

**ECONOMIC RESEARCH – MARCH 2026**

**INVESTMENT INSIGHT**

**USA**



- ✓ Sharp slowdown in Q4 weighed down by the shutdown
- ✓ The oil shock already points to stagflation in Q1

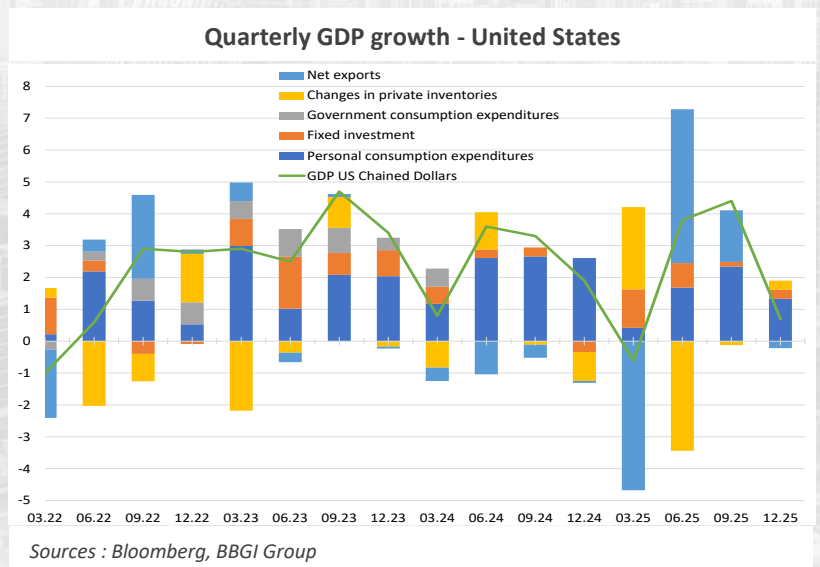
**STAGFLATION IS ALSO THREATENING THE UNITED STATES**

**Economic scarring from the 43-day shutdown**

The 43-day federal shutdown (October 1 – November 12, 2025) left a more profound mark on the economy than initial models predicted, shaving an estimated 1.15 percentage points off Q4 growth. This historic paralysis triggered a massive 16.6% contraction in federal spending and froze strategic private-sector decisions due to a total lack of statistical visibility. Consequently, wealth creation plateaued at just 0.7%, revealing a deep structural vulnerability to internal political shocks.

**The AI investment anomaly**

Capital investment in Artificial Intelligence, growing at 5.7%, has emerged as the sole engine preventing a technical recession in late 2025. While manufacturing and real estate remain mired in contraction, the technology sector has effectively carried the national GDP on its shoulders. However, this narrow reliance on a single sector highlights a dangerous "jobless growth" pattern, where high-tech productivity gains fail to translate into broader aggregate demand or manufacturing recovery. The concentration of capital in automated systems is effectively decoupling corporate profitability from traditional labor market strength. This digital-industrial divergence suggests that without a resurgence in traditional capital expenditure, the economy's foundations remain precarious.



## Oil shock and the return of stagflation risks

The March 2026 Middle East escalation has shattered hopes for a post-shutdown rebound, instead ushering in a "supply shock" paradigm that threatens to push headline inflation toward 4%. Despite US energy independence, WTI crude prices have surged alongside global benchmarks, settling near the \$100 range with potential spikes toward \$115. This environment has revived the specter of stagflation, as rising costs at the pump erode household purchasing power just as the economy's growth engine is losing velocity. The simultaneous rise in input costs and slowing output levels creates a high-risk environment that mirrors the structural failures of the 1970s.

## Erosion of the American consumer basket

The average American's purchasing power is under siege from a "double-whammy" of tariff-driven import price hikes and soaring energy bills. Household consumption, while resilient at 2% in Q4, is expected to buckle starting in March as the cost of living forces a massive drawdown of personal savings. This inevitable reduction in discretionary spending—particularly in durable goods and services—signals a much gloomier outlook for Q2 2026, as the "cushion" of pandemic-era fiscal support has finally been exhausted. Retailers are already reporting a significant shift in behavior as families prioritize essential staples over non-essential luxury items.

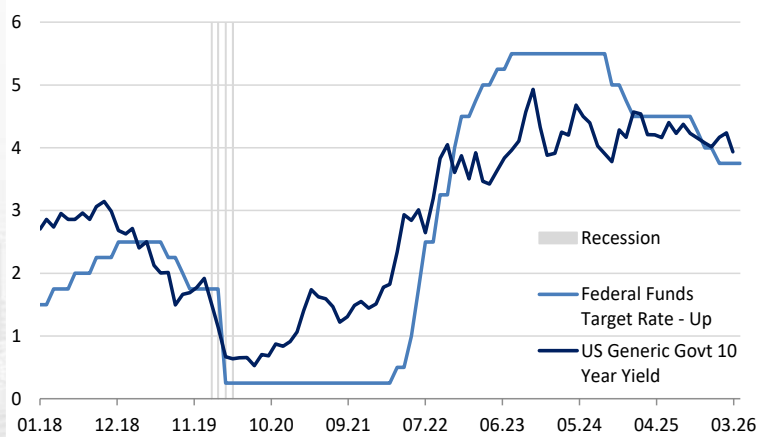
## The Federal reserve's new monetary dilemma

The Fed is now caught in a "hawkish trap," forced to choose between supporting a stalling economy and combatting imported energy inflation. Prior expectations for significant rate cuts in 2026 are fading; instead, markets are bracing for a "necessary vigilance" stance that could keep rates restrictive for longer. This policy shift is particularly painful for the real estate and manufacturing sectors, which have yet to see any meaningful relief from the brief window of monetary easing attempted in late 2025. Failure to provide liquidity during this industrial slowdown could inadvertently trigger a deeper credit contraction across small-to-medium enterprises.

## Geopolitical frictions and margin compression

The current crisis serves as a blunt reminder that the Union's economic security is inextricably linked to its energy independence. The Eurozone's ability to maintain long-term growth now hinges on its capacity to accelerate strategic autonomy and diversify energy mixes away from high-risk corridors. Without a rapid transition to secure, local, or more stable global supplies, Europe's manufacturing heartland risks a permanent curtailment of its competitive edge, turning this geopolitical reality into a chronic drag on the region's GDP. This shift is no longer just an environmental goal but a prerequisite for economic survival in an increasingly fragmented global order.

US recessions, Long rates and Fed funds



Sources : Bloomberg, BBGI Group

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