

Houthis Enter: Two Chokepoints, One Week to April 6

March 30, 2026

Crisis Week 2 — Oil re-tests war highs, Bab el-Mandeb at risk, Core PCE tomorrow

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Confidential

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Regime Status: Crisis (Week 2)

The war widened over the weekend, and oil is re-testing its early-war highs. Yemen's Iran-aligned Houthis launched their first attacks on Israel since the US-Israeli campaign began, firing cruise missiles and drones at military targets. Both were intercepted, but the significance isn't the impact — it's the second front. The Bab el-Mandeb Strait, through which 10% of global oil transits, is now at risk of disruption alongside the already-choked Strait of Hormuz. Brent crude surged above \$116 in early Asian trading on Monday. WTI cleared \$102. This is no longer a one-chokepoint crisis.

Meanwhile, Iran warns the US against a ground invasion. Pakistan is hosting diplomatic talks. US Marines are arriving in-theater. The April 6 deadline — when Trump's extended pause on bombing Iran's energy infrastructure expires — is one week away. Markets enter the week with the VIX above 31, the S&P on a five-week losing streak, and Core PCE data due tomorrow that could confirm the inflation overshoot consensus.

This is a week where nearly every macro question gets tested simultaneously.

Market Scoreboard (Sunday Close / Monday Early Session)

ASSET	PRICE	MOVE	SIGNAL
S&P 500	6,369	— (closed)	Fifth consecutive weekly loss
Dow Jones	45,167	— (closed)	In correction (-10% from highs)
Nasdaq	20,948	— (closed)	QQQ RSI 29.5 — deeply oversold
VIX	31.0	▲ Above crisis threshold	Fear regime entrenched
Bitcoin	~\$66,000	▼ -3.9% last week	F&G: 8 — Extreme Fear
Gold	\$4,474	▼ Off \$500+ from ATH	Holding above \$4,400 floor
Silver	~\$68.58	▼ -1.75% on dollar strength	Below \$70 critical level
WTI Crude	\$102.85	▲ +3.1% Monday open	Houthi escalation premium
Brent Crude	\$116.12	▲ +3.2% Monday open	Record monthly gain forming
DXY	100.3	▲ Testing 101	Safe-haven demand sustained
10Y Treasury	4.44%	▲ Inflation repricing continues	Hawkish tilt accelerating
Fed Funds	3.50–3.75%	— Held	97.9% hold at April meeting
Uranium	~\$92/lb	▲ Structural bid intact	AI power demand narrative

What Happened Over the Weekend

The Houthi Escalation: A Second Front Opens

Yemen's Houthis entered the Iran conflict on Saturday, launching what they described as a "barrage of cruise missiles and drones" at Israeli military sites. Israel intercepted the projectiles and confirmed it is "working in very close coordination" with the US on a response. On Sunday, the Israeli military intercepted two additional Houthi drones.

This matters enormously for energy markets. The Houthis control the approaches to the Bab el-Mandeb Strait — the narrow waterway connecting the Red Sea to the Gulf of Aden. If they threaten commercial shipping (as they did during the 2023-24 Red Sea crisis), global oil supply faces a two-chokepoint problem: Hormuz from the Persian Gulf side and Bab el-Mandeb from the Red Sea side.

The immediate market response: Brent jumped 3.2% to \$116 in early Asian trading. This approaches the intraday highs seen when the war first began, and the monthly gain for March is now tracking as the largest on record for Brent crude futures.

Iran Warns Against Ground Invasion

A high-ranking Iranian official accused the US of planning a ground invasion as the next phase of the campaign, warning it would be "met with force." This comes as Pakistan prepares to host diplomatic talks between regional powers. The dual track — escalation and diplomacy running simultaneously — is characteristic of managed geopolitical events, but the expansion of actors (Houthis, Pakistan, US Marines deploying) suggests the situation is more complex than a simple bilateral negotiation.

Iranians crossing into southern Iraq described "relentless airstrikes, rising prices and worsening living conditions" but insisted they would not leave. The humanitarian dimension is growing, which typically increases diplomatic pressure but also hardens positions.

The Oil Supply Chain Is Breaking Down

The numbers tell the story:

- **Hormuz transit:** Near-standstill (normally 20M bbl/day, ~20% of global consumption)
- **Bab el-Mandeb:** Now at risk from Houthi attacks
- **Brent crude:** Record monthly gain in March
- **Strategic petroleum reserves:** Running low on intervention capacity
- **Insurance costs:** Prohibitive for Gulf shipping
- **IEA estimate:** Global supply down ~8M bbl/day in March

Macquarie warned this week that oil markets face "a dramatic further rise" once stopgap measures lose effectiveness in early-to-mid April. The timing is not coincidental — it overlaps with the April 6 deadline.

The Week Ahead: Five Tests in Five Days

This week's economic calendar is the densest of the year so far, arriving at a moment when every data point feeds directly into the central question: Is this stagflation, and how bad?

Monday March 31: Core PCE Price Index (February)

Consensus forecast: 2.7% YoY (down from 2.8%)

The Fed's preferred inflation gauge arrives tomorrow. The FOMC's own March projection for full-year PCE is 2.7% — already revised up from December's 2.4%. Goldman Sachs estimates the oil shock alone adds ~1.1 percentage points to headline PCE through the year.

What to watch: A print above 2.7% would further cement the "stagflation" narrative and likely push rate hike expectations higher. A print at or below consensus might provide temporary relief, but the forward-looking picture is dominated by oil — and February data largely pre-dates the worst of the energy shock.

Key dynamic: This is one of the last "clean" inflation readings before the war's full effect shows up in the data. Markets will trade it aggressively either way.

Tuesday April 1: ISM Manufacturing PMI

Consensus forecast: 51.2 (previous: 50.9)

The manufacturing sector has been oscillating around the 50 expansion/contraction line. A sub-50 print would signal that the oil shock is now compressing manufacturing activity — the first hard evidence that the supply shock is becoming a growth shock.

Sentinel's read: The combination of dollar strength (DXY above 100), oil above \$100, and rising input costs makes a contractionary print plausible. If PMI prints below 50 while inflation data is running hot, it would be the clearest single-day confirmation of stagflation.

Wednesday April 2: ADP Employment Change + Initial Claims

ADP forecast: 180K (previous: 175K) | Claims previous: 220K

The private payrolls picture has been consistently weak. February's NFP showed a loss of 92,000 jobs — the worst in years. ADP provides a preliminary read on whether March shows any recovery.

The question: Is the labor market deteriorating fast enough to force the Fed's hand toward cuts despite inflation? Or is it deteriorating slowly enough that the Fed can hide behind "resilience" while inflation runs?

Thursday April 3: ISM Services PMI

Consensus forecast: 54.0 (previous: 53.5)

Services represent ~70% of US GDP. If services PMI holds above 50 while manufacturing cracks, the Fed has cover to wait. If services weakens too, the recession case becomes urgent.

Friday April 4: Non-Farm Payrolls (March)

Consensus forecast: 50,000–80,000 (previous: -92,000)

The most important economic release of the month. Economists expect a modest bounce-back from February's shock, with estimates ranging from +50K to +80K. But the base case is tepid — even at +80K, this would be one of the weakest months outside of the February outlier.

Critical detail: The report drops on Good Friday when the NYSE is closed. Markets won't be able to react until Monday, April 7 — one day after the Iran deadline expires. The combination of NFP data and geopolitical deadline landing simultaneously could create the most volatile session of Q2.

Scenario Analysis

The four tracked scenarios and their current probability assessments:

1. Inflation Spike — 98% (▲ from 90% two weeks ago)

This scenario has essentially been confirmed. PPI at 3.2%, OECD forecasting US inflation at 4.2%, oil above \$100 with two chokepoints threatened — the question is no longer whether inflation spikes but how high. The remaining 2% accounts for a sudden, unexpected peace deal that crashes energy prices.

Key evidence this week: Houthi escalation extends the energy shock timeline and adds a second supply disruption vector.

2. Hard Recession — 94% (▲ from 80% two weeks ago)

The labor market is the transmission mechanism. February's -92K NFP print was the alarm. If March confirms the trend with another weak reading (or negative), the recession probability crosses into "virtually certain" territory for 2026.

New evidence: The S&P 500's five-week losing streak is the longest since 2022. The Dow's correction confirms institutional selling. Consumer spending is contracting. The wealth effect is now working in reverse — falling asset prices → reduced spending → weaker employment → more selling.

The Fed can't break this cycle without cutting rates, and it can't cut rates while inflation is accelerating. This is the stagflation trap.

3. Iran-US War Escalation — 42% (▲ from 38%)

The Houthi entry into the conflict and Iran's warning against a ground invasion both point toward escalation. Pakistan's diplomatic efforts provide a counterweight, but the deterioration is faster than the diplomacy.

The April 6 deadline remains the binary: either there's a credible off-ramp by then, or the campaign intensifies. Markets are pricing a meaningful probability of the latter.

4. Risk-On Rally — 12% (▼ from 18%)

This scenario requires rapid Iran peace + an emergency Fed pivot. FedWatch shows 97.9% probability of a hold at the April meeting. The conditions for a liquidity flood simply don't exist in the current environment.

The contrarian case: Positioning is historically bearish. BTC COT data shows 100th percentile net long (a contrarian signal). Oil COT shows 1.9th percentile — the market is extremely short. If peace breaks out, the short squeeze would be violent. But you don't position for 12% scenarios with core capital.

Cross-Asset Signals: What the Correlations Are Saying

The BTC-Equity Re-Correlation

Bitcoin's 7-day correlation with the S&P 500 has surged to +0.95, versus a 90-day average of just 0.06. This is one of the most dramatic correlation breaks in the asset's history. Bitcoin is behaving as a pure risk asset — falling with stocks, not rising with gold.

The crypto Fear & Greed index sits at 8 (Extreme Fear), the lowest reading since the 2022 bear market bottom. The traditional market equivalent sits at 50 (Neutral). This bifurcation suggests crypto is pricing a much worse outcome than equities.

BTC ETF outflows continue: -\$93M on the most recent day, with BITB (-\$48M) and ARKB (-\$44M) leading redemptions. On-chain data shows exchange reserves at 1.15M BTC, with 7-day net outflows of -3,680 BTC — suggesting some investors are moving to self-custody rather than selling. The 30-day exchange outflow of -21,400 BTC is structurally supportive for medium-term supply dynamics.

Gold's Unusual Weakness

Gold at \$4,474 is holding above its \$4,400 floor but remains \$500+ below its January record high near \$5,000. In a genuine crisis with oil above \$100 and geopolitical escalation, gold should be bid aggressively. The underperformance suggests either:

1. **Dollar strength is overriding the safe-haven bid.** With DXY above 100, gold faces headwinds in USD terms even as it rallies in other currencies.
2. **Liquidity liquidation.** When everything sells, gold sells too — temporarily. This was the pattern in March 2020 before gold's massive rally.
3. **Managed theater signal.** Gold declining during a war is one of the Dixon framework indicators of a managed geopolitical event rather than genuine escalation.

The gold COT positioning (11.5th percentile, 1-year) is near the low end, meaning speculative longs have largely been shaken out. When positioning is this light during a macro backdrop that structurally supports gold, it often marks a setup for a powerful move higher.

Silver's Technical Damage

Silver at \$68.58 has lost the \$70 level that served as technical support. The gold-silver ratio is expanding, which typically signals that industrial demand expectations are weakening. Silver's dual nature (precious metal + industrial metal) makes it especially vulnerable in a stagflation environment where both growth and risk appetite decline.

Oil's Positioning vs. Price Divergence

WTI crude oil COT data shows managed money positioning at the 1.9th percentile — the market is net short. Yet the price is above \$102. This disconnect between positioning and price is dangerous: it means short covering could accelerate any supply-shock move higher, while the positioning also suggests the "smart money" sees oil as overbought on a war premium that may not last.

Structural Context: The 1973-74 Parallel

The comparison to the 1973-74 oil shock deserves detailed examination because the market is now trading it as the base case.

Then vs. Now

FACTOR	1973-74	2026
Trigger	Arab oil embargo	Iran/Hormuz blockade
Oil price change	+300% (12 months)	+55% (1 month)
Inflation before shock	6.2%	2.7%
Fed funds rate	10.5% (hiking into crisis)	3.50-3.75% (frozen)
Employment	Rising unemployment	NFP: -92K
Stock market	-48% (S&P, 73-74 bear)	-7% and accelerating
Resolution	Embargo lifted after 6 months	Unknown

Key Differences

Speed: The 1973 embargo developed over months. The 2026 Hormuz crisis hit in weeks. Markets had time to adjust in 1973; they don't now.

Starting position: Inflation in 1973 was already at 6% when the shock hit, and the Fed was already hiking aggressively. In 2026, inflation is at 2.7% but the Fed is frozen — unable to cut (inflation) or hike (recession). The starting position is arguably worse because there's less monetary policy runway.

Complexity: 1973 was a bilateral (Arab states vs. the West) conflict with clear demands. 2026 involves the US, Israel, Iran, Houthis, Pakistan, Gulf states, and BRICS — with multiple overlapping interests. Resolution is harder.

Financial system leverage: 1973 didn't have \$14 trillion in private credit, algorithmic trading, or interconnected global derivatives markets. The transmission mechanisms for a crisis are faster and more unpredictable in 2026.

This Week's Key Questions

1. Does Core PCE confirm the inflation overshoot? A print above 2.7% locks in the stagflation narrative. Below 2.7% provides temporary hope. Either way, it's a backward-looking number — the oil shock's full impact isn't reflected yet.

2. Does ISM Manufacturing crack below 50? If manufacturing contracts while inflation accelerates, the stagflation case moves from "probable" to "confirmed" in a single data point.

3. How does the market handle Good Friday NFP? A weak jobs report on a closed-market day, landing one day before the Iran deadline, creates maximum uncertainty. Expect volatile futures Sunday night.

4. Does the Houthi escalation trigger Bab el-Mandeb shipping disruptions? If shippers pull out of the Red Sea route (as they did in 2023-24), the global supply chain faces simultaneous disruption at two major chokepoints. This would be unprecedented.

5. Does the April 6 deadline produce an off-ramp or an escalation? This is the binary event that dominates all other analysis. The entire market setup changes depending on the answer.

The Fed's Impossible Equation

The Federal Reserve has painted itself into a corner that will define the macroeconomic landscape for the rest of 2026:

The inflation side: - PPI at 3.2% and accelerating - Oil above \$100 with structural supply disruption - OECD forecasting 4.2% US inflation - Goldman Sachs: oil shock alone adds ~1.1pp to headline PCE - Market pricing a 2.1% chance of a rate hike at the next meeting

The growth side: - NFP: -92,000 (worst in years) - Retail sales: -0.2% MoM - Industrial production decelerating (1.4% vs. 2.3%) - S&P 500 in five-week losing streak - Consumer sentiment deteriorating

The constraint: - 97.9% probability of hold at April 29 meeting - No rate cuts priced until deep into 2027 - Even a single 25bp cut would signal "growth panic" and could de-anchor inflation expectations - Even a single 25bp hike would accelerate the recession

The Fed will likely do nothing through at least June, hoping the geopolitical situation resolves. But "hope is not a strategy" was never more applicable. Every month of inaction while inflation rises erodes the Fed's credibility and narrows its future options.

Deloitte's Q1 forecast has shifted to projecting no rate cuts in 2026 at all, with the next cut pushed to 2027. This is a dramatic change from the three cuts projected just four months ago.

Prediction Accuracy Update

The system's 238 tracked predictions show a 45.7% overall hit rate across all timeframes.

TIMEFRAME	HIT RATE	NOTES
Low (days)	39.1%	Most vulnerable to news-driven whipsaws
Medium (weeks)	54.8%	Strongest performance tier
High (months)	Too early	Only 1 scored of 21 total

The medium-term timeframe's 54.8% accuracy is the system's edge — structural analysis performs better than short-term calls in volatile environments. Notable: VIX predictions hit at 63.6%, while oil (CL=F) lags at 23.7% — confirming that oil is the hardest asset to predict in a geopolitical regime.

Looking Ahead: The April Gauntlet

The next two weeks constitute the most consequential period since the Iran conflict began:

- **March 31:** Core PCE — inflation test
- **April 1:** ISM Manufacturing — growth test
- **April 3:** ISM Services — breadth test
- **April 4:** NFP on Good Friday — labor test (markets closed)
- **April 6:** Iran deadline — geopolitical test
- **April 7:** Markets reopen with NFP + deadline results

If the data confirms stagflation AND the Iran deadline passes without resolution, the crisis regime deepens significantly. If either breaks favorably — soft PCE or credible peace deal — the relief rally could be powerful given how bearish positioning has become.

The distribution of outcomes remains wide. The data-heavy week ahead is exactly the kind of environment where false certainty is most dangerous and patience is most valuable.

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