

QUARTERLY Market Rundown

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Market Excursion

After President Trump announced his “excursion” into Iran, equity markets took their own trip – downward. Post-Iran strike, the broad regional indexes experienced max drops ranging from a manageable ~6% in the U.S. (Russell 3000) to a more head-turning ~9% and ~13% internationally (MSCI EAFE and MSCI Emerging Markets, respectively). All of this is occurring as we anniversary Liberation Day (April 2 of last year) – an interesting footnote, as current events could be considered Liberation Day II, given both the potential opportunity in front of the Iranian people as well as the potential rebound in equity markets. On the latter, history shows previous oil-related geopolitical events cause an average ~10% drawdown over ~50 days – not far from where we sit today.

Historical Repeat or Rhyme? Using the historical template, markets could be entering the “buying opportunity” phase of recent market volatility – and we have seen some signs that a market bottom is being formed (the S&P 500 has jumped 3.8% off its recent nadir). But this most-recent geopolitical episode has some unique features to it. To start, never before has 20% of global oil supply been shut off practically overnight. At the same time, never before has the U.S. economy (and, to some extent, the global economy) been in such a solid position to handle such a large oil-supply shock – with far less reliance on Middle East oil compared to even as recently as 20 years ago; an existing 4% global oil production surplus; and a 50% increase in oil efficiency (economic output per barrel of oil) since 2007.

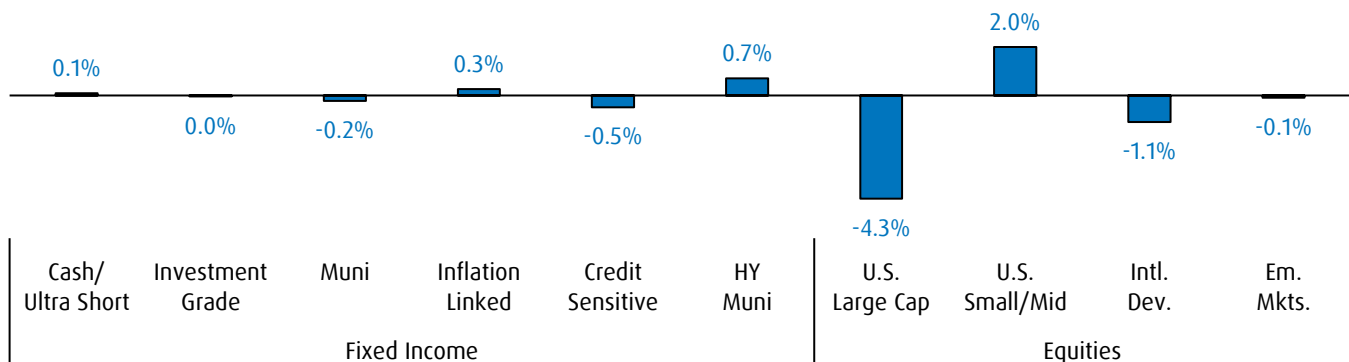
Investors are trying to sort all of this out in the context of a global economy that, coming into the Iran strike, was showing signs of economic-growth acceleration (as seen across both manufacturing- and services-industry purchasing manager surveys) – this despite a somewhat shaky labor market (though showing a promising 178 thousand jobs added in March). Meanwhile, investors are currently viewing oil-price-driven inflationary risks sufficiently high to remove all expectations of Fed rate cuts for the remainder of 2026 (pre-Iran strike – market-implied odds suggested cuts totaling at least 0.5%).

Keeping Calm and Carrying On. Despite the ongoing geopolitical conflict, the financial-system plumbing has been fairly well behaved. Interest rates have shown some volatility – but ultimately remain contained. For example, the 10-year U.S. Treasury yield reached as high as 4.43%, but its 4.32% quarter-ending value was just slightly above the 4.25% cap in place for much of the past eight months. Credit spreads have modestly risen, but the 3.17% quarter-end spread on riskier (high-yield) bonds sits below its ~3.5% five-year average. Interestingly, gold prices – usually boosted by geopolitical events – fell 11.4% in March. Thanks to financial-system calm and strong early-quarter gains, Q1 investment losses were muted – U.S. Small/ Mid Cap (Russell 2500) even eked out a small gain (see Exhibit 1).

Needing a Vacation from this Vacation. This market excursion has drawn investor attention away from other key developments. On the positive side, the big-four hyperscalers (Alphabet, Amazon, Google and Meta) remain committed to large increases in AI infrastructure spend, citing continued strong demand. Meanwhile, the private-credit market faces potential restructuring as investors demand their money back. Considering geopolitical events generally pass in weeks to months – and not quarters to years – we anticipate we will get back to analyzing these more structural issues by next quarter’s report.

Exhibit 1: Violently Flat

Despite notable volatility throughout Q1, full-quarter returns were mostly flat across asset classes – except for U.S. Large Cap.



Source: Bloomberg L.P. Returns from 1/1/2026 to 3/31/2026. See page 4 for index definitions and disclosures.

Key Developments

Strait-up Shutdown

The U.S./Israeli operation has been wildly successful in degrading Iran’s military capabilities but has thus far been unable to overcome the Iranian closure of the Strait of Hormuz, which has left ~20% of global oil supplies stranded. Such is the asymmetric nature of the battle over the Strait – the threat of being hit by a ~\$20 thousand drone is enough to stop an oil tanker carrying ~\$100 million (or more) worth of oil in its wake. Reopening the Strait will likely take Iranian surrender or military escorts. The former appears to be in the process of negotiation while the latter is slowly being formed by a coalition of willing nations. The current timeline: Maybe days, possibly weeks.

Meanwhile, oil producers and governments are scrambling to replace the ~18 million barrels/day shortfall. Oil markets were oversupplied to the tune of ~4 million barrels/day coming in and a coordinated effort to release another ~4 million from strategic reserves is underway. At the same time, Gulf countries have managed to divert ~6 million barrels/day via alternative routes – leaving ~4 million to account for.

Oil-Price Spike(s)

With the global economy looking for another ~4 million barrels/day in the near-term (and a reopened Strait in the medium term), oil prices jumped. Oil is viewed as a globally priced commodity (unlike natural gas, for instance, where transportation logistics increase regional price variability). But that’s not entirely true during periods of market stress. Post-Iran strike, West Texas Intermediate (WTI, the primary U.S. oil price) jumped 54% at its peak – a lofty increase (and greater than the 45% increase after Russia’s invasion of Ukraine), but less than the 63% jump in Brent (the global price, but primarily used in Europe) and far less than the 131% jump in Oman/Dubai (the Gulf-nation oil price, most going to Asia).

The Oman/Dubai oil-price spike was supply related, while the WTI and Brent price jumps were driven by new demand from those normally sourcing Gulf-nation oil. Brent, being the closer substitute, jumped more than WTI – putting Europe at greater economic risk than the U.S. (and Asia at greater risk than the other two).

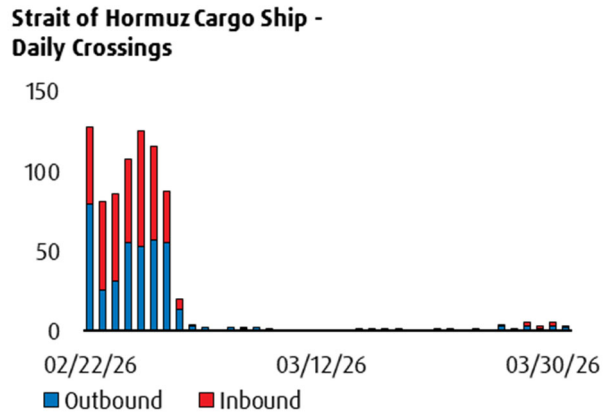
Consumer-Wallet Stress

The U.S. consumer economic impact is mostly in the form of rising gas prices at the pump. Since the Iran strike, the average U.S. gas price has risen by over one-third – from \$2.98 to \$4.06/gallon. This economic pressure is somewhat ameliorated by good timing – both in terms of driving activity and tax-refund receipts. Peak driving season is still two months away, with March/April gas demand at ~11.2 billion gallons (vs. ~12.5 billion in June/July). Doing the math, the additional \$1.08/gallon of gas will drain an extra ~\$24 billion from U.S. consumer wallets. Putting this in perspective, U.S. consumers are receiving an additional ~\$100 billion in refunds this tax season vs. last (up ~30%).

The fortuitous timing also extends to heating and electric bills, with April representing the lowest-demand month for natural gas. In fact, U.S. natural gas prices have barely budged – a reflection of lower seasonal demand, but also more-captive supply (as noted above). Europe isn’t so lucky – even with low-seasonal demand, natural gas prices have jumped over 60% given greater dependence on the Gulf.

Exhibit 2: A slow trickle

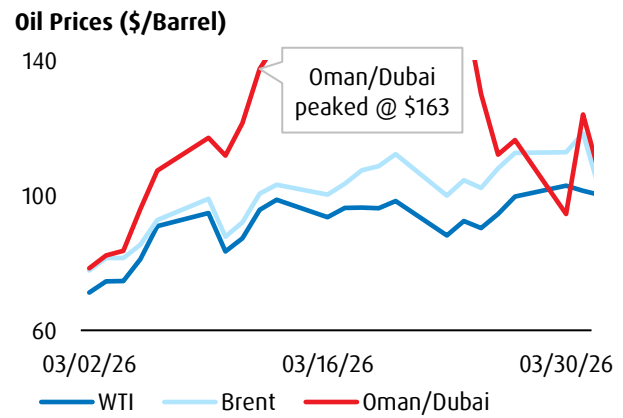
Strait of Hormuz traffic went from ~100 ships/day to near zero.



Source: Bloomberg L.P. (2026).

Exhibit 3: Quick (oil-price) reflexes

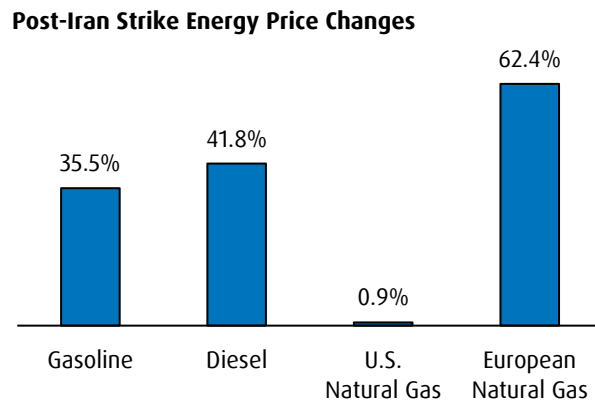
WTI (U.S.) oil jumped less than Brent (global) and Oman/Dubai.



Source: Bloomberg L.P. (2026).

Exhibit 4: Joyless riding

Gas prices have jumped; (U.S.) natural gas prices are less impacted.



Source: Bloomberg L.P. (2026). Price changes from 2/28/2026 – 3/31/2026.

Market Review

Fixed Income

U.S. Treasury yields rose to varying degrees in Q1, with the front-end of the yield curve rising more than the back-end – resulting in modest curve flattening. The shift largely reflects changing expectations on near-term inflation and resulting Federal Reserve policy. Markets began the quarter pricing in roughly two rate cuts by year-end, with the first cut expected by summer 2026. Longer-dated yields fell throughout February – the 10-year yield briefly moving below 4% – as investors cheered the last- January nomination of the very-credible Kevin Warsh to replace current Fed Chair Jerome Powell when his term ends in June.

The Iran strike disrupted the anticipated Fed rate-cut trajectory. The oil-price spike drove near-term inflation expectations higher and Fed rate-cut expectations lower – ultimately removing all rate cuts priced in for 2026. Bond market volatility rose and longer-dated yields moved higher. Overall, however, longer-term inflation expectations have remained fairly anchored – moving just slightly higher to 2.31%.

Credit Markets

Credit spreads remained broadly contained in Q1 despite rising bond market volatility. Early in the quarter, improving sentiment and expectations for Fed easing supported spread compression – particularly in the higher-quality segments. Mounting geopolitical tensions and repricing of Fed rate cut expectations led to a modest widening in spreads, particularly in high-yield segments. That said, average spreads remain below longer-term historical averages.

Private-credit concerns resurfaced throughout the quarter, specifically regarding exposure to the software sector. Reports of some funds restricting redemption requests raised questions about liquidity and potential spillover effects to the banking sector overall. That said, there has been little evidence of such concerns flowing through to public credit – in fact, private credit has actually provided shelter by funding riskier credits, thus removing them from the public markets. Worth mentioning, Fed Chair Powell recently noted that the Fed does not currently view the recent private-credit hiccups as systemic.

Equities

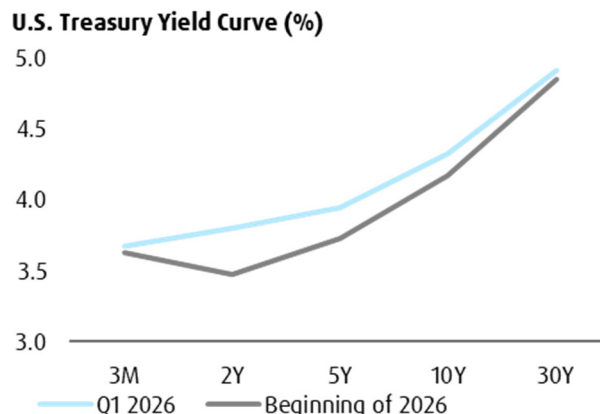
Global equities began Q1 on a high note, with fiscal tailwinds and a resilient macroeconomic environment supporting risk assets. Domestic equities saw increased market breadth, with tax refunds and other tax-bill stimulus impacts supporting the economic outlook. Emerging market equities benefitted from a weaker dollar and investor diversification away from U.S. mega-cap tech, which came off recent highs as investors scrutinized AI capex plans.

February saw a subtle shift as early gains gave way to emerging headwinds. Labor market softness, AI-disruption threats and private-credit concerns surfaced but the broader economic backdrop remained supportive of equities, with earnings expectations largely intact.

Volatility spiked post-Iran strike, with the sudden rise in oil prices raising implications for inflation and central bank policy. Oil-dependent international equities fell sharply, while less-energy-dependent U.S. markets held in better. All said, U.S. Large Cap fell 4.3% for the quarter, while early-quarter gains kept the other major indexes closer to flat.

Exhibit 5: Front-end jump

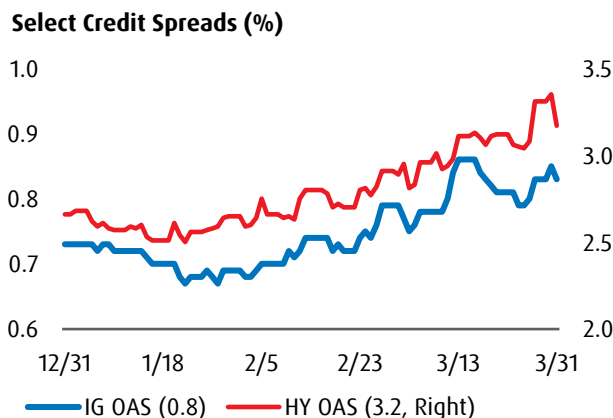
Yields increased in the two-to-five-year part of the yield curve.



Source: Bloomberg L.P. Daily data from 1/1/2026 to 3/31/2026.

Exhibit 6: Contained rise

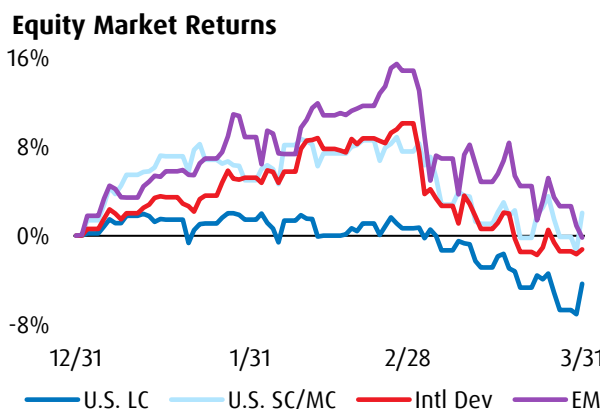
Credit spread increases were muted in the context of Q1 events.



Source: Bloomberg L.P. Daily data from 12/31/2025 to 3/31/2026. IG = Investment Grade, HY = High Yield, OAS = Option-Adjusted Spreads.

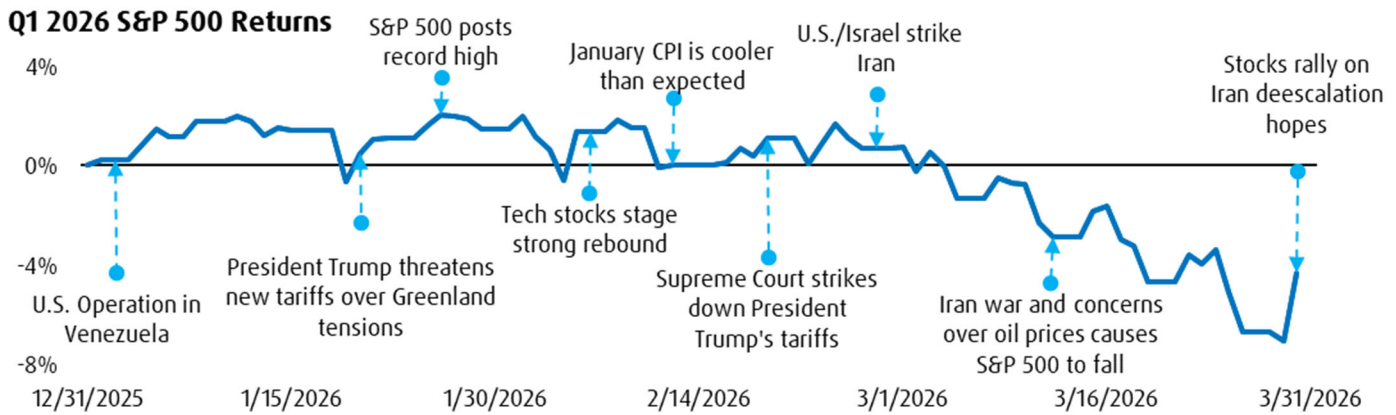
Exhibit 7: Rise and fall

Early quarter equity-market gains were surrendered in March.



Source: Bloomberg L.P. Daily data from 12/31/2025 to 3/31/2026.

Exhibit 8: First Quarter Timeline



Index Definitions

Cash: Bloomberg US Treasury Bill: 1-3 Months Index tracks the market for treasury bills with 1 to 2.9999 months to maturity issued by the US government. **Investment Grade:** Bloomberg USAgg Index measures the investment grade, fixed-rate taxable bond market. **Muni:** Bloomberg 1-10 Year Blend Municipal Bond Index covers the short and intermediate components of the Bloomberg Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market. **Inflation Linked:** Bloomberg US Treasury Inflation-Linked Bond Index measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. **Credit Sensitive:** Bloomberg U.S. Corporate High Yield Index measures high yield, fixed-rate corporate bond markets. **High Yield Muni:** Bloomberg Muni High Yield Index measures the returns of high yield, fixed rate municipal bond markets. **U.S. Large Cap:** S&P 500® Index is an unmanaged index of large-cap common stocks. **US Small/Mid Cap:** Russell 2500 Index tracks the performance of approximately 2,500 small to mid-cap companies in the U.S. equity market. **Intl. Dev.:** MSCI EAFE Index Europe, Australasia, and Far East Index (EAFE) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. **Emerging Markets:** MSCI Emerging Markets Index is a market capitalization weighted index representative of the market structure of the emerging markets in Europe, Latin America, Africa, Middle East and Asia. The Russell 3000® Index measures the performance of the largest 3,000 US companies designed to represent approximately 98% of the investable US equity market. **Data provided above is as of 3/31/2026 unless separately noted. Market data provided is from Bloomberg L.P. (2026) unless separately stated.**

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