton
Fixed Income

The oil shock is here. How much of an impact will it have on the macro environment? Perspective matters. Crude oil prices breached US\$100 per barrel briefly before retreating—a sharp move, but not a structural rupture on the scale of prior crises. The 1970s oil shock caused oil prices to rise by about 5x. More recently, when Russia invaded Ukraine in 2022, Brent traded above US\$100 for more than five consecutive months (March–July), peaking at over US\$130 per barrel—equivalent to over US\$150 in today's dollars. Things could still deteriorate. But I see the current disruption as meaningfully less severe than those benchmarks suggest.

Inflation: an unwelcome tailwind

This oil move will push consumer price inflation (CPI) higher—but not toward double digits in my view. The 2022 experience was materially different, in that higher oil prices played second fiddle to a gargantuan fiscal and monetary expansion, which compounded an already strong post-COVID-19 rebound in demand. Today, the fiscal impulse in the pipeline, while meaningful, is of a much smaller magnitude.

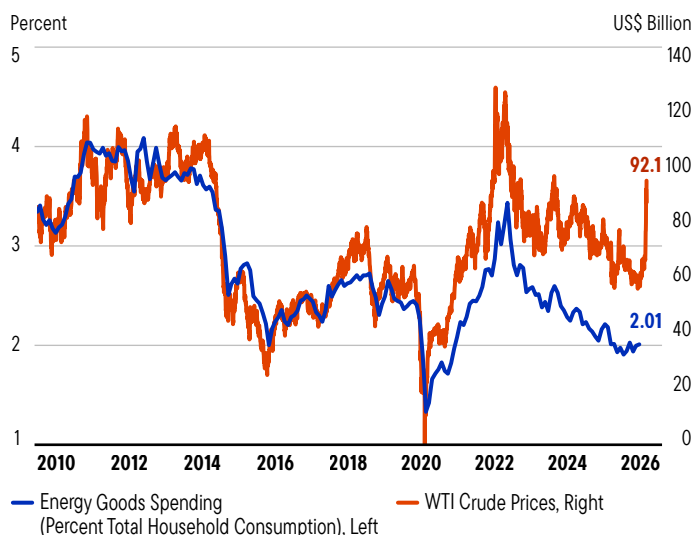
Our elasticity estimates indicate that a 10% rise in the per-barrel oil price causes roughly a 0.20–0.25 percentage point (pp) uplift in headline CPI. Assuming Brent crude stabilizes near US\$90 per barrel through mid-year, that is some 30% above the pre-war level, and this would translate in a 0.60–0.75 pp incremental push to headline CPI—enough to reinforce underlying price resilience and likely nudge headline inflation toward 3.50%–3.75% by year-end. While unwelcome, this is not at crisis levels, in my opinion.

Growth: slower, not stalled

Higher gasoline prices will inevitably erode purchasing power and dampen household consumption, but this will be at least partially offset by the impending fiscal stimulus. Furthermore, on private investment, the artificial intelligence (AI)-driven capital expenditure cycle shows no sign of pausing, as Amazon's bond issue this week illustrated.

Share of Energy Goods Spending in Total Remains Low

2010–2026



Sources: BEA, Macrobond. Analysis by Franklin Templeton Fixed Income Research. As of March 12, 2026. WTI represents West Texas Intermediate. **Past performance does not necessarily indicate nor a guarantee of future performance.**

My above-consensus 3.0% forecast for 2026 US gross domestic product growth now has some downside risk. Before the Iran conflict, I assessed recession probability as negligible—effectively zero. Clearly that's no longer the case, but I believe recession remains a tail risk, not a baseline scenario. The directional shift might be toward moderation; the structural case for US expansion remains intact, in my analysis.

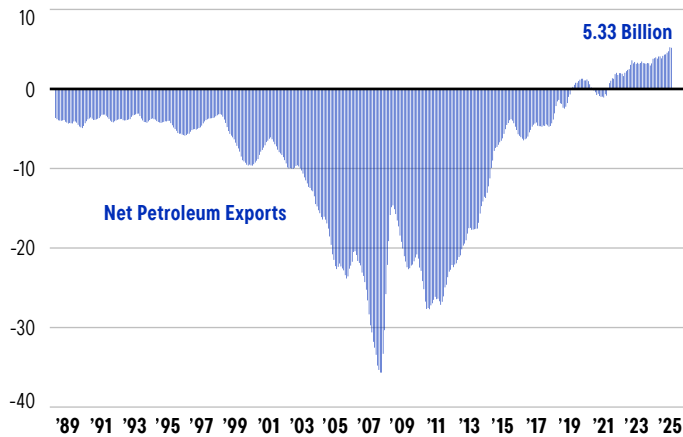
The US–Europe divide widens

The United States is currently the world's largest oil producer and a net energy exporter—a structural position built over the past decade. Europe, by contrast, still depends on imports for approximately 60% of its energy consumption; European gas prices have nearly doubled since the onset of the Iran conflict. The stagflation risk—weak growth coinciding with sticky inflation—is considerably more material in Europe than in the United States, echoing the asymmetry visible during the 2022 Ukraine shock, when eurozone growth suffered far more than the US economy did.

United States Net Petroleum Exports

1989–2025

3-Month Moving Average US\$ Billion



Sources: USCB, Macrobond. Analysis by Franklin Templeton Fixed Income Research.
As of March 12, 2026.

Investment implications: four observations

Four investment considerations flow from this revised outlook:

1. The US dollar seems to have found some structural support.

In the weeks following the “Liberation Day” tariff announcements of early 2025, a narrative developed that markets had shifted to a “sell America” posture. The dollar weakened and US equities underperformed European markets. The dollar's future as a perceived safe haven was thrown in doubt. I did not subscribe to that view. The Iran conflict has now clearly undermined the whole “sell America” narrative, refocusing markets on the US energy and technology advantages that I have consistently emphasized.

2. Software's selloff presents a selective opportunity. Markets are pricing an undifferentiated wipeout of the software sector on the premise that AI will displace most of its revenue base. I think this fear is exaggerated. AI will disrupt software—but disruption and displacement are not synonyms. The current selloff is not differentiating between software companies with durable competitive positions and those genuinely exposed to substitution, which can create interesting investment opportunities.

3. Emerging markets present a varied picture. Emerging markets are another asset class where differentiation can uncover attractive opportunities. Right now, the asset class is being tested, partly as it had previously benefited from strong positive sentiment. Commodity exporters and countries with solid macro fundamentals, however, are likely to show resilience and weather the current turmoil in relatively better shape. As developments unfold, I believe this should offer some interesting opportunities.

4. Duration looks unattractive. In my analysis, duration globally does not look attractive. Across advanced economies, fiscal balances were already too large and debt stocks too high. Should economic growth weaken as a consequence of the Iran conflict, fiscal policies are likely to expand further, increasing risk premia just as we face new inflation headwinds.

Bottom line

The growth outlook is weaker than it was before the Iran conflict began—more so in Europe than in the United States—and the inflation path is incrementally higher. I maintain my view that the Federal Reserve's easing cycle may already be over—a view grounded in the resilience of economic activity and my estimate of the neutral policy rate and now supported by the oil-driven inflation shock. The Iran conflict has, in effect, reminded markets of some important structural US strengths. How long the conflict persists and whether it broadens materially remains to be determined—and that uncertainty warrants nimbleness. But at current levels and with the evidence available today, I find myself more aligned with markets than with the alarming media headlines.

Donald Asai

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