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## Global Artery Remains Closed

*March hands back the quarter's gains as the Strait of Hormuz stays shut and inflation anxiety returns*

March 2026

### **Key Observations**

- *In March Markets gave up much of the gains they had generated for the quarter as the Iranian conflict persisted. Stocks sold off on sentiment and rates rose based on inflation concerns.*
- *U.S. technology stocks, in particular software, pulled back the most as investors perceived advancements in artificial intelligence as a threat to those business models.*
- *The last day of the quarter ended with optimism that the U.S. and Iran will seek resolution and markets rallied. The motivation for deescalation may be pressure on the homefront with midterms looming, but the robust economic backdrop is resilient enough to absorb the shock while resolution takes shape.*

## Market Recap

Global stocks retreated in March and the first quarter after a strong start in January and February. The S&P 500 ended the quarter down 4.3%, and the Nasdaq Composite fell 6.9%, their worst quarter since 2022. The Iran conflict dominated sentiment from its onset on February 28th. The quarter closed on an encouraging note as green shoots of resolution emerged, and the S&P 500 surged 2.9% on March 31st, its best single trading day of 2026<sup>1</sup>.

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<sup>1</sup> Bloomberg as of April 1, 2026

In the U.S., technology was the hardest-hit sector. Software stocks pulled back on concerns that AI investment would erode their competitive value. Over the last five years, software as a service traded at a 50% premium to the broader market<sup>2</sup>. That premium has been erased over the last two quarters. The weakness drove a broad rotation into value stocks across every market-cap tier. Large-cap growth lost 9.8%, while large-cap value gained 2.1%. Small-cap value led all segments, rising 5%, as investors sought defensively positioned, attractively priced companies.

International stocks held up well by comparison, though March returns softened as the Iran conflict came into focus. For the quarter the MSCI EAFE fell just 1.2% and MSCI Emerging Markets slipped only 0.2%, both comfortably outpacing US markets.

Bond markets offered modest stability. The Bloomberg US Aggregate Bond Index was flat, TIPS rose 0.3%, and high yield bonds dipped just 0.5%, cushioned by income. Rates climbed through the quarter on inflation concerns tied to higher energy prices. Markets have largely erased expectations for a Fed cut in 2026, a sentiment we think may be overdone in the short-term.

Financial Market Performance		
Index	March	YTD
S&P 500	-5.0%	-4.3%
Russell 2000	-5.0%	0.9%
MSCI EAFE	-10.3%	-1.2%
MSCI EM	-13.1%	-0.2%
Bloomberg U.S. Agg Bond	-1.8%	0.0%
Bloomberg U.S. HY Corp Bond	-1.2%	-0.5%
FTSE NAREIT All Equity REITS	-6.1%	3.8%
Bloomberg Commodity	11.5%	24.4%

Source: Morningstar Direct. As of March 31, 2026.

## Lessons from the Suez Canal

To understand where this conflict may be headed, history offers a useful guide.

In the fall of 1956, Egypt nationalized the Suez Canal and as a result Britain and France, joined by Israel, launched Operation Musketeer to take it back. Militarily, it worked. Strategically, it did not. They lost not on the battlefield, but because of political and economic pressures on the home front. Seventy years later, the United States finds itself in a strikingly familiar bind.

Operation Epic Furry has achieved its immediate military aims in Iran. Leadership has been disrupted, missile and drone facilities degraded, and uranium stockpiles reportedly depleted. But the broader strategic goals that these tactical elements signal; an open Strait of Hormuz, more US-friendly Iranian leadership, and regional stability, have not been met. The Strait remains effectively closed and Iran, while militarily weakened, is emboldened.

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<sup>2</sup> FactSet as of April 1, 2026

## The Hormuz Problem

Most recognize that gasoline comes from oil. Fewer recognize petrochemicals made from oil and natural gas provide the building blocks for over 95% of all manufactured goods, including plastics, fertilizers, pharmaceuticals, and synthetic fibers. The Strait of Hormuz is the artery through which these inputs reach market. Before the conflict, roughly 21 million barrels per day moved through it, approximately 18% of global supply<sup>3</sup>. As a result of its closure WTI crude oil prices have risen 50% from pre-war levels and Non-US grades have risen by 100% or more over the first quarter. The economic toll for such disruption is acute. The Dallas Federal Reserve recently estimated if the Strait remained closed for the remainder of 2026 it would reduce real global GDP growth by 1.3%, roughly equivalent to Mexico's entire economy going dark for a year<sup>4</sup>.

## Motivated Resolution

The US midterm elections are nearing and the voting topic du jour is affordability. Gasoline prices and inflation are not abstract policy debates. They are felt at every fill-up and often find their way into voting booths. Like Britain in 1956, the forcing function is less likely to be the battlefield and more likely to be the pressures at home.

The challenge remains finding a credible exit. According to the associated press Iran's terms for peace include per-ship tolls on Strait passage, their right to enrich uranium and pursue a nuclear program, and reparations for damages sustained among others. These terms suggest Tehran believes leverage is on its side.

## What We're Watching

Two signals will define the long-term impact of this conflict.

The first is whether Iran tests its leverage over the Strait of Hormuz. Before this conflict, the idea of an Iranian toll on commercial vessels was not a serious risk scenario. It is now. Nearly 140 ships transit the Strait each day. Iran has floated a \$2 million levy per vessel. If implemented, that generates over \$100 billion in annual revenue, nearly double its current oil export income of \$53 billion<sup>5</sup>. The financial incentive is real. A permanent toll regime would redirect global commodity flows toward China-aligned economies and create lasting friction for Western markets.

The second signal is the extent of damage to energy infrastructure. A swift resolution could reopen the Strait within weeks. But physical damage to production and refining facilities is a different problem. Repairs take months, sometimes years. If supply contracts structurally with no credible alternative to fill the gap, the inflationary pressure this conflict has already created may not resolve when the fighting does.

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<sup>3</sup> JPMorgan as of April 6, 2026

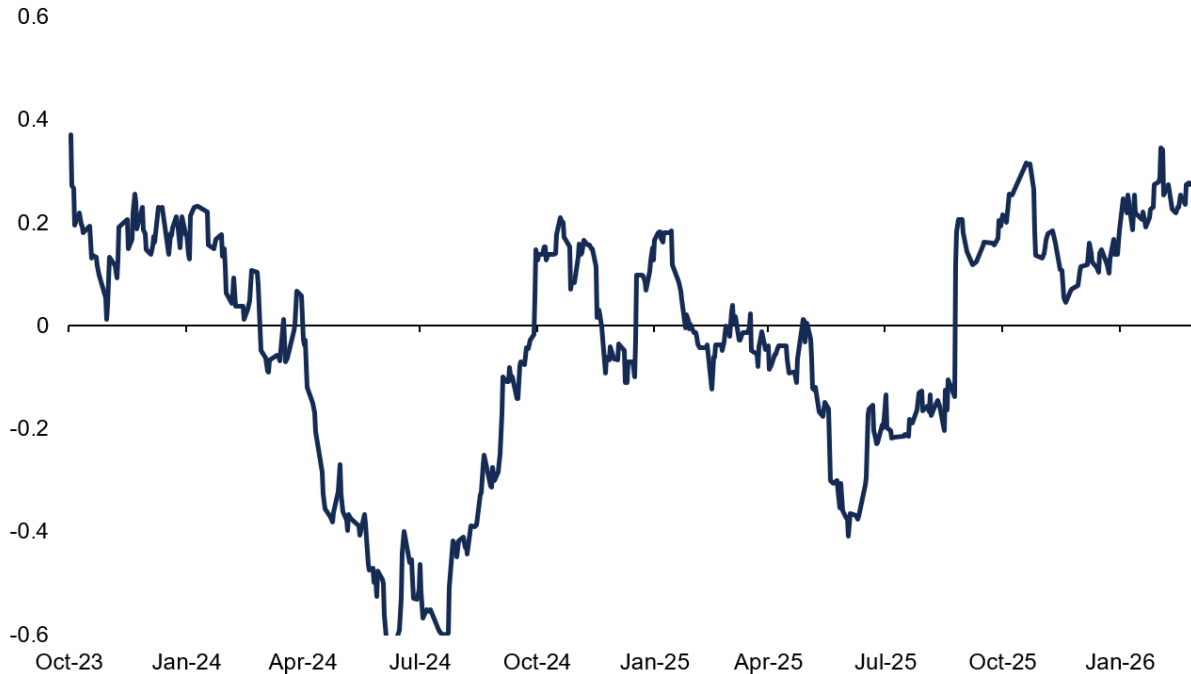
<sup>4</sup> Federal Reserve Bank of Dallas, as of March 20, 2026

<sup>5</sup> Energy Information Administration (EIA), August 2025

## Green Shoots

On balance, we see genuine reasons for measured optimism. Earnings growth is broadening, powered by AI and defense spending. The Bloomberg Economic Surprise Index sits near its highest level since 2023, and shelter costs, a

### U.S. Economic Surprise Index



Source: Bloomberg Finance, L.P. As of April 1, 2026.

stubborn driver of core inflation, continue to moderate. Critically, a soft labor market reduces pressure on the Fed to respond high inflation driven by energy prices. Collectively, these conditions buy time for a diplomatic resolution and create the backdrop under which one can succeed.

## Our Positioning

The Suez Crisis resolved in weeks once political will collapsed under domestic pressure. We believe this conflict may follow a similar arc. The forcing function exists, the motivation is acute, and the economic backdrop remains resilient enough to absorb the shock while resolution takes shape. As a result we are maintaining current positioning and watching evolving conditions closely. Risks remain, chiefly around infrastructure damage and Iran's willingness to negotiate in good faith, and we are watching both closely.

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