

MONTHLY Portfolio Pulse

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Steady as She Goes

Equities entered a new period of volatility in the aftermath of the Iran Strike. Generally, the taller they are (the greater the market appreciation) the harder they fall – and this time was no exception. Since February 25 – the recent market high – equity-market losses have been more manageable in recently water-treading U.S. Large Cap but more eye-catching in the case of Emerging Markets, which had reached double-digit gains to start the year before giving back over half of those gains post-Iran strike (though still the best-performing of our equity regions year-to-date). Amidst this volatility, we are staying the course with our modest equity overweight – geopolitical risks usually pass but we expect the constructive fundamental backdrop to continue.

Strait Math. How long the global economy can withstand the 20% of global oil demand currently stopped at the Strait of Hormuz before it is eventually reopened depends on the global economy’s ability to temporarily make up for lost supplies. Existing inventories – crude oil waiting to be refined and refined product ready to be consumed – effectively gives the global economy (in aggregate) about a month to figure out this equation (with the clock running for nearly two weeks now). Fortunately, coming into the Strait closure, oil markets were oversupplied by ~4 million barrel/day – effectively meaning the global economy only needs to solve for ~14 of the ~18 million oil barrels/day that usually flow through the Strait. Saudi Arabia has been able to redirect an incremental ~5 million barrels/day through its East-West pipeline (diverting oil to the Red Sea) while the G-7 countries are tapping strategic petroleum reserves of ~4 million barrels/day (~400 million barrels released over 90 days). Collectively, this drops the magic number from 14 to 5. China sources ~6 million barrels/day from the Strait – and there are increasing prospects that Iran will let their ally’s oil pass. If so, the problem would be (temporarily) solved – on paper. Unfortunately, the global economy doesn’t operate on paper. Real-world logistics – and other risks (such as possible interruption of the increased oil flowing through the Red Sea) – complicate matters. But the math suggests that the risks can be mitigated – especially in the U.S., given the energy independence acquired over the past decade due to increased oil supplies from the fracking revolution.

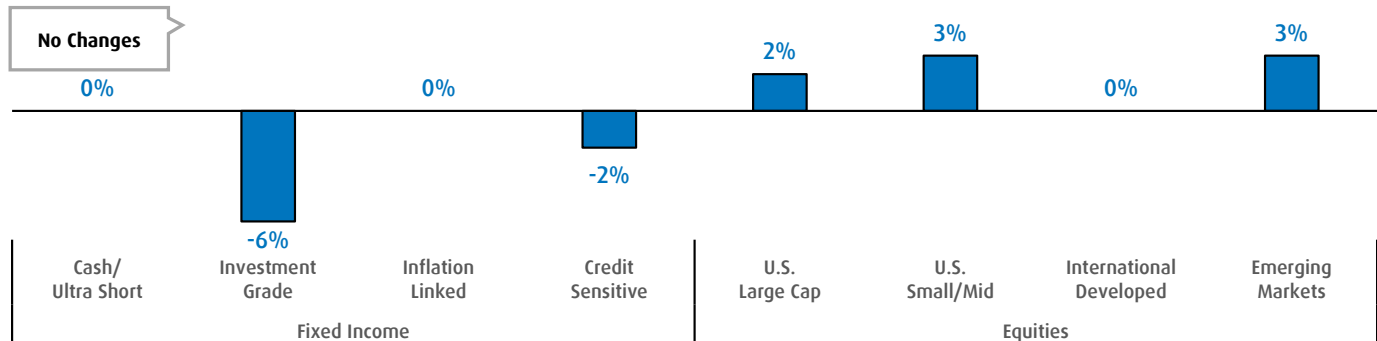
Strait Talk. While the above perhaps buys economic time, the markets won’t fully calm down until there are clear signs of Strait reopening. The Iran operation has surpassed all expectations and is viewed to be ahead of schedule – but the Strait closure represents asymmetric warfare (the risk of one ~\$20k drone hitting an oil tanker is enough to stall traffic) that requires systemically neutralizing threats and simultaneously establishing defensive measures. This could take (additional) days and possibly weeks (though is unlikely to take months). That said, there is much to look forward to on the other side. A defanged Iran – a thorn in the global economy’s side for 47 years – could unleash economic growth acceleration, driven by lower energy costs and dramatically reduced geopolitical risks.

There are interesting comparisons to make to last April’s Liberation Day. Aside from the fact that Liberation Day is likely a term better applied to current events (certainly for the Iranian people), the market could similarly turn on a dime should military progress continue (and/or a well-received Trump social media post).

Staying the Course. Given the potential upside and the constructive economic fundamentals coming into recent market volatility, we have maintained our current equity-overweight recommendation. As communicated last month, we have reserved some ability to assume additional tactical asset allocation risk. But we are waiting for the military firepower to conclude before considering using more of ours.

Exhibit 1: Maintaining Our Positioning

We maintain our recommendation to tactically overweight equities, funded primarily via an underweight to investment-grade fixed income.



Recommended allocations as of 3/16/2026. Based on the Base Component of the Balanced Investment Objective.

Macro Outlook

Growth

Economic growth continues to strengthen (both the manufacturing and services indices have moved nicely in expansionary territory), even as labor markets remain weak (including 72k jobs lost last month, according to the February jobs report). The mystery over how economic growth can remain so strong while the labor markets are so weak can be explained by the average 4.1% productivity gains the past three quarters. Productivity is now accounting for all economic growth – with labor-market growth flatlining (see Exhibit 2).

This could have implications for the traditional economic growth/inflation relationship. Historically, strong growth puts upward pressure on inflation – as supply is challenged to satisfy increasing demand (consumption, investment, etc.). But in an economy where all economic growth is coming via productivity, supply has an easier time keeping pace with demand. Continued investment (e.g., infrastructure projects) and consumption (aided by tax refunds) should help maintain growth – but it’s not clear inflation will follow.

Inflation

The near-term risk to inflation is, of course, the recent increase in oil prices and resulting increased prices at the pump (average gasoline prices are up ~20% since the Iran strike). But the energy-cost/core inflation relationship is also going through a realignment. Prior to the mid-nineties, energy costs had a material effect on core inflation. But over the past ~30 years, that effect has materially weakened to the point where core-inflation has near-zero exposure to energy prices (see the post-12/31/1995 blue dots and the flat trendline in Exhibit 3).

Core inflation’s reduced energy exposure is due to a U.S. economy that’s less energy intensive (less energy required per unit of output) and more energy independent (courtesy of the past decade’s fracking revolution). Oil demand price elasticity (fancy term for the demand response to price change) has also notably increased – today’s consumers and businesses have more options (e.g., electric vehicles, Zoom calls, etc.) to deal with higher gas prices. Assuming the oil-price shock doesn’t last months, we expect inflation will remain contained.

Monetary Policy

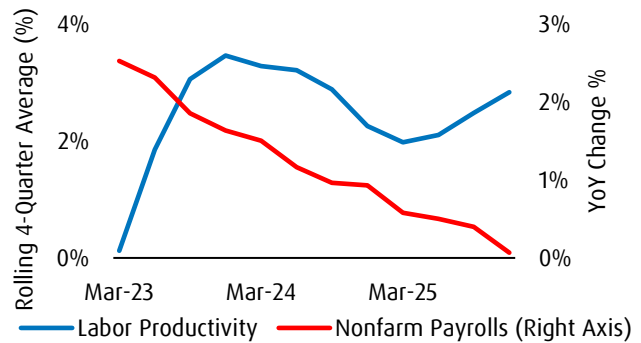
We certainly appreciate the incredulity of ignoring energy (and food) inflation. But we ignore it because the Fed ignores it – and the Fed’s assessment, and resulting policy decisions, is what drives financial markets. In the aftermath of the past five oil-related geopolitical events, the one-year change in Fed policy has been mostly muted – and often lower (see Exhibit 4), with the 4.25% increase after the Russian invasion of Ukraine as much driven by pandemic-driven supply disruption and fiscal (over) stimulus.

Historically, oil-price shocks had greater impact on economic growth than inflation; more recently, oil-price shocks have had muted impact on both. Today’s reality is that investors were not expecting any further rate cuts from the Fed until at least June/July anyway – so the recent events in Iran have time to settle before impacting Fed trajectory. Market expectations have been lowered to just one 0.25% cut this year, but we still believe the prospect of cuts (plural) is still in play in the back-half of the year.

Exhibit 2: Productive Growth

Recent economic growth has been fully reliant on productivity.

Labor Productivity vs. Payroll Growth

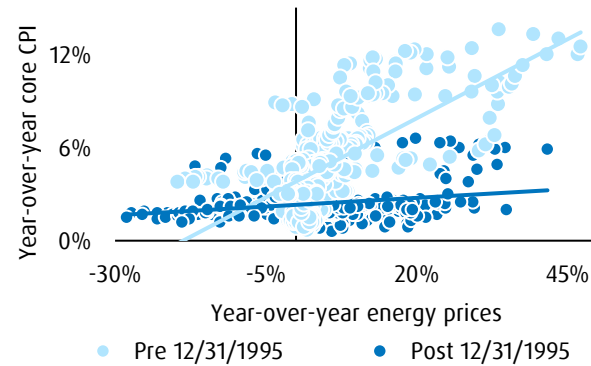


Source: Bloomberg L.P. (2026). Data through December 2025.

Exhibit 3: Energized Inflation?

Energy prices have less impact on core inflation than in the past.

Core vs. Energy CPI

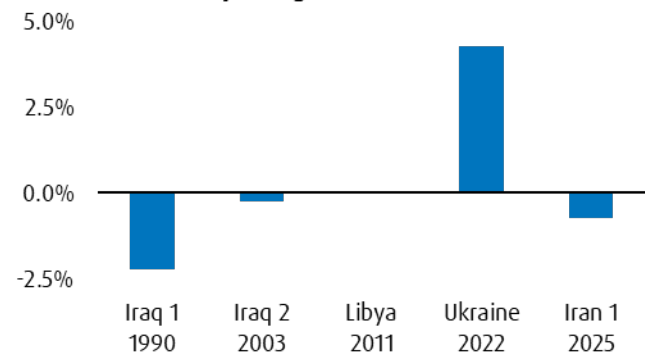


Source: Bloomberg L.P. (2026). Data through February 2026.

Exhibit 4: Fed vs. Oil Spikes

The Fed often cuts rates after oil-price increases.

Select Geopolitical Events - One-Year Fed Policy Change



Source: Bloomberg L.P. (2026). Rate change calculated from one-year of event start; Iran 1 data through 3/13/2026.

Market Outlook

Fixed Income

Despite the 50%+ jump in oil prices so far this year, 10-year U.S. Treasury yields have held below the ~4.3% cap set in mid-January. Increased headline inflation (including food and energy) expectations are pulling yields higher, while the flight-to-safety trade is tugging from beneath. This can be seen in the breakout between the underlying inflation-breakeven (inflation expected over the next 10 years) and real-yield components (see Exhibit 5). Year to date, the small ~0.1% rise in the 10-year yield has been entirely driven by increased inflation expectations, with the real yield flat.

Interest-rate volatility will likely continue throughout the ongoing military operation – ebbing and flowing with the (also volatile) price of oil. But, over our one-year horizon – and beyond the geopolitically induced volatility – we expect interest rates to remain range bound, with the 10-year yield fluctuating around a central tendency of 4.25%. This outlook is driven by our expectations for continued economic growth (modestly pressuring rates higher) – but driven primarily by increased productivity (capping the inflation-expectation component of the overall yield).

Credit Markets

Credit markets have been put to the test in the form of lingering private-credit contagion concerns and more-recent geopolitical risks. So far, they have passed with flying colors – and continued tight credit spreads. Over the most recent equity-market drawdown (which started February 25), both investment-grade and high-yield credit returns have held in quite well (see Exhibit 6). High-yield credit’s 1.4% drawdown is actually less than investment-grade credit’s 2.1% drop – suggesting that investors are more concerned with higher interest rates than a blowout in spreads.

Overall, investment-grade and high-yield spreads remain historically tight. This can be attributed to improved credit quality (the rise in private credit has served to absorb some of the riskier borrowers), solid fundamentals (underpinned by continued economic growth) and free-flowing liquidity. The biggest risk is that the healthy liquidity environment starts to dry up out of fears of private-credit contagion – and is what we are most focused on. But, overall, we are constructive on the credit markets – our tactical underweights primarily serving to fund our tactical equity overweights.

Equities

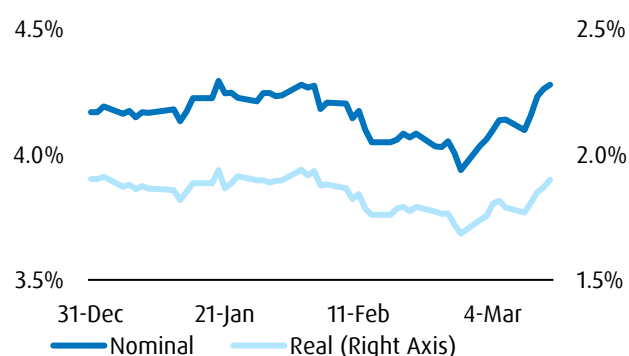
Maintaining longer-term perspective can be difficult during financial-market volatility. But, historically speaking, those who can resist the urge to sell into weak markets are rewarded by outsized returns on the other side. Of the five oil-related geopolitical events introduced in the Monetary Policy section, the average S&P 500 return drawdown was ~11% over the course of ~50 days, offering near-20% returns over the subsequent one-year period (see Exhibit 7). Ukraine was the one exception – where markets were dealing with much more than just geopolitical risk.

Equity-market volatility may well continue for the next few weeks. As a reminder, we are just two weeks into a military operation that we were warned from the outset could last 4-5 weeks. But equity markets can turn on a dime (or a Trump social-media post) – and time and time again investors are reminded that market timing is a fruitless exercise. We believe the constructive fundamentals coming into this most-recent bout of equity-market volatility can survive the current geopolitical risks. We maintain our tactical overweight to equities.

Exhibit 5: Interest-Rate Tug-of-War

Inflation fears are pulling one way, the flight-to-safety trade the other.

10-Year U.S. Treasury Yields

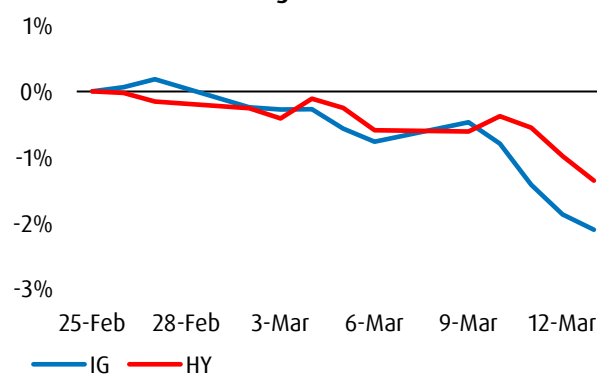


Source: Bloomberg L.P. (2026). Data through 3/13/2026.

Exhibit 6: Unbothered Credit Markets

Credit-market losses have been muted post-Iran strike.

Investment Grade vs. High Yield Returns



Source: Bloomberg L.P. (2026). Data through 3/13/2026.

Exhibit 7: Geopolitical Precedent

Equity markets generally recover quite nicely from geopolitical events.

Oil-Related Geopolitical Events	Price Return	Days to Market Bottom	Next 1-Year Return
Iraq 1 (Desert Storm)	-19.9%	87	29.1%
Iraq 2 (Op. Iraqi Freedom)	-14.1%	56	38.2%
Libya (Arab Spring)	-6.4%	26	11.7%
Ukraine (Russia-Ukraine War)	-13.0%	63	-4.3%
Iran 1 (Op. Midnight Hammer) ¹	-1.3%	8	11.1%

Note: S&P 500 Price Returns/Days to Market Bottom based on drawdown start/end dates. Next 1-Year Return is from end of drawdown. ¹Iran 1 Next One Year Return calculated as of 3/13/2026.

Source: Bloomberg L.P. (2026).

Exhibit 8: Macro Scenarios

DOWNSIDE RISK CASE: DIRE STRAIT	BASE CASE: STEADY AS SHE GOES	UPSIDE RISK CASE: BULL RESUMPTION
<i>25% Probability</i>	<i>50% Probability</i>	<i>25% Probability</i>
<p>The Strait of Hormuz remains closed; strategic releases/supply rerouting are unable to compensate for lost oil supply.</p> <p>Oil prices move above \$100/barrel, impacting global economies to varying degrees based on level of energy dependence.</p>	<p>The broader economy weathers the current geopolitical storm given the strong momentum heading in.</p> <p>Lower U.S. economic energy dependence mitigates inflationary pressures, leaving the Fed on track for later-year rate cuts.</p>	<p>Oil price-shock is short lived and doesn't knock equities off their post-Liberation Day bull-market expansion.</p> <p>Once past the geopolitical volatility, the removal of the Iranian risk introduces a peace dividend into equity prices.</p>

Index Definitions

Bloomberg US Treasury Bill: 1-3 Months Index (Cash/Ultra Short) tracks the market for treasury bills with 1 to 2.9999 months to maturity issued by the US government. **Bloomberg U.S. Aggregate Bond (Investment Grade)** is a broad-based, market capitalization-weighted index that represents the investment-grade, U.S. dollar-denominated fixed-rate taxable bond market. **Bloomberg US Treasury Inflation-Linked Bond Index (Inflation Linked)** measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. **The Bloomberg U.S. Municipal Index (Muni)** covers the USD-denominated long-term tax-exempt bond market. **Bloomberg U.S. Corporate High-Yield Bond Index (Credit Sensitive)** is an unmanaged index that covers the U.S.D-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. **S&P 500® Index (U.S. Large Cap)** is an unmanaged index of large-cap common stocks. **Russell 2500 Index (U.S. Small/Mid)** is a market-cap-weighted index that tracks the performance of approximately 2,500 small to mid-cap companies in the U.S. equity market. **MSCI EAFE Index (International Developed)** — 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. **MSCI Emerging Markets Index (Emerging Markets)** is a market capitalization weighted index representative of the market structure of the emerging markets in Europe, Latin America, Africa, Middle East and Asia.

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