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William Rutherford

Geology and oil talk: navigating a crisis with calm

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Some months test your patience. March tested your convictions. After two months of violent rotation beneath relatively calm numbers, the geopolitical crisis that had been building since late February exploded into full view. The S&P 500, Dow Jones and Nasdaq all fell about 5 percent, with the Nasdaq 100 sliding more than 10 percent from its recent peak. Remember, 5 percent pullbacks are common and generally happen several times each year, while 10 percent corrections usually occur every two years. This time, all economic sectors finished in the red except one. Energy was the lone survivor, surging roughly 10 percent because of oil prices.

The catalyst for the market decline was the U.S.-Israeli military strike on Iran that began Feb. 28. Iran retaliated with missile and drone strikes against Israeli targets and American installations across the Persian Gulf. But the most consequential response was not militaristic; it was economic. Iran's Revolutionary Guard effectively closed the Strait of Hormuz to commercial shipping, choking off roughly 20 million barrels of crude oil and petroleum products per day. That narrow waterway handles about 20 percent of the world's petroleum. Its closure triggered the largest supply disruption in the history of the global oil market and informed Iran that it has an even stronger and more practical negotiating hand than its nuclear ambitions provide.

The price reaction was swift and severe. Brent crude soared roughly 60 percent during March, its largest monthly increase on record, peaking near \$119.50 per barrel. West Texas Intermediate crossed \$100 for the first time since mid-2022, eventually topping \$115. The International Energy Agency coordinated the release of 400 million barrels from strategic reserves. That release, the largest in the agency's history, supplied only 20 to 25 days of lost volumes.

The damage extended well beyond oil. The strait also carries about 20 percent of the world's liquefied natural gas and roughly 30 percent of seaborne fertilizer shipments. The supply chain disruptions of 2021 and 2022 came flooding back to mind. As of this writing, despite announcements to the contrary on April 7, the strait remains effectively blocked.

For those who remember the 1970s, the parallels are hard to ignore. The 1973 oil embargo reshaped the American economy for a generation, trapping the Federal Reserve between rising prices and slowing growth. That ugly combination has a name: stagflation. And for the first time in years, Wall Street is using the term again.

The Fed held rates steady at 3.50 to 3.75 percent in March, raised its 2026 inflation forecast to 2.7 percent, and signaled only one possible rate cut for the remainder of the year. The labor market offered little clarity, with February showing a loss of 92,000 jobs before March bounced back with 178,000 new ones. The three-month average was roughly 68,000 jobs added, a relatively anemic number, which supports a rate cut, and thus buoyed stock market optimism when announced in early April.

In the equity markets, the damage was broad but not indiscriminate. Capital fled mega-cap technology and poured into energy, defense, and other tangible assets. The SPDR Oil & Gas Exploration ETF surged 18.7 percent. Software stocks plummeted 24 percent in the first quarter — their worst showing since 2008. Nvidia dropped more than 16 percent from its high, selling on March 30 at its lowest P/E multiple in 10 years. Micron fell 16 percent, despite reporting revenue that surged 75 percent due to a memory chip shortage. When good earnings cannot save you from a macro storm, you know the weather has changed.

Much of the panic in software stocks was driven by fears that artificial intelligence will replace entire categories of business software. Wall Street even coined a term for it: the SaaS-pocalypse. And while the concern is not baseless, the reality is more nuanced than the selling suggested.

We have navigated many technological disruptions over recent decades. The internet was going to kill retail. Mobile was going to kill desktop software. Cloud computing was going to kill the server business. In each case, there were real casualties, but the fears were always broader than the damage. The companies that survived, and thrived, were the ones with real advantages. So, when people are curious whether their software holdings are headed for extinction, we walk them through a few questions.

First, does the company own proprietary data that is difficult to replicate? A company that has spent years accumulating industry-specific data is sitting on something an AI model cannot simply generate on its own. AI tools are only as good as the source data. Control the data, control the value chain. That is an advantage that compounds over time.

Second, does it provide the reliability, security, and accountability that enterprises demand? A hospital is not going to hand its patient data to a general-purpose AI tool and hope for the best. A bank is not going to replace its compliance infrastructure with a chatbot. Businesses want someone to call when something goes wrong. They want their data encrypted, their systems maintained, their uptime guaranteed. That services layer is extraordinarily hard to displace. The real competitive threat will likely come from new AI-native software companies that build better products but still offer all the protection of a traditional provider.

Third, how painful would it be for customers to switch? Change management has been the silent protector of incumbent software companies since the industry began. That friction is real, and it means displacement will not happen overnight, even when the alternative is genuinely superior.

None of this means every software stock is a bargain today. Some of the companies that fell 20 or 30 percent in the first quarter deserved to be repriced. But the indiscriminate selling treated all these companies as if they were equally doomed, and that is rarely how disruptions play out. The market paints with a broad brush in moments of panic. Investors must paint with a finer one.

Adding to the market turbulence, a partial shutdown of the Department of Homeland Security dragged on for over 40 days, becoming the longest on record. Gold and bonds, the traditional safe havens, both failed investors. Gold plunged 10.5 percent in a single week to around \$4,492, its sharpest weekly decline since 1983, while the 10-year Treasury yield climbed to 4.32 percent. This was an inflationary supply shock and not a deflationary scare. Everything that does not generate cash flow was punished.

History may not offer a perfect road map, but it offers some comfort. Wars and geopolitical supply disruptions cause severe short-term volatility, but U.S. equities have typically recovered within several months. As often stated previously, the market hates uncertainty, and right now there is plenty to go around. But uncertainty is also what creates opportunity. Companies with strong balance sheets, durable revenue streams, and real free cash flow do not stop generating value because oil prices spike. Their stocks get cheaper. That is not a reason to panic. It is a reason to pay attention. Stay invested. Stay diversified. And as always, do not try to time the market.

William Rutherford is the founder and portfolio manager of Portland-based Rutherford Investment Management. Contact him at 888-755-6546 or wrutherford@rutherfordinvestment.com. Information herein is from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Investment involves risk and may result in losses.

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